

Intellectual Property Forum

Issue 116

Journal of The
Intellectual Property
Society of Australia
and New Zealand Inc.

June 2019

Co-Editors
Fiona Rotstein
Fiona Phillips



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Intellectual Property Forum

The Journal of The Intellectual Property Society of Australia and New Zealand Inc ABN 056 252 558

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Fiona Rotstein

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Four issues of the Journal are published annually.
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Contributions to Intellectual Property Forum are invited on intellectual property subjects and related issues dealing with commercial law, trade practices, licensing, innovation and technology transfer. Prospective contributors should write to: The Editor, Intellectual Property Forum, Intellectual Property Society of Australia and New Zealand Inc.

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- The contributor is responsible for the accuracy of the article including citations and references.
- The following information must be included with the article:
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 - a summary of the article (50-100 words).
- The article is to be supplied in electronic form.
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Submission Dates for Contributions:

Journal Issue	Submission Dates
September 2019	before 1 August 2019
December 2019	before 1 November 2019
March 2020	before 1 February 2020
June 2020	before 1 May 2020

The Intellectual Property Society of Australia and New Zealand Inc is an independent society whose principal objectives are to provide a forum for the dissemination and discussion of intellectual property matters.

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The John McLaren Emerson QC Essay Prize 2019

The Intellectual Property Society of Australia and New Zealand Inc. is pleased to announce its 2019 competition for an essay on a topic of the author's choice regarding intellectual property.

1st Prize of the John McLaren Emerson QC Essay Prize will comprise the sum of \$5,000 AUD plus complimentary registration at the IPSANZ 33rd Annual Conference scheduled to be held over the weekend of 6 – 8 September 2019 including 2 nights' accommodation at the Sofitel Noosa Pacific Resort, Noosa Heads, Queensland and a return economy airfare from within Australia or New Zealand to the conference.

2nd Prize will comprise the sum of \$2,000 AUD plus complimentary registration at the IPSANZ 33rd Annual Conference, including 2 nights' accommodation at the Sofitel Noosa Pacific Resort, Noosa Heads, Queensland.

3rd Prize will comprise the sum of \$1,000 AUD plus complimentary registration at the IPSANZ 33rd Annual Conference, including 2 nights' accommodation at the Sofitel Noosa Pacific Resort, Noosa Heads, Queensland.

It is intended that the Prize winners will be announced and presented at the Conference. The winning entry will be published in Intellectual Property Forum, the official journal of IPSANZ.

COMPETITION RULES

- Entries must be unpublished essays, which are the original work of the author. Entries should be between 5,000 and 10,000 words.
- Entries should be substantive works displaying original thinking in an area of intellectual property of the author's choice. A maximum of two co-authors is permitted for entries. In the case of co-authors, the prize is to be shared between the authors. A maximum of two entries per author or pair of co-authors is allowed.
- Endnotes must appear at the end of the essay. Entries should include a summary of the essay (50-100 words). Entrants should keep a copy of the entry, as no entries will be returned.
- Each entry should be accompanied by a separate detached page giving the author's name and contact details and a short biography. No identification of the author should appear on the entry itself.
- The decision of the judging panel will be final and no correspondence will be entered into. The judging panel will retain the discretion not to award the Prize.
- A copy of each entry should be submitted by mail, typed, double-spaced and on A4 paper, and, a copy submitted electronically (in word format).
- Airfares, accommodation and entry to the IPSANZ Conference are non-transferable and not redeemable for cash. In the case of a winning entry from a country other than Australia or New Zealand a monetary contribution representing the cost of a return economy airfare from Melbourne or Sydney to the capital city in which the conference is to be held, will be made.
- **Closing date for entries is Friday, 17 May 2019.**

Entries should be sent to:

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Editorial – Fiona Rotstein and Fiona Phillips



Fiona Rotstein
Co-Editor



Fiona Phillips
Co-Editor

This issue of *Intellectual Property Forum* covers a variety of issues in the intellectual property (“IP”) fields of trade marks, domain names, patents and copyright. It also features an array of distinguished and high profile authors. We are fortunate to have articles and reports by a recently retired Judge of the New Zealand Court of Appeal; three current members of the judiciary from New Zealand, Australia and the United States of America (“US”); and a range of barristers.

We start with a profile of Dr Charlie Day, a Rhodes Scholar and the Chief Executive Officer (“CEO”) of “Innovation and Science Australia”(“ISA”). As CEO, Dr Day oversees ISA’s delivery of advice to the Australian Government on innovation, research and science. In 2018, ISA released *Australia 2030: Prosperity through Innovation*, which contained 30 recommendations for a more innovative Australia by 2030. In an interview with Fiona Rotstein, Dr Day provides valuable insights regarding Australia’s position in the global innovation race and the relationship between innovation and IP.

Our first article, *The Rise of the Search Engine – A New Fight for Customer Attention* is by The Honourable Raynor Asher QC, former Judge of the New Zealand Court of Appeal. Asher explains how paid search internet advertising has skyrocketed in recent years. His article focuses on Google, the company who made internet advertising a profitable exercise. Asher explains how initial interest confusion occurring at the search engine results page (“SERP”) is actionable in both Australia and New Zealand. He also

discusses the pre-SERP stage, where keywords are purchased to produce an advertisement on Google. It is at this stage, according to Asher, that interesting trade mark issues arise.

We then move to *The User Principle in New Zealand Copyright – “the exercise of a sound imagination and the practice of a broad axe”?* by the Honourable Ian Gault, Judge of the New Zealand High Court. Justice Gault discusses the monetary remedies for copyright infringement in New Zealand and explores how the user principle applies to New Zealand copyright damages cases. His Honour examines the foundations of the user principle and whether it corresponds to the traditional compensatory nature of copyright damages. Lastly, in contrast to the approach taken in New Zealand, Justice Gault provides an overview of the Australian approach to the user principle.

Following Justice Gault’s article is *The Willing Licensee and the Willing Licensor – A Sound Imagination and the Broad Axe: the Australian Approach* by Colin Golvan AM, QC. Golvan also assesses the application in Australia of the user

principle, while exploring the various methods of assessing damages for infringement of copyright. Golvan notes the difficulties in determining fair remuneration given the intangible nature of the asset sought to be protected. In light of this limitation, Golvan examines how the Federal Court of Australia, at first instance and on appeal, has hitherto approached compensating for damage in copyright.

We then have *Censorship Meets Intellectual Property: Harmonising Copyright, Trade Mark and Free Expression* by the Honourable M. Margaret McKeown, Judge of the US Court of Appeals for the Ninth Circuit. Her Honour's article examines recent US cases that consider the relationship between IP and free speech. Her Honour discusses the increasing number of copyright claims used to remedy a range of personal harms, such as invasion of privacy, but in the process the First Amendment and freedom of expression are encroached. In trade mark cases, by contrast, free speech is being used to reject reasonable marks on the basis that they are disparaging, scandalous, or immoral.

Our final article is by New Zealand barrister Jane Glover, titled *Swallowing the Red Pill: Sufficiency and the New Fragility of Patent Protection*. Glover examines the recent decision of the United Kingdom ("UK") Supreme Court in *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56. The majority, led by Lord Sumption SCJ, took a fairly hard-line approach to the law of patent sufficiency – no doubt to the dismay of many patent-holders. Glover explores the significance of the decision for the law of patent sufficiency in Australia and New Zealand. As Glover explains, the decision raises analogous issues, as the legislation regarding sufficiency in both jurisdictions is now almost indistinguishable – and is closely related to the UK legislation.

We also have three reports. First, we feature *Concurrent Expert Evidence: Still Flavour of the Month?* by the Honourable John Middleton, Judge of the Federal Court of Australia. Justice Middleton explores the advantages and drawbacks of concurrent expert evidence and considers whether the soi-disant "hot tub" method is still appealing to IP lawyers. Next, we have *Admission to the Manner of Manufacture Club – Patent Eligibility of Computer Implemented Business Methods* by Australian barristers Cynthia Cochrane and Catherine Bembrick. The authors examine the current state of the manner of manufacture requirement in s.18 of the *Patents Act* 1990 (Cth), in light of the recent Federal Court of Australia decisions *Encompass Corporation Pty Ltd v InfoTrack Pty Ltd* [2018] FCA 421 and *Rokt Pte Ltd v Commissioner of Patents* [2018] FCA 1988. Finally, we have a book review by Fiona Rotstein of *Commercialisation of Intellectual Property* by Natalie P Stoianoff, Fred Chilton and Ann L Monotti. In a neat connection to the "In Conversation" featured in this issue of the journal, the foreword to this book is written by Bill Ferris AC, the Inaugural Chair of ISA.

Lastly, we have 13 updates on current developments in IP across Australia, New Zealand, Asia, Europe and North America. We thank our regular contributors and their teams for these updates, which enhance the topicality and scope of this journal. We hope you enjoy this issue and, as always, we welcome emails to editors@ipsanz.com.au regarding contributing to the journal and providing feedback on the journal's content. We look forward to hearing from you.



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In Conversation with Dr Charlie Day

Fiona Rotstein

Dr Charlie Day is a Rhodes Scholar and the Chief Executive Officer (“CEO”) of “Innovation and Science Australia” (“ISA”). As CEO, Dr Day drives ISA’s provision of strategic, whole-of-government advice about innovation, research and science. Last year, ISA released *Australia 2030: Prosperity through Innovation* (the “2030 Plan”), a road map for Australia to become a leading innovation nation by 2030. In an interview with Fiona Rotstein, Dr Day provides some key observations regarding the state of innovation in Australia, why innovation is so infrequently discussed by politicians and the future challenges of intellectual property (“IP”) law.



Dr Charlie Day

Photo courtesy of Department of Industry, Innovation and Science

Q: Prior to becoming CEO of ISA, you embarked on an interesting career path. You have a degree in Classics and an honours degree in Chemical Engineering from the University of Melbourne, along with a doctorate from Oxford University where you studied as a Rhodes Scholar. You then worked as a business consultant, followed by 15 years employed at the University of Melbourne. Tell me a little about these positions and what they entailed.

A: The overarching theme through everything has been a fascination with how technology and good ideas do or don’t find their way into the market. I’ve had the good fortune to have a number of roles where I’ve been able to work as part of that process.

My PhD was in jet engine design which was in a lab that worked closely with Rolls Royce and we were trying to find advantages in fuel efficiency out of jet engines so they could fly further and produce less pollution. So I got a window about how, right at that technological frontier, with a really advanced company, they think about technology and product development. Then I returned to Australia and after some experience in business I joined the University of Melbourne where I worked at the university-business interface: first in venture capital and then I subsequently set up the technology transfer office.

Towards the end of my career there, I was more focused on entrepreneurship and corporate engagement and how we can better link the University with the business community. So when the chance to work at ISA arose, it was an opportunity to combine something I was really passionate about with the opportunity to hopefully make a difference at the national level.

Q: Explain ISA and its aims.

A: ISA is an independent statutory board established by the Australian Government to bring the practitioner perspective into innovation policy making and delivery. The board has up to 15 members. They are not politicians or public servants. They are entrepreneurs, academics, business people and domain specialists in particular areas. They come together to provide an independent source of advice to the Federal Minister for Industry, Science and Technology (the “Minister”) and ultimately to the Government. So, our role is to make Australia’s innovation system work better and to ensure the Australian economy achieves its full potential for all of our population.

In order to achieve this aim, there are three key things we do. Firstly, we provide advice to the Minister in the form of formal reports and on specific topics that arise affecting the innovation system. Our second function is to ensure that the private sector perspective is effectively used in the running of some of the key programs of the innovation system, such as the Collaborative Research Centre program, the various venture capital support programs and the research and development (“R&D”) tax incentive. Our third role is to be advocates for the innovation system. Clearly there is a need for the system as a whole to have a voice that can advocate for the importance of science and innovation in the national economy and that’s something we try to do.

Q: Describe a typical day in your role as CEO of ISA.

A: It’s a cliché that there is no such thing as a typical day but that’s probably also true in my case. I have a range of stakeholders that I work with. Firstly, there’s

my board. On any given day, I'm frequently taking to my chairman (Andrew Stevens) and potentially other board members about what they are seeing in the innovation system and their response to various issues. Secondly, I have working with me a team of about 13 people and they help do the policy and analytical work that informs the board's deliberations. And thirdly, there are the stakeholders across the innovation system, which means I'm frequently travelling because the great thing about Australia's innovation system is that it stretches far and wide. It's not just in Canberra or Sydney or Melbourne. The way I think about it is that ISA sits at the hub of an innovation system which takes in all three levels of government, the business community, the research community, educators and others. I'm always trying to speak to as many of those groups as possible to make sure I'm fully aware of what's happening across the system.

Q: That's a lot of different stakeholders with a lot of different interests.

A: Yes but the other thing that I find rewarding about the innovation system is that most people are really committed to their roles for all the right reasons. Of course there are some who are looking after their narrow self-interest perhaps but, generally speaking, there's a tremendous amount of goodwill amongst Australians to have an innovation system that works and works well. My chairman did an Australian Broadcasting Corporation radio interview with Fran Kelly this morning and Fran finished the interview by saying, "Well if you succeed, then we will all be better off." Indeed, if we are successful in driving a successful innovation system, that should deliver prosperity for all of Australia.

Q: What is the biggest difference between working at the business-university interface and advising Government?

A: There are two things that really struck me when I made the move to Government. Firstly, when you are working at the business-university interface, you are trying to get technologies and people together to progress them and get investment. So, it's very much about building relationships where there's a clear deal that you are trying to achieve. In my role with Government, it's much more about trying to create the framework conditions. You can't necessarily help any one particular deal to get over the line but you can create the conditions in which those deals are easier to do or the development of technologies proceeds more easily. So you are not helping one case, you are creating an environment which is more

effective. That's just a different way of looking at the problem.

The other thing which I was surprised by is the size and complexity of the Australian Government. To see a Government which has to deal with the diversity that you get from the far north of Queensland to the very southern tip of Tasmania combined with the disparities of wealth and opportunity is a big challenge. I'm constantly humbled in the face of that complexity. We sometimes think of ourselves as a small country but actually we are not. We have 25 million people, are the 11th largest economy by gross domestic product and in fact whilst some of the geopolitical analysts call Australia a "middle power" we should actually be thinking bigger: "we're better than middling" as Senator Penny Wong recently put it. We are a substantial country, but that makes governing us that much harder.

Q: In the "Global Innovation Index" released by the World Intellectual Property Organization in July 2018, Australia is placed 20th out of 126 countries in terms of its innovation system. What do you make of this ranking?

A: I think of innovation systems as fairly complex interactions between a number of different players and trying to reduce that to a single number on a page oversimplifies what is a complex system. So I'm not a big fan of rankings of innovation systems, certainly not single point ones. Instead of looking at the overall rank, I prefer to look at the drivers of the effectiveness of our innovation system and the components that are working well and not so well – and indeed the Global Innovation Index has sub-indices for several such issues. Whilst you can't turn Australia into an innovation powerhouse overnight by just fixing one part, you can build progressively a greater strength over time by addressing the weaknesses in the system. That's certainly a theme discussed in our 2030 Plan.

Q: Any ranking of innovation systems has its flaws but the Global Innovation Index is released every year and has international significance.

A: Don't get me wrong, I would like to see Australia higher up the rankings. But objectively, Australia has set a world record for uninterrupted economic growth. We have had 27 years without a recession and yet we are only the 20th country in the Global Innovation Index. You would have thought that being able to post that economic growth over that period of time, surely Australia should be higher. So I suspect there is something that we are not picking up in the Global Innovation Index that presumably has some significance.

Q: What do you see as the key strengths and weaknesses of the Australian innovation system?

A: Unambiguously, our university system is a strength. We have a large number of very highly ranked universities. There's that word again, rankings! But the metric that I like to use is that over the last few decades, the university sector in Australia has developed into a very significant export industry. It's now our third largest export industry. You can only build a level of export activity like that if you're doing quality work. More broadly, we are an economy that generates a lot of creativity and original ideas, so that's a great strength.

We are also seeing a lot of movement into start ups and a lot of new money coming into venture capital as an investment class. In the last five years, it's gone up by almost an order of magnitude in terms of the amount of money flowing in. We are still on several metrics well below the global leaders like the United States of America and Israel but we are well ahead of where we were. I don't know that's always as widely appreciated as it could be.

However, what we consistently find is that the translation of our high quality ideas and creative sectors into commercial products and services that drive jobs and growth is an area where we are weaker. This shows up in lower rates of patenting than in equivalent economies around the world. It also shows up in lower rates of R&D by the business community. We believe this is an area where Australia could lift its skills and capability.

The other area that concerns us a lot is the performance of our students in schools. On a number of international metrics of performance of school students – the best known is the Programme for International Student Assessment (“PISA”) by the Organisation for Economic Co-operation and Development (“OECD”) – Australia is not doing well against global peers. We see a big opportunity and notably, with the “Gonski 2.0 reforms”, there's now an agenda to address some of those things. We are seeing some good progress being made and it will take time but it has to be a priority for the country.

Q: The Australian Government asked ISA to develop a strategic plan for the Australian innovation system to 2030. In January 2018, ISA's 2030 Plan was released. The 2030 Plan makes 30 recommendations to Government in the context of five objectives. Briefly explain ISA's vision for 2030 in the context of these five themes.

A: Our vision was really about a prosperous and inclusive economy for the nation as a whole. We felt that there

were five “imperatives” for the innovation system that we needed to focus on. The first was education. Ultimately in an innovation intensive world, it's the skills of your people that determine how fast you can progress, so education was put first albeit that in the Australian context, with the state and federal divide, it's probably one of the more complex areas to address. But we did think that out to 2030, we really needed to have a national commitment to making our education system deliver effective outcomes, and made several recommendations to that end.

The second imperative was around industry. When you look at where Australia has weaknesses in innovation, it's often in the business and industry sector and in the translation and commercialisation of ideas. We felt it was important that Government policy focused on growing investment in innovation by Australian business and exports because we see engagement with the global economy as critical for driving the innovation system.

The third imperative was around Government. A lot of people understand that Government funds innovation in the universities and in businesses but they forget that Government is a significant player in the economy in its own right. Depending on how you measure it, it's a quarter or third of the economy in terms of the people that it hires and the money that it spends. We had a series of recommendations about how Government could do more to support innovation, for example through procurement, and also how it runs its own business.

The fourth imperative was on R&D in the public sector. We were focused on the universities and the public research agencies, like the Commonwealth Scientific and Industrial Research Organisation (“CSIRO”). The R&D space is an existing strength of Australia, however, the focus needs to be on making sure we maintain that. So among our recommendations we backed up what Chief Scientist Alan Finkel and others had done in recommending research infrastructure support, and we also recommended ensuring gender diversity in the academic workforce, particularly in science, technology, engineering and mathematics (“STEM”).

The fifth imperative reflected our experiences in the development of the 2030 Plan. Something that came back very strongly in the consultation process is that Australians are not ambitious enough when they tackle innovation compared to other nations. Internationally, there's now a growing movement for what is called “mission-based innovation”. We are seeing Governments saying, “this is actually really important to us as a nation” (like the United

Kingdom mission on the ageing population and the Finnish mission on the circular economy) and Governments are coordinating and corraling their innovation systems to help achieve those goals. We believe the Australian Government should think a bit like that both because it would force us to think big and it would help mobilise the whole ecosystem, not just some parts of it.

Q: The Government released its predominately positive response to the 2030 Plan in May 2018, “supporting” and “supporting in principle” 27 of the 30 recommendations put forward. Following the Government’s response to the 2030 Plan, what has ISA been working on in order to improve Australia’s innovation system?

A: Some of the recommendations in the 2030 Plan were acted on quite quickly. For example, the review of the Australian public service was announced shortly after the Plan was released. Where the Government has acted on the recommendations, we are continuing to provide input, advice and support on those. Where the Government supported in principle our recommendations, we are clarifying some of the points we made and offering new data or new insights. In other areas which we did not capture in the 2030 Plan, or the Government chose to just note in its response, we are taking the opportunity to examine the issue in more detail, whether we have framed it correctly, and consider how we could best support future action by Government. It was never our view that the 2030 Plan was a static document. The innovation system is complex and adaptive, so we expect to continually refine the 2030 Plan and ensure that it’s responding to changes in the environment as we see them. We expect to do an update to the 2030 Plan in a few years’ time. We don’t anticipate that we will go back to the drawing board, it’s more about how we will need to adapt and course correct to continue to develop the innovation system.

Q: At the time of this interview (March 2019), it’s anticipated that the Australian election will be held in May 2019. The two major political parties are soon expected to unveil the details of their competing policies on key election issues like employment, health and border protection. Why do you believe that innovation is so infrequently discussed by politicians when trying to win over the electorate?

A: Innovation is tremendously important and I would like to see it occupy a much more central part of our national conversation about the future. Part of my job is to get out there and enthuse people about it. Many have observed that three years ago it was a very

dominant theme of the national political dialogue, and I think there are a few reasons why that’s changed more recently. First, the research suggests that, three years ago when the Government went out very hard on the opportunity in innovation, a lot of people heard that as a threat to their employment, as there was much discussion about how the robots would “destroy” jobs. It’s a fear that goes back to the Luddites but experience suggests the reality is more complex. Political leaders have struggled to engage in a conversation about how technology can drive a better future without becoming tangled up in this rhetoric. Our view is that there is plenty of evidence to suggest that whilst in the short term there are challenges with the adoption of technology, in the long run it tends to drive better quality of life and better productivity across the economy. I don’t think that high wages in Australia are a bug, they’re a feature of our economy. For them to be sustained, we need to make better use of technology, not less. But that’s a difficult argument to run and I think that political leaders often find it difficult to have that conversation.

Another factor is that the innovation system is complicated. It’s very hard to reduce it to the kinds of sound bites and easy quick-fixes that lend themselves to the current style of political conversation. Unfortunately, the only way to build an effective innovation system is over a long period of time with consistent effort and a close focus on iterative refinement. You don’t tend to see step changes in innovation systems, you see inflection points. It’s a complex and abstract policy space which just makes it a harder “sell” for politicians. So, the easy answer there is that you just don’t talk about it.

Q: What specific areas of IP hold for you the most interest?

A: Given my background in technology transfer at the University of Melbourne, I am very passionate about patents and their capacity to provide the incentive for investment in technology development. I’m also interested in making sure that the patent system stays fit for purpose. We have countervailing forces where in software and information technology, development cycles are short and, if anything, getting shorter. There, a lot of people are seeing the benefits of more open innovation approaches where the monopoly grant that a patent gives may or may not support innovation in the same way. In the other big area of patent use, life sciences, development times are getting longer and the importance of clarity of ownership is more important than it ever was. So, I feel like the patent system is being challenged on both of those fronts right now in the business world.

In Conversation with Dr Charlie Day

Q: As CEO of the organisation that advises the Government on innovation, where do you think lie the future challenges of IP law?

A: The issues surrounding patentability of software are critical. Looking forward, we think that software is going to become an even greater part of the innovation system. Investment in the national accounts on software has overtaken R&D, so clearly businesses are spending more in that space and it's important that our IP regime provides the sort of protection that is needed to ensure the right level of investment.

The other future challenge is artificial intelligence ("AI") and what we do with intelligent systems. I think sometimes people, when they talk about AI, rush to imagine fully sentient, fully autonomous artificial general intelligence. We are still a long way away from this but we are very close to having significant augmentation of human decision making which blurs the boundaries of responsibility, accountability and agency. That's a big challenge for all legal systems around the world but clearly each country needs to solve it in its own way and for itself. Australia is going to need to do that. The Australian Council of Learned Academies is just about to release a report on ethics in AI. It's really important that we're having these kinds of conversations now to inform the legal system about this issue.

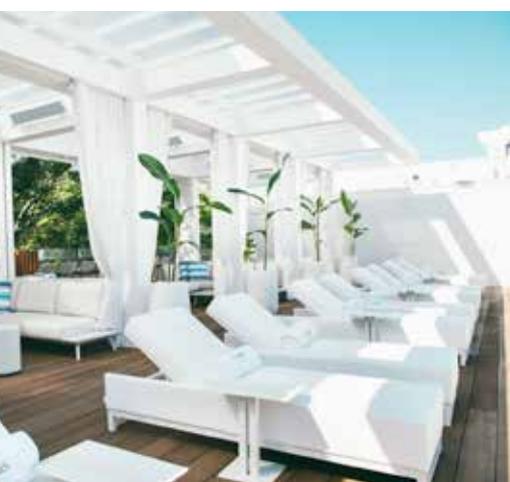
The third future challenge is the rising importance of intangible assets in our economy. One of the features of intangible assets is that property rights are inherently more contestable compared to tangible assets. So, as intangible assets grow in economic importance, securing those assets and securing rights to those assets becomes more significant. That rise is not a bubble. It is a trend that is going to continue. In the future, we are going to be living in a world with more intangible assets and that's going to stretch the legal system. Further, an intangible asset can be very valuable to one person but virtually worthless to another person. How do you value something that has those characteristics? As Microsoft found out when they bought Nokia's operating system, the value of an intangible asset can change dramatically simply by transferring ownership.



33rd IPSANZ Annual Conference

6-8 September 2019

The 33rd Annual Conference of the Intellectual Property Society of Australia and New Zealand Inc. is scheduled to be hosted at the Sofitel Noosa Pacific Resort, Noosa Heads, Queensland over the weekend 6 – 8 September 2019.



Friday

2:00 pm – 6:00 pm Early Registration
6:00 pm – 8:00 pm President's Welcome Drinks

Saturday

8:30 am – 9:00 am Registration
9:00 am – 5:30 pm Conference Sessions
6:30 pm – 11:00 pm President's Dinner

Sunday

9:00 am – 12:30 pm Conference Sessions
12:30 pm – 2:00 pm Lunch
2:00 pm Close

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The Rise of the Search Engine – A New Fight for Customer Attention

The Honourable Raynor Asher QC¹

Introduction

My aim is to discuss two intellectual property issues that have emerged from the rise of the search engine, and the fight for customer attention that has developed with it. From the point of view of traditional print and visual mediums for advertising, this really has been a rise of the machines, and there is no terminator in sight.

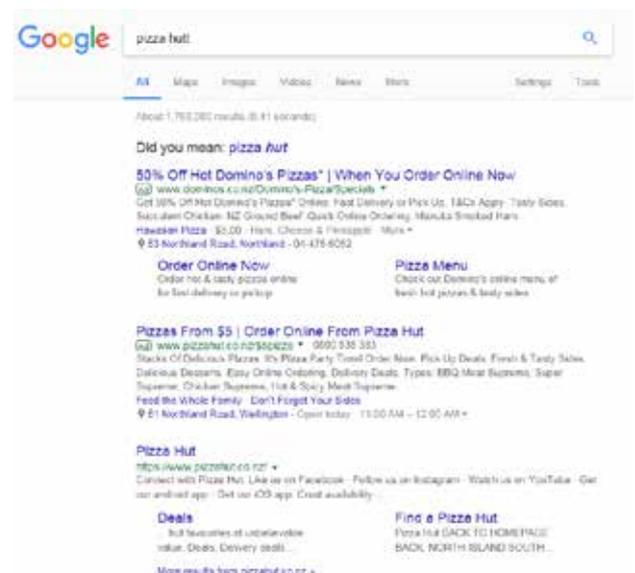
The statistics are stark:

- In 2015 more than half (55.8 percent) of New Zealand's total internet advertising revenue was generated by paid search. Google is the leading engine, responsible for more than 90 percent of all searches. It is expected that paid search internet advertising revenue will be worth NZ\$897 million in New Zealand by 2020.
- Internet ad spending has more than doubled in New Zealand in the last five years. In contrast, print advertising revenue has fallen from NZ\$573.43 million in 2011, to NZ\$410 million in 2015 and is forecast to hit NZ\$243 million in 2020.²

Google being the most prominent and commercially successful of all the search engines, inevitably this discussion will focus on the functioning of that company. Google and its competitors have made the search engine a marketing tool. In the case of Google AdWords, individuals or firms who wish to advertise their products for services can purchase key words, so that when a consumer puts a term into Google and presses "Search", an advertisement for the firm or product will appear in the search engine results page (known as "the SERP"). We all know the SERP. It has three main elements:

- (a) The Google search bar which displays the search term (or terms) used ("the search bar").
- (b) Below that, a link or series of links to websites, each identified as an "Ad" by a small green box next to the website link ("the advertisements").³ It is these results that are generated by the Google AdWords program.
- (c) Below the advertisements, links to the websites assessed to be relevant to the keywords searched ("the organic results"). The appearance and ranking of these links is determined according to an algorithm known only to Google.

Here is an example, chosen because it shows a well-known franchise legitimately using a search engine:



Initial interest confusion

At the outset I should note that the term "initial interest confusion" seems to emanate from the United States of America ("US") jurisprudence, where the term is used to denote different and sometimes conflicting/inconsistent concepts. The term here is used to refer to confusion on the face of the SERP, excluding any consideration of whether the advertiser's website cures that confusion.

The current position in New Zealand is that confusion on the face of the SERP is enough for a breach of a trade mark.⁴ In other words, it is no defence for a party whose advertisement creates confusion at the SERP stage to say that any confusion will be quickly resolved when the consumer clicks on the advertisement and is taken to a website with different labelling/logos/branding etc than what they are looking for.

The idea that initial interest confusion is enough has its origins in the brick and mortar world, in which it has frequently been held that an advertiser cannot excuse

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misleading advertising by making the goods themselves accessible for the consumer to come and inspect, thereby resolving any confusion before purchase. The question is whether a different approach should apply on the internet and online search engines, where consumers have an immediate ability to click on an advertisement and cure any confusion by observing the advertiser's website.

The concept was applied to the internet in *Australian Competition and Consumer Commission v TPG Internet Pty Ltd* where Murphy J observed:⁵

It is impossible for the Court to know whether a consumer misled by an online advertisement will immediately "click" through to the terms and conditions page, whether he or she will take a different step such as no longer proceeding with the purchase of an alternative service from a competitor, or whether he or she will take no immediate step but will go away under a false impression to act later. A false advertisement that may cause these actions is likely to mislead and is prohibited by s 52 [of the Trade Practices Act 1974 (Cth)], now s.18 of the Competition and Consumer Act 2010 (Cth)].

In Australia, confusion on the face of the SERP is enough to qualify as misleading or deceptive conduct, notwithstanding the ability of a consumer to clarify the origin of goods/services by clicking through the advertiser's website. In *Veda Advantage Ltd v Malouf Group Enterprises Ltd*, Katzmann J said:⁶

The sponsored link advertisements for "The Veda Report Centre" were apt to mislead, particularly given the coexistence of the Veda Resolution Centre, operated by Veda. They were likely to lead ordinary or reasonable consumers in the relevant class to mistakenly think that they would be dealing with Veda. It is no answer to say, as Malouf did, that any mistaken impression would be transitory because it would have been dispelled once the consumer clicked on the link and was taken to the website of the relevant Malouf business. By then, the consumer has been enticed into Malouf's "marketing web" ...

The point arose recently in New Zealand in the *National Mini Storage* litigation. National Storage ("NS") argued that in the case of companies using descriptive names, consumers should be credited with the ability to resolve any initial confusion arising from search results by reference to the respective companies' websites. It said that the branding of itself and National Mini Storage was so distinct that any such initial confusion will be quickly dispelled by looking at the websites. In the High Court, Muir J expressed some sympathy for that submission:⁷

[91] *I must admit to some reservations about the concept [of initial interest confusion]. In my view it may underestimate the level of sophistication of the informed and reasonably attentive Internet*

user. As the defendants' expert Mr Shand says, the online environment is markedly different from the physical world. Consumers are, I accept, well used in the digital environment to clicking on multiple sites to find what they are looking for and to some element of ephemeral confusion in the process. Were this a marginal case (which I do not consider it to be) and given that it is based on name similarity alone, I would not have regarded as irrelevant the very distinctly different branding evident at the point a consumer clicked on NS's website.

On appeal, NS argued that aspects of Muir J's analysis erroneously took into account the actual websites of the parties, when he was required to assess the likelihood of deception or confusion exclusively on the face of the SERP. This Court upheld Muir J's finding that there was no confusion on the face of the SERP.⁸ Therefore, the concept of whether initial interest confusion was enough was not directly in issue. However, the Court of Appeal (Miller J) made the following comments:⁹

[73] *... Proponents of this concept [initial interest confusion] contend that consumers are accustomed to ephemeral confusion on a SERP and expect to resolve it by clicking through to websites; and that being so, confusion should be assessed not when first acted upon but subsequently, before any transaction is entered. Mr Brown argued that Muir J erroneously adopted this concept. We do not accept that he did, although he did express sympathy for it. We observe that courts have traditionally been unwilling to excuse defendants who claim that consumers had the means to resolve their confusion once they had acted upon it by entering the defendant's premises. The policy question whether a SERP should be treated differently should be reserved for a case that turns upon it. We do accept that remedy may be affected where initial confusion is remedied before a transaction is entered, but that is a different point.*

The position in the United Kingdom appears to be that confusion on the face of the SERP is enough. In *Interflora*, the High Court framed its conclusion on this point as an acceptance of the doctrine of initial interest confusion.¹⁰ The Court of Appeal in *Interflora* was not attracted to the phrase "initial interest confusion", finding it to be an "unnecessary and potentially misleading gloss on the tests the Court has articulated and we think it should perform no part of the analysis of our national courts in claims of the kind before us".¹¹ That finding appears to be driven by a concern about the controversy over the meaning of the words "initial interest confusion" in the US, and the problems the doctrine has caused there. The Court of Appeal's rejection of the doctrine does not affect the basic position that confusion on the face of the SERP is enough under United Kingdom law,

as this appeared to be accepted by the Court. However, the existence of the doctrine and its application in the context of the internet, continues to give rise to debate.¹²

Before the SERP – the keyword stage

For present purposes, the relevant component of the SERP is the advertisements. Any number of persons can purchase a keyword to trigger an advertisement. When there is more than one purchaser, an automated process kicks in whereby advertisers “bid” to have their advertisement displayed in the most prominent position. Google does not disclose exactly how it ranks advertisements where there are multiple bids on a keyword. However, it does disclose that it uses a “quality score” feature which assesses how relevant the advertisement is to the keyword being searched.

There are various ways that a keyword can trigger an advertisement. Obviously, an “exact match” will trigger an advertisement where the advertiser has bid on that word (or words). A “phrase match” will trigger an advertisement if the user enters any word in a phrase chosen by the advertiser. A “broad match” will trigger the advertisement based on known associations determined by Google’s algorithms. There is also a “negative match” function, which enables advertisers to prevent advertisements from appearing when the search terms include a particular word or phrase.

An advertiser using Google AdWords pays Google a fee each time a user clicks on the hyperlink in its advertisement, taking the user to the advertiser’s webpage. The payments per clicks are subject to a maximum daily limit specified by the advertiser. If the daily limit is exceeded the advertisement will not be displayed.

The auction process mentioned above, whereby advertisers bid on keywords, takes into account the advertiser’s daily advertising budget, how much they are willing to pay each time a user clicks on the advertisement, whether the advertiser has selected exact match, phrase match or broad match for the keywords, and the quality score of the advertisement.

Until May 2008, Google had a policy whereby a trade mark owner could notify Google of the registration of a word as a mark by a competitor. Once notified, Google would not allow that word to be purchased by a competitor as a keyword. Google’s policy now is to allow advertisers to bid on keyword components of competitor’s marks, ensuring that an advertisement for their own business appears when users of Google search for a competitor.

This practice gives rise to some interesting intellectual property issues. In particular, whether the requirement for “use as a trade mark” in Australia and New Zealand is too inflexible for the online environment, in particular the Google AdWords program.

Section 89 of the *Trade Marks Act 2002* (New Zealand) provides:

89 Infringement where identical or similar sign used in course of trade

- (1) *A person infringes a registered trade mark if the person does not have the right to use the registered trade mark and uses in the course of trade a sign—*
- (a) *identical with the registered trade mark in relation to any goods or services in respect of which the trade mark is registered; or*
 - (b) *identical with the registered trade mark in relation to any goods or services that are similar to any goods or services in respect of which the trade mark is registered, if that use would be likely to deceive or confuse; or*
 - (c) *similar to the registered trade mark in relation to any goods or services that are identical with or similar to any goods or services in respect of which the trade mark is registered, if that use would be likely to deceive or confuse; or*
 - (d) *identical with or similar to the registered trade mark in relation to any goods or services that are not similar to the goods or services in respect of which the trade mark is registered where the trade mark is well known in New Zealand and the use of the sign takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the mark.*
- (2) *Subsection (1) applies only if the sign is used in such a manner as to render the use of the sign as likely to be taken as being use as a trade mark.*

...

(Emphasis added.)

In *Intercity Group (NZ) Ltd v NakedBus NZ Ltd* it was held that the activity of bidding against a competitor’s keyword through Google AdWords did not amount to “use” as a trade mark in the sense of s.89(2).¹³ It was noted that the function of a trade mark is to indicate to the purchaser or possible purchaser “the identity of the origin of the trade marked goods or services by enabling that consumer to distinguish the goods or services from others which have a different origin”.¹⁴ Whether something is being “used” as a trade mark depends on whether “a significant number of normally informed and reasonably attentive internet users are likely to take the use of the sign as being used as a trade mark”.¹⁵ If so, that will be sufficient for the purposes of s.89(2). On that basis, insofar as the bidding on a keyword is an act that was not seen or known by the consumer, there was no “use” of the sign that could be taken as use as a trademark.

However, if the trade mark appeared in the competitor’s advertisement displayed in the SERP, that could constitute “use” for the purpose of s.89(2). NakedBus’ advertisement appeared containing the words “inter city” twice in the

bolded heading. Furthermore, there was no reference to NakedBus anywhere in the advertisement other than in the web address (i.e. www.nakedbus.com). That amounted to “use” of the “intercity” trade mark.

As was noted in the judgment, this interpretation means that where there is no appearance of the trade mark at issue in the competitor’s advertisement, the trade mark holder may be left without a remedy.

There is an equivalent requirement for use as a trade mark in Australia. Section 120(1) of the *Trade Marks Act 1995* (Cth) provides:

A person infringes a registered trade mark if the person uses as a trade mark a sign that is substantially identical with, or deceptively similar to, the trade mark in relation to goods or services in respect of which the trade mark is registered.

(Emphasis added.)

The Australian courts have applied that requirement in the same way as in *Intercity*.

The Federal Court of Australia considered the application of the “use” requirement in the context of Google AdWords in *Veda Advantage Ltd v Malouf Group Enterprises Pty Ltd*.¹⁶ Veda Advantage Ltd (Veda) is a credit-ratings provider. Malouf Group Enterprises Pty Ltd (Malouf) is in the business of assisting consumers with poor credit reports. Malouf had bid on the word “veda” so that Google searches of that word triggered advertisements for Malouf. The advertisements made specific references to Veda. Katzmann J framed the issue as follows:¹⁷

The question is whether the mark is used or intended to be used to distinguish goods or services, as the case may be, dealt with or provided in the course of trade by one person, from the goods or services so dealt with or provided by another, that is to say, to indicate a connection in the course of trade between its goods or services and those of another.

Katzmann J found that Malouf’s bidding on the keyword “veda” did not constitute a trade mark use for three reasons:¹⁸

[123] *First, on the agreed facts, the advertiser merely selects the keywords and provides them to Google. This is not use indicating a connection in the course of trade between the services provided by Malouf and the services provided by any other trader. Objectively, Malouf is or was not using the keywords as a sign to distinguish its services from the services of others. Rather, it has used them to identify internet users who may have an interest in using its services.*

[124] *Secondly, the Veda keywords may be acquired by anyone under Google’s AdWords program, including Malouf’s competitors, and their use as search terms will produce not only sponsored*

links to Malouf’s websites but also sponsored links to those of its competitors as well as organic search results, pre-eminently Veda’s own website. While far from determinative, these circumstances are not irrelevant. As the Full Court observed in Lift Shop at [41]:

Such use may well provide part of the context in which the alleged infringer has used the sign and inform the question of whether, in such use, the sign performs the function of a trade mark.

[125] *In the present case, these circumstances are part of the relevant context.*

[126] *Thirdly, the keywords are invisible to consumers. Veda submitted that this circumstance is immaterial. It described use of a trade mark under the Act as an expansive concept. It referred to the fact that s 7(5) speaks of use “in physical or other relation to the services” (emphasis added).*

[127] *But the proposition that using words which are invisible and inaudible, indeed imperceptible, to consumers is using them as a trade mark makes no sense. How could the keywords be understood to be used to distinguish the services of one trader from those of another when the keywords are indiscernible? How could it appear to consumers that, by Malouf’s designation of the Veda keywords to Google, the words are used to denote a connection in the course of trade between Malouf’s services and the services provided by another trader, or to distinguish its services from the services of others, when the consumers have not seen or otherwise perceived the keywords?*

(Emphasis added.)

Katzmann J referred to *InterCity* with approval.¹⁹ Katzmann J then turned to consider whether the use of the word “veda” in Malouf’s advertisements was a trade mark infringement. In all but one case, the use of the word “Veda” in Malouf’s advertisements was descriptive and was not used as a badge of origin. E.g. “Fix your Veda File Now” and “Fix your Veda Credit History”. However, when “veda” was used in the phrase “The Veda Report Centre” that implied that the credit repair service was being offered by Veda itself and constituted an infringement.²⁰

Therefore, in Australia and New Zealand, the requirement for “use” as a trade mark means that bidding on competitor marks in Google AdWords will not be an infringement of the competitor’s trade mark unless the words appear in the competitor’s advertisement displayed in the SERP.²¹

Unlike Australia and New Zealand, there is no equivalent requirement for “use” as a trade mark in the United Kingdom. That requirement was discarded when United

Kingdom trade mark law became mingled with European jurisprudence. While there is a requirement for “use in the course of trade” that test does not embed the requirement for use *as a trade mark*. “[U]se in the course of trade” has been interpreted as including the purchase of an opponent’s trade mark in Google AdWords:²²

[51] *With regard, firstly, to the advertiser purchasing the referencing service and choosing as a keyword a sign identical with another’s trade mark, it must be held that the advertiser is using that sign within the meaning of the case law.*

[52] *From the advertiser’s point of view, the selection of a keyword identical with a trade mark has the object and effect of displaying an advertising link to the site on which he offers his goods or services for sale. Since the sign selected as a keyword is the means used to trigger that ad display, it cannot be disputed that the advertiser indeed uses it in the context of commercial activity and not as a private matter.*

The closest equivalent to New Zealand’s requirement for use as a trade mark is the United Kingdom requirement that the use of the trade mark adversely affect the “function” of the mark, that function primarily (but not exclusively) being to distinguish the origin of the goods or services that the trade mark is applied to. That requirement does not appear in the relevant statute, but has been recognised by the courts. The application of that requirement was explained by the Court of Justice of the European Union in *Google France SARL v Louis Vuitton Malletier SA*:²³

[82] *The essential function of a trade mark is to guarantee the identity of the origin of the marked goods or service to the consumer or end user by enabling him to distinguish the goods or service from others which have another origin.*

[83] *The question whether that function of the trade mark is adversely affected when internet users are shown, on the basis of a keyword identical with a mark, a third party’s ad, such as that of a competitor of the proprietor of that mark, depends in particular on the manner in which that ad is presented.*

In the following passages, the Court recognises that there may be damage to the origin function of a mark even if the keyword does not appear in the competitor’s advertisement:²⁴

[84] *The function of indicating the origin of the mark is adversely affected if the ad does not enable normally informed and reasonably attentive internet users, or enables them only with difficulty, to ascertain whether the goods or services referred to by the ad originate from the proprietor of the trade*

mark or an undertaking economically connected to it or, on the contrary, originate from a third party ...

[85] *In such a situation, which is, moreover, characterised by the fact that the ad in question appears immediately after entry of the trade mark as a search term by the internet user concerned and is displayed at a point when the trade mark is, in its capacity as a search term, also displayed on the screen, the internet user may err as to the origin of the goods or services in question. In those circumstances, the use by the third party of the sign identical with the mark as a keyword triggering the display of that ad is liable to create the impression that there is a material link in the course of trade between the goods or services in question and the proprietor of the trade mark ...*

...

[87] *... Having regard to the essential function of a trade mark, which, in the area of electronic commerce, consists in particular in enabling internet users browsing the ads displayed in response to a search relating to a specific trade mark to distinguish the goods or services of the proprietor of that mark from those which have a different origin, that proprietor must be entitled to prohibit the display of third party ads which internet users may erroneously perceive as emanating from that proprietor.*

...

[90] *In the case where the ad, while not suggesting the existence of an economic link, is vague to such an extent on the origin of the goods or services at issue that normally informed and reasonably attentive internet users are unable to determine, on the basis of the advertising link and the commercial message attached thereto, whether the advertiser is a third party vis-à-vis the proprietor of the trade mark or, on the contrary, economically linked to that proprietor, the conclusion must also be that there is an adverse effect on that function of the trade mark.*

In *Interflora Inc v Marks and Spencer Plc*, Marks and Spencer (“M & S”) purchased the keyword “interflora” and its variants on Google AdWords so that searches of that term would produce advertisements for M & S. Interflora is a network of florists with whom customers can place orders (in person, via phone, or online) for flowers to be delivered to a location within the reach of the Interflora network. The order is fulfilled (and the flowers are delivered) by local florists trading under their own names. The Interflora network extends to 40,000 members in over 140 countries. M & S is a general retail store that ventured into floristry and flower delivery services in the early 1990s. It is not part of the Interflora network.

To determine whether M & S's use of the "interflora" keyword adversely affected the function of Interflora's mark, the High Court asked whether:²⁵

... M & S's advertisements do not enable reasonably well-informed and reasonably observant internet users, or enable them only with difficulty, to ascertain whether M & S's flower delivery service originates from Interflora, or an undertaking economically connected with Interflora, or originates from a third party.

The M & S advertisements triggered by searches for "interflora" did not contain the words "interflora". However, the nature of Interflora's business, i.e. a network of businesses which operate under their own brand names, meant there was still the potential for consumers to assume that M & S's flower delivery service was part of the Interflora network. Therefore, M & S's practice of using the "interflora" keyword to trigger its own advertisements had an adverse effect of the origin function of Interflora's mark.

The High Court's decision was overturned by the Court of Appeal, but on a different issue (the question of burden of proof).²⁶ The High Court had held that the burden of proving a lack of damage to the "function" of a trade mark lay on the alleged infringer. The Court of Appeal found that this was an error and the burden lay on the claimant to establish damage to the trade mark's "function". The Court of Appeal remitted the case back to the High Court for rehearing in light of its judgment. For whatever reason (e.g. settlement, slow preparation, etc) the rehearing does not appear to have occurred yet.

Given the requirement for "use" as a trade mark in New Zealand, a claimant in the position of Interflora would not be able to establish trade mark infringement in New Zealand. This was acknowledged in *InterCity*.²⁷

Likewise the plaintiff in the English High Court's more recent decision in *Victoria Plum Ltd v Victorian Plumbing Ltd* would not be able to establish trade mark infringement under New Zealand law, because of the requirement for "use".²⁸ In that case, Victorian Plumbing bid on "victoria plum" and its variants on Google AdWords. The advertisements displayed did not contain the words "Victoria Plum", but of course contained the very similar words "Victorian Plumbing". The focus of the decision is on Victorian Plumbing's defence of honest but concurrent use.²⁹ Carr J rejected that defence, primarily on the basis that a defence of honest concurrent use can entitle a defendant to continue to use its own name or mark, but cannot entitle a defendant to use a claimant's mark. Carr J found that Victorian Plumbing's use of Google AdWords to target Victoria Plum's trade mark damaged the origin function of that mark:

[113] ... I consider that there is a greater propensity for confusion where a user has entered the name "Victoria Plum(b)" as a search term than in other contexts. He or she is looking for, and expecting to find, the Claimant's website. The First Defendant's advertisements use a very similar name and there is no indication of the absence of any connection. This gives rise to a greater likelihood of confusion than in other trading situations.

[114] An analogy from the offline environment may serve to illustrate the point. If a consumer enters a department store and asks an assistant for a particular brand of goods, that is what he is expecting to be shown. If the assistant leads him to goods of a competitor with a very similar name, which do not make clear that they have no connection with the brand owner, the consumer is very likely to be confused. In fact, the position is worse when searching on the internet, because consumers click through to links very quickly and with no opportunity to inspect the goods.

Discussion

The basic point is that in New Zealand and Australia, the requirement for "use" has been held to mean visible use, i.e. visible to the consumer. Therefore, the invisible process of targeting a competitor's trade mark in Google AdWords cannot of itself infringe a trade mark. As was recognised in *Intercity*, the requirement for visible use will deprive some claimants of the ability to claim trade mark infringement in circumstances where the trade mark does not appear in the competitor's advertisement generated by the keyword search, as was the situation in cases like *Interflora* and *Victoria Plum*.

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- 1 Former Judge, Court of Appeal of New Zealand. I express my gratitude to my former clerk Bridget McLay who assisted me in all aspects of this paper. This article is adapted from a presentation given at the 32nd Intellectual Property Society of Australia and New Zealand Annual Conference in Queenstown, New Zealand on 9 September 2018.
- 2 PricewaterhouseCoopers, *PwC Global Entertainment and Media Outlook* (2016–2020).
- 3 Depending on the device being used (computer, tablet, smartphone, etc), the advertisements may be displayed in a different location. For example, off to one side.
- 4 *Intercity Group (NZ) Ltd v NakedBus NZ Ltd* [2014] NZHC 124, [2014] 3 NZLR 177.
- 5 *Australian Competition and Consumer Commission v TPG Internet Pty Ltd* [2011] FCA 1254 at [115].
- 6 *Veda Advantage Ltd v Malouf Group Enterprises Pty Ltd* [2016] FCA 255, (2016) 241 FCR 161 at [254].
- 7 *National Mini Storage Ltd v National Storage Ltd* [2017] NZHC 1775 at [91].
- 8 *National Mini Storage Ltd v National Storage Ltd* [2018] NZCA 45.
- 9 *National Mini Storage Ltd v National Storage Ltd* [2018] NZCA 45 at [73].
- 10 *Interflora Inc v Marks and Spencer Plc* [2013] EWHC 1291 (Ch).
- 11 *Interflora Inc v Marks and Spencer Plc* [2014] EWCA Civ 1403, [2015] FSR 10 at [158].
- 12 Mahmoud Mando 'Invisible trademark infringement and passing off on the internet: Meta-tags, search engines, initial interest confusion and reform' (2015) 26 *Australian Intellectual Property Journal* 75; Vicki Huang 'Liability for "Invisible" Use of Trade Marks on the Internet' (2018) 28 *Australian Intellectual Property Journal* 51; and Alice Blythe 'Trade marks as adwords: an aid to competition or a potential infringement?' (2015) 37 *European Intellectual Property Review* 225.
- 13 *Intercity Group (NZ) Ltd v NakedBus NZ Ltd* [2014] NZHC 124, [2014] 3 NZLR 177.
- 14 *Intercity Group (NZ) Ltd v NakedBus NZ Ltd* [2014] NZHC 124, [2014] 3 NZLR 177 at [70].
- 15 *Intercity Group (NZ) Ltd v NakedBus NZ Ltd* [2014] NZHC 124, [2014] 3 NZLR 177 at [82].
- 16 *Veda Advantage Ltd v Malouf Group Enterprises Pty Ltd* [2016] FCA 255, (2016) 241 FCR 161.
- 17 *Veda Advantage Ltd v Malouf Group Enterprises Pty Ltd* [2016] FCA 255, (2016) 241 FCR 161 at [113].
- 18 *Veda Advantage Ltd v Malouf Group Enterprises Pty Ltd* [2016] FCA 255, (2016) 241 FCR 161 at [123] to [127].
- 19 *Veda Advantage Ltd v Malouf Group Enterprises Pty Ltd* [2016] FCA 255, (2016) 241 FCR 161 at [138] to [142] and [157] to [159].
- 20 *Veda Advantage Ltd v Malouf Group Enterprises Pty Ltd* [2016] FCA 255, (2016) 241 FCR 161 at [170].
- 21 And are used in the advertisement as a "badge of origin" and not in a descriptive sense.
- 22 *Google France SARL v Louis Vuitton Malletier SA* [2011] All ER (EC) 411 at [51] to [52], followed by the English Court of Appeal in *Interflora Inc v Marks and Spencer Plc* [2014] EWCA Civ 1403, [2015] FSR 10.
- 23 *Google France SARL v Louis Vuitton Malletier SA* [2011] All ER (EC) 411 at [82] to [83], followed by the English Court of Appeal in *Interflora Inc v Marks and Spencer Plc* [2014] EWCA Civ 1403, [2015] FSR 10.
- 24 *Google France SARL v Louis Vuitton Malletier SA* [2011] All ER (EC) 411 at [84], [85], [87], [90].
- 25 *Interflora Inc v Marks and Spencer Plc* [2013] EWHC 1291 (Ch) at [294].
- 26 *Interflora Inc v Marks and Spencer Plc* [2014] EWCA Civ 1403, [2015] FSR 10.
- 27 *Intercity Group (NZ) Ltd v NakedBus NZ Ltd* [2014] NZHC 124, [2014] 3 NZLR 177 at [87].
- 28 *Victoria Plum Ltd v Victorian Plumbing Ltd* [2016] EWHC 2911 (Ch).
- 29 The defence being that the parties had traded for many years in a wide range of directly competing goods (bathroom and plumbing products) and it was self-evident that the parties' names were so similar that there was a likelihood of confusion amongst consumers. In spite of this, the parties had co-existed peaceably for many years.

The User Principle in New Zealand Copyright – “the exercise of a sound imagination and the practice of the broad axe”?

The Honourable Justice Ian Gault¹

Introduction

If A, being a liveryman, keeps his horse standing idle in the stable, and B, against his wish or without his knowledge, rides or drives it out, it is no answer to A for B to say: “Against what loss do you want to be restored? I restore the horse. There is no loss. The horse is none the worse; it is better for the exercise.”

Watson, Laidlaw & Co Ltd v Pott, Cassels and Williamson (“*Watson, Laidlaw*”) per Lord Shaw.²

Courts in New Zealand and overseas are well-versed in the calculation of compensatory damages. Judges develop skill and experience in awarding a sum that fairly represents the loss that a plaintiff has suffered. That is, damages which restore the plaintiff to the position they would have been in *but for* the defendant’s conduct.

But should the court award compensatory damages where the plaintiff cannot show financial loss? If so, what are the relevant considerations for making such an award? If there has been no financial loss, can those damages still properly be characterised as compensatory?

These are some of the questions arising under what Lord Shaw termed “the principle ... either of price, or of hire” in response to his parable of the liveryman in *Watson, Laidlaw*. Later cases have termed this the “user principle”.

The user principle is a method of calculating damages, primarily in the context of patent infringement and trespass, which assesses the value of the plaintiff’s right to control an interest in goods or land. As Fletcher Moulton LJ stated in *Meters Ltd v Metropolitan Gas Meters Ltd*:³

It is the duty of the defendant to respect the monopoly rights of the plaintiff. The reward to a patentee for his invention is that he shall have the exclusive right to use the invention, and if you want to use it your duty is to obtain his permission ... it would be right to for the Court to consider what would have been the price which – although no price was actually quoted – could have reasonably been charged for that permission, and estimate the damage that way.

In *General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd* (“*General Tire*”),⁴ Lord Wilberforce held that in such a case, user principle damages are calculated as the notional licence fee which a willing licensor and willing licensee would have agreed for use of the property in question.

The purpose of this article is to analyse how the user principle applies to copyright damages cases in New Zealand. First,

it will explain the jurisdiction for copyright damages and examine the origins of the user principle and its application in New Zealand. Secondly, it will analyse how the user principle fits with the traditional compensatory nature of copyright damages. In that light, it will assess whether non-infringing alternatives available to the defendant at the time of the hypothetical bargain should be taken into account. Lastly, it will briefly examine the New Zealand approach to the user principle compared with the approach taken in Australia.

Monetary remedies for copyright infringement in New Zealand

In New Zealand, under s.120(2) of the *Copyright Act* 1994 (New Zealand) (the “Act”), a plaintiff in a copyright infringement case will be able to claim for “all such relief ... as is available in respect of the infringement of any other property right”. Such relief includes damages, an injunction or an account of profits. In practice, the courts have held that a plaintiff seeking a monetary remedy for copyright infringement will need to elect between:

- (a) an account of profits, which requires the defendant to relinquish to the plaintiff any financial gain made as a result of the infringement and is therefore a form of restitutionary damages; and
- (b) compensatory damages (except that damages are not available in the case of innocent infringement where the defendant did not know, and had no reason to believe, that copyright existed in the work).

A New Zealand plaintiff may also seek punitive “additional damages” under s.121 of the Act. These are only awarded

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where the defendant has committed a flagrant infringement for its benefit, which generally requires “outrageous” conduct.⁵

This article focuses on compensatory damages. Relevantly, the High Court of New Zealand in *Electroquip Ltd v Craigco Ltd (No 2)* (“*Electroquip*”)⁶ held that compensatory damages for copyright infringement can be calculated in two ways:

- (a) the recovery of profits the plaintiff would have earned on sales of their own products lost as a result of the defendant’s infringement; and/or
- (b) the imposition of a notional royalty for infringing sales where the plaintiff has no normal rate of profit or established licence fee.

The second of these, often termed the “user principle”, is the focus here. It has recently been explained by the United Kingdom (“UK”) Supreme Court in *Morris-Garner v One Step (Support) Ltd*:⁷

The rationale of such awards is that the person who makes wrongful use of the property, where its use is commercially valuable, prevents the owner from exercising a valuable right to control its use, and should therefore compensate him for the loss of the value of the exercise of that right. He takes something for nothing, for which the owner was entitled to require payment. (Emphasis added).

Origins of the user principle and its application in New Zealand

Origins

In considering the user principle in copyright cases, New Zealand courts have tended to rely on a line of patent law cases. The distinction between ordinary compensatory damages and the user principle was originally drawn out in *Watson, Laidlaw*. That case concerned the sale of machines which infringed the plaintiff’s patent in a territory in which the plaintiff was unable to trade. Even though the defendant could have made the sales without the infringing part, Lord Shaw held that in addition to the normal compensatory principle of “restoration” of the plaintiff’s loss:⁸

... a second principle comes into play. It is not exactly the principle of restoration, either directly or expressed through compensation, but it is the principle underlying price or hire. It plainly extends – and I am inclined to think not infrequently extends – to patent cases. But, indeed, it is not confined to them. For wherever an abstraction or invasion of property has occurred, then, unless such abstraction or invasion were to be sanctioned by law, the law ought to yield a recompense under the category or principle, as I say, either of price or of hire. (Emphasis added).

Lord Shaw endorsed the view of Fletcher Moulton LJ in *Meters Ltd v Metropolitan Gas Meters Ltd*⁹ that even if it was

not the claimant’s practice to grant licences:

... it would be right for the Court to consider what would have been the price which – although no price was actually quoted – could have reasonably been charged for that permission, and estimate the damage that way.

In *General Tire*, Lord Wilberforce held that where there is no normal rate of profit or established licence fee, user principle damages are calculated as the notional licence fee which a willing licensor and willing licensee would have agreed for use of the copyrighted work.

The New Zealand Court of Appeal in *Napier Tool & Die Ltd v Oraka Technologies Ltd*¹⁰ agreed, describing the user principle as a “notional licence fee or royalty”. That case concerned the copying of a unique cup assembly which formed part of an asparagus grading machine. The Court remitted the case back to the High Court for a re-assessment as to damages, on the basis that the copyright owner:¹¹

... is entitled to receive from the infringers the price that would reasonably have been charged for permission or authorisation to carry out each infringing act. This approach, called the “user principle”, is used when it is not possible to establish a normal royalty fee because the claimant is not in the practice of licensing their property.

In that light, the application of the user principle is an exercise in “judicial estimation” on the available evidence.¹² In *General Tire*, Lord Wilberforce held that when constructing such a bargain:¹³

The “willing licensor” and “willing licensee” to which reference is often made ... [are] always the actual licensor and the actual licensee who, one assumes, are willing to negotiate with the other – they bargain as they are, with their strengths and weaknesses, in the market as it exists.

Application in New Zealand

In *Eight Mile Style, LLC v New Zealand National Party* (“*Eight Mile Style*”),¹⁴ in reliance on these passages, Cull J held that in a user principle case a New Zealand court will construct:¹⁵

... a hypothetical bargain where damages are assessed on the basis of what would have reasonably been charged at the time of infringement had the defendant acted lawfully and obtained possession.

Her Honour continued:¹⁶

The exercise of determining the hypothetical bargain assumes that the parties are a willing licensor and licensee, with their respective strengths and weaknesses within the commercial context that existed at the time. It is irrelevant in assessing quantum that the parties would not have in fact agreed to make a deal.

Eight Mile Style concerned the unauthorised use by the New Zealand National Party (the “National Party”) of a likeness to

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the Eminem song *Lose Yourself* in political advertising. Justice Cull reinforced that the user principle is a process of judicial estimation, and “the focus must be on striking a reasonable fee ... without subjectively favouring either side”.¹⁷ In that light, the court should not over- nor under-compensate the plaintiff on the basis of generosity or uncertainty.¹⁸

Justice Cull found it significant that Eminem had rarely licensed the song in order to maintain its artistic integrity.¹⁹ Her Honour also considered that the relevant commercial context extended beyond New Zealand, due to international online access and the potential for the video to go “viral” online.²⁰ Other relevant factors were the extent of copying,²¹ the inability of the hypothetical licensor to exercise quality control over their work,²² and the National Party’s eagerness to use *Lose Yourself* as “a very willing licensee”.²³ Her Honour further held that evidence, such as expert opinion or industry practice, should only be used as a guide to find a reasonable licence fee.²⁴ Equally, comparable licences should be approached with caution.²⁵ Justice Cull ultimately awarded damages of NZ\$600,000 under the user principle.

On appeal, damages were reduced to NZ\$225,000.²⁶ The Court of Appeal set out a useful summary of the user principle, as expressed in *Copinger and Skone James on Copyright*:²⁷

- (i) The hypothesis is that the actual licensor and the actual infringer are willing to negotiate with each other as they are, with their strengths and weaknesses, in the market as it existed at the date of the infringement. Accordingly the task of the court is to assess the value of the use to the defendant, not to a hypothetical person.
- (ii) However, any impecuniosity on the part of the notional licensee is to be disregarded, as are the personal characteristics of the parties (e.g. an easy-going or aggressive nature), as opposed to the objective factors with which they were faced. Such matters are not considered to provide any guidance as to what the right is worth.
- (iii) The fact that one or both parties would not in fact have reached an agreement is irrelevant.
- (iv) The terms of any notional licence must reflect the actual infringement. Accordingly, where only part of a copyright work has been infringed, the notional licence is a licence to carry out the infringing act and not a licence to use the whole of the copyright work. The period of the licence is the period of actual infringement. Where the infringer enjoyed exclusivity in practice, the notional licence should accord with the reality. Likewise, the licence should permit the infringer to contract with others on the terms on which it actually contracted.
- (v) Where there has been nothing like an actual negotiation between the parties, it is reasonable for

the court to look at the eventual outcome and to consider whether or not that is a useful guide to what the parties would have thought at the time of their hypothetical bargain.

- (vi) The court can take into account other relevant factors, and in particular delay on the part of the claimant in asserting its rights.
- (vii) It is relevant under this head that the defendant could have arrived at the same result by lawful means if the parties can be expected to have taken that fact into account in their hypothetical negotiation. That alternative need not have had all the advantages or other attributes of the infringement.
- (viii) In the absence of comparable licences or other compelling evidence the royalty may be based on the “available profits” method: the defendant’s actual profits are calculated; it is assumed that the parties would have accurately predicted these profits when negotiating; the profits are then (in effect) divided between the claimant and the defendant.
- (ix) In some cases it may be appropriate to award as damages the cost of producing or commissioning the material in a form which did not infringe copyright.
- (x) In a case within this group, the court may have to call into play “inference, conjecture and the like”, and apply “a sound imagination and the practice of the broad axe”.

The Court of Appeal found that, while Cull J was correct that user damages are calculated as a hypothetical bargain between willing parties in the relevant market as it existed at the time of infringement, her Honour had erred by adopting subjective evidence as to:

- (a) the licensor’s reluctance to authorise use of the work, particularly in a political campaign,²⁸ and
- (b) the National Party’s willingness to use *Lose Yourself* (“a very willing licensee”), which influenced the “high starting point for the fee”.²⁹

The Court of Appeal re-emphasised that the hypothetical bargain is an objective exercise. In addition, while Eminem’s personal political views were not relevant to the assessment of willingness, the Court acknowledged that where a copyright work is used in a divisive or polarising context (such as a political campaign) the impact on future commercial use of the work would be of objective concern to the licensor.³⁰ As such, an upward adjustment to the hypothetical licence fee would be justified.

The Court of Appeal provided guidance as to the scope of the market in which the hypothetical licence fee is to be

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calculated. Although the advertisement was accessed widely on the internet, this was generated following controversy around allegations of infringement. The proposed licensed use was not international. Instead the hypothetical licence was for the purpose of targeting New Zealand resident voters in the general election. The Court held the geographic market was restricted to New Zealand and noted:³¹

... it is difficult to see how the international attention of [Eminem] fans who were not voters in the New Zealand election (and so not an intended audience) could attract a price in the hypothetical negotiation. It is not something that the National Party as a reasonable licensee would wish to pay for, nor something for which a reasonable licensor could demand.

In addition, the Court of Appeal held that Cull J had erred in elevating the hypothetical licence fee due to a lack of artist control and denigration of the original work by the licensed work.³² Because the parties are assumed to be willing, it was “unrealistic to incorporate an assumption about the presence or otherwise of a control provision, the absence of which would serve no other purpose than to elevate the licence fee”.³³ A control provision “could not be effective because the licensed activity has already taken place in the form of the infringement”.³⁴

In *Electroquip*,³⁵ Rodney Hansen J had considered the same classic English patent authorities. *Electroquip* concerned unauthorised copying of unique parts of a sheep jetter. His Honour cited *Blayne (t/a Aardvark Jewellery) v Clogau St Davids Gold Mines Ltd*³⁶ as authority for the application of the user principle to copyright cases. In that case, the English Court of Appeal held:³⁷

Given that that is the rule in the case of infringements of patents I can see no reason not to apply it in cases of infringements of copyright. In each case the infringement is an interference with the property rights of the owner... Though the nature of the monopoly conferred by a patent is not that same as that conferred by copyright I see no reason why that should affect the recoverability of damages in cases where the monopoly right has been infringed. The fact that the plaintiff may not be able to prove the application of one measure of damages, namely lost sales, does not mean that he has suffered no damage at all, rather some other measure by which to assess the compensation for that interference must be sought. Whilst, no doubt, there are differences between the rights granted to a patentee and those enjoyed by the owner of copyright they draw no distinction between the effect of an infringement of patent rather than a copyright.

Justice Rodney Hansen also referred to Nicholls LJ’s comment in *Attorney-General v Blake* that:³⁸

... these awards cannot be regarded as conforming to the strictly compensatory measure of damage for the injured

person’s loss unless loss is given a strained and artificial meaning. The reality is that the injured person’s rights were invaded, but in financial terms, he suffered no loss. Nevertheless the common law has found a means to award him a sensibly calculated amount of money. Such awards are probably best regarded as an exception to the general rule.

This led Rodney Hansen J to conclude:³⁹

Although damages for infringement of copyright in New Zealand have previously been determined by reference to the loss suffered, I see no reason to confine an award to the straitjacket of compensatory damages. An award which includes royalties on the additional infringing articles sold will ensure that the plaintiffs are fairly compensated for the use of their property as well as for the losses they have incurred.

Notably, his Honour held that damages awarded under the user principle can be apportioned to reflect its “rough and ready” nature.⁴⁰ Justice Rodney Hansen proposed to take a “broad axe [to] give the defendant the benefit of any doubts in the calculation” because the sheep jetter in question contained parts which were common to many other sheep jettors, and reduced the damages award by 50 percent.⁴¹

This approach appears inconsistent with Cull J’s statement in *Eight Mile Style* that damages should not subjectively favour one side or another – rather it should be the court’s best estimate of a reasonable licence fee.⁴² As set out above, the Court of Appeal’s re-emphasis of the objective nature of the hypothetical bargain in *Eight Mile Style* may also help focus future decisions as to quantum.

Justice Cull’s approach was adopted in the High Court in *Oraka Technologies Ltd v Geostel Vision Ltd* (“*Oraka Technologies*”).⁴³ Justice Hinton found that it was inappropriate to assess a notional licence fee at the value of the (asparagus grading) machine as a whole. However, the copyright work (a unique cup assembly) was so integral to the machine as a whole that it could not be severed at its individual value. Rather, her Honour awarded a higher notional licence fee which recognised a high “proportion of the profit [created by] the part”.⁴⁴

Notably, Hinton J held that the decision in *Eight Mile Style* accurately reflects the law as to the user principle in New Zealand.⁴⁵ In particular, her Honour agreed that there should be no need to deliberately err on the side of under or over-compensation, especially since the exercise was already hypothetical in nature.⁴⁶

Despite this, Hinton J took guidance from the recent English cases of *Force India*⁴⁷ and *32Red Plc v WHG (International) Ltd* (“*32Red*”),⁴⁸ stating that the High Court decision in *Eight Mile Style* was not of particular assistance on the facts. This led her Honour to conclude that the court should take

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into account the availability of non-infringing alternatives to the defendant at the time of infringing.⁴⁹ However, the suggested alternatives of a “design-around” the infringing work or importation from China were not viable options for her Honour’s consideration.⁵⁰ It was also relevant in that case that the licensor would not have wanted to assist a potential new competitor in the relatively small asparagus grading market.⁵¹

Accordingly, the application of the user principle in New Zealand cases raises three main questions:

- (a) Are user principle damages compensatory or restitutionary in nature?
- (b) Should the court take into account non-infringing alternatives available to the defendant at the time of infringement?
- (c) How does the New Zealand approach compare with Australia?

Characterising the remedy

Compensatory or restitutionary?

As the user principle does not involve actual pecuniary loss, there has been some judicial confusion as to the correct nature of such damages awards. Specifically, the courts have grappled with whether such damages are compensatory or restitutionary in nature. Compensatory damages inherently recognise the plaintiff’s loss whereas restitutionary damages look to the defendant’s gain.

In *Eight Mile Style*, Cull J concluded:⁵²

The user principle is not strictly compensatory in nature as it is not remedying the plaintiff’s financial loss. Rather, the user principle recognises the infringement that has invaded the monopoly a plaintiff has on their intellectual property rights and the defendant’s gain in this infringement. It is therefore both compensatory and restitutionary in nature.

However, in *Oraka Technologies*, Hinton J found that:⁵³

... the remedy is more properly understood as compensatory. The user principle operates as compensation by awarding to a successful plaintiff the benefit of a “negotiated” licence, which they lost when the defendant infringed their intellectual property.

It is submitted the user principle should be seen as compensatory. The Court of Appeal in *Eight Mile Style* also took this view.⁵⁴ The position is perhaps best explained by the UK Supreme Court recently in *Morris-Garner v One Step (Support)*:⁵⁵

In these cases, the courts have treated user damages as providing compensation for loss, albeit not loss of a conventional kind. Where property is damaged, the loss

suffered can be measured in terms of the cost of repair or the diminution in value, and damages can be assessed accordingly. Where on the other hand an unlawful use is made of property, and the right to control such use is a valuable asset, the owner suffers a loss of a different kind, which calls for a different method of assessing damages. In such circumstances, the person who makes wrongful use of the property prevents the owner from exercising his right to obtain the economic value of the use in question, and should therefore compensate him for the consequent loss. Put shortly, he takes something for nothing, for which the owner was entitled to require payment.

While the distinction may appear academic, it has the potential for disparity in approach. This is perhaps illustrated by considering whether the courts should consider non-infringing alternatives available to the defendant at the time of infringement.

Non-infringing alternatives available to the defendant?

Recent New Zealand cases (in particular *Oraka Technologies*) have cited the English courts’ decisions in *Force India* and *32Red* as authority for considering alternatives available to the defendant.

Force India concerned copyright infringement in relation to the design of a Formula One racing car. The England and Wales High Court held that:⁵⁶

- (a) the overriding principle is that the damages are compensatory;
- (b) the primary basis for assessing damages is to consider what sum would have been arrived at in negotiations between the parties, had each been making reasonable use of their respective bargaining positions, bearing in mind the information available and the commercial context at the time negotiation should have taken place;
- (c) the fact that one or both parties would not in practice have agreed to make a deal is irrelevant;
- (d) the assessment is to be made as at the date of the breach;
- (e) where there has not been an actual negotiation between the parties, it is reasonable to look at the eventual outcome and consider whether or not that is a useful guide to what the parties would have thought at the time of their hypothetical bargain; and
- (f) the court can take into account other relevant factors, and any delay on the part of the claimant in asserting its rights.

It was highly material that the same information was available from an alternative lawful source. Mr Justice Arnold held that the parties’ respective bargaining positions would have

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been influenced by this fact.⁵⁷ On appeal, the Court of Appeal added:⁵⁸

In any negotiation the parties to the negotiation will be considering what their alternatives are to doing the deal. There is no reason why a hypothetical negotiation should be any different in that respect. It is, of course, different from a real negotiation in one respect because in the hypothetical negotiation not doing the deal at all is not an alternative. In selecting as the measure of damages the cost of employing a consultant in order to obtain an equivalent benefit from an alternative source the judge was, in my judgment, following a well-trodden path. I see no error of principle here.

32Red concerned trade mark infringement in relation to the name and logo of an online casino. The England and Wales High Court held that if the parties are hypothetically to “bargain as they are, with their strengths and weaknesses”, then alternatives available to them must be taken into account.⁵⁹ In that case, the notional licence fee was significantly lowered by the fact that the value the plaintiff ascribed to the right was “disproportionate to the actual financial advantages” to the defendant in using the infringing work, compared with alternative options.⁶⁰

Notably, the above English cases rely on the trespass decisions in *Enfield LBC v Outdoor Plus Ltd* (“*Enfield*”)⁶¹ and *Sinclair v Gavaghan*⁶² as authority for taking into account non-infringing alternatives available to the defendant. The Court in *Enfield* held that alternatives can be taken into account, but:⁶³

The alternative must, however, be one which is consistent with the trespass and which can co-exist with it. An alternative cannot be taken into account if it would eliminate the trespass itself, because that would again negate the very basis of the exercise.

David Llewelyn argues that although this logic may be “impeccable in relation to trespass”, it is not so easily applied in intellectual property cases.⁶⁴ This is because a defendant will have often deliberately chosen to use one copyrighted work (among thousands of others) for its commercial advantage, whereas a trespass case will presumably contain a small and finite number of alternative methods of access.⁶⁵

The Court of Appeal in *Eight Mile Style* endorsed the approach in *Oraka Technologies*, *32Red* and *Force India*, as expressed in *Copinger and Skone James on Copyright*.⁶⁶

It is relevant ... that the defendant could have arrived at the same result by lawful means if the parties can be expected to have taken that fact into account in their hypothetical negotiation. That alternative need not have had all the advantages or other attributes of the infringement.

On the facts, the Court of Appeal observed that the availability of non-infringing alternatives will be a relevant

consideration where “the budgetary constraints of a defendant may influence the choice of an alternative work”.⁶⁷ As such, in the context of a statutorily-prescribed election budget, Cull J erred in her failure to consider alternatives open to the National Party when calculating the hypothetical licence fee.

Considering the availability of the defendant’s non-infringing alternatives may seem to characterise user principle damages as restitutionary, as there is consideration of what value the defendant gained from using the plaintiff’s work. It may be argued that a compensatory measure should prevent defendants from arguing they had alternatives the plaintiff has created a valuable work, and any loss of control over that work should be compensated at a value that recognises the plaintiff’s effort and skill. Taking defendants’ non-infringing alternatives into account may have contributed to the view that the user principle blurs the line between compensatory and restitutionary damages.⁶⁸ However, it is considered that the hypothetical aspects of the user principle should not be confused with the restitutionary nature of a defendant’s gain.⁶⁹ The Court of Appeal in *Eight Mile Style* noted that “the task of the court is to assess the value of the *use* to the defendant” (emphasis added), as distinguished from the defendant’s financial gain.⁷⁰

The Australian approach

Australian courts have also employed the user principle to assess copyright damages, albeit in a much narrower way. This is largely due to their development of a gateway test that requires plaintiffs to show they would have licensed their work.⁷¹ In some cases this will not be an issue for example, applying the compulsory licensing regime for music works.

However, issues arise where plaintiffs cannot show they would have licensed their work, but an infringement has clearly occurred. In such cases, although unwilling to adopt the hypothetical willing licensor, the Australian courts appear to have taken a liberal approach to “further damages” in order to reach a fair result for plaintiffs unable to cross the gateway.⁷² The practical effect of the gateway approach has been that Australian courts may award a nominal sum under ordinary compensatory damages, but make a substantial award of further damages to remedy the plaintiff’s loss.⁷³

This approach would not be available in New Zealand. The flagrancy test in, and punitive nature of, additional damages means awards are less common and of lower magnitude. For example, in *Eight Mile Style*, Cull J held that additional damages, which are punitive in nature,⁷⁴ were not available because the requirement for such an award goes beyond mere awareness and likely requires “outrageous behaviour”.⁷⁵ Justice Cull held that this high threshold was evidenced by the largest additional damages award for copyright in New Zealand being NZ\$50,000.⁷⁶ In the case where that award was made, the infringement involved blatant copying by the defendant for its benefit and damage to the plaintiff,

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and that the defendant intended to test the market for the introduction of further infringing material.⁷⁷ Justice Cull’s decision in respect of additional damages was upheld by the Court of Appeal.⁷⁸

Conversely, by way of example, in the Australian case of *Dynamic Supplies Pty Ltd v Tonnex International Pty Ltd (No 3)*,⁷⁹ the Federal Court of Australia awarded AU\$1 in compensatory damages but AU\$150,000 in further damages. This award reflected the knowledge of the defendant in its infringement. In placing a nominal value on compensatory damages, the courts place pressure on further damages awards to remedy loss.

The New Zealand and UK approach has the advantage of addressing more directly the principle that damages are awarded because the defendant:⁸⁰

... takes something for nothing, for which the owner was entitled to require payment.

Conclusion

New Zealand courts will continue to apply the user principle as a means of assessing damages where there is no normal rate of profit or established licence fee for the use of a plaintiff’s property. However, bearing in mind the concept of the willing licensor and willing licensee, a close examination of New Zealand case law reveals substantial difficulties for any court taking on this hypothetical exercise.

Despite some conflating with restitution, New Zealand courts are willing to take into account defendants’ non-infringing alternatives. Care must be taken to avoid allowing the defendant to ascribe value to the plaintiff’s right by reference to the defendant’s gain from infringement and ultimately pay less in a user principle damages award than the reasonable value of a licence had they used the copyright work lawfully. Courts must recognise “the value that both intellectual property owners and society place on innovation and creativity”.⁸¹

On the other hand, the user principle should not be used to punish a defendant. A careful factual assessment is required to award the “reasonable fee”, without erring toward one party or another.⁸² In doing so, the courts will need to refrain from subjective analysis of the parties’ actual positions, and remain closely guided by the objective notion of willing parties. Perhaps such an assessment really does require “a sound imagination and the practice of the broad axe”.⁸³

- 1 Judge of the High Court of New Zealand. This article is adapted from a presentation given at the 32nd Intellectual Property Society of Australia and New Zealand Annual Conference in Queenstown, New Zealand on 8 September 2018, before my judicial appointment. I gratefully acknowledge the assistance of my former colleagues Hannah Musgrave and George Morrison in preparing this article.
- 2 (1914) 31 RPC 104, 119.
- 3 (1911) 28 RPC 157, 164–165.
- 4 [1975] 1 WLR 819.
- 5 *Skids Programme Management Ltd v McNeill* [2012] NZCA 314 [119].
- 6 High Court, Auckland, CIV 2006-404-6719 [2010] NZHC 532. See also *Napier Tool & Die Ltd v Oraka Technologies Ltd* [2017] 2 NZLR 611 [74]; *The New Zealand National Party v Eight Mile Style, LLC* [2018] NZCA 576 [27]–[28].
- 7 [2018] UKSC 20 [95].
- 8 (1914) 31 RPC 104, 120.
- 9 (1911) 28 RPC 157, 165.
- 10 [2016] NZCA 554.
- 11 [2016] NZCA 554 [74].
- 12 *General Tire* [1975] 1 WLR 819, 826.
- 13 [1975] 1 WLR 819, 833.
- 14 [2017] NZHC 2603.
- 15 [2017] NZHC 2603 [337].
- 16 [2017] NZHC 2603 [339].
- 17 [2017] NZHC 2603 [346].
- 18 [2017] NZHC 2603 [346].
- 19 [2017] NZHC 2603 [389], [398] and [434].
- 20 [2017] NZHC 2603 [409].
- 21 [2017] NZHC 2603 [340].
- 22 [2017] NZHC 2603 [341].
- 23 [2017] NZHC 2603 [389].
- 24 [2017] NZHC 2603 [342].
- 25 [2017] NZHC 2603 [343].
- 26 [2018] NZCA 596 [153]. The Supreme Court of New Zealand dismissed an application for leave to appeal on 14 May 2019: *Eight Mile Style, LLC v New Zealand National Party* [2019] NZSC 48.
- 27 [2018] NZCA 596 [29]–[30], citing Gillian Davies, Nicholas Caddick and Gwilym Harbottle (eds), *Copinger and Skone James on Copyright* (Sweet & Maxwell, 17th ed, 2016) vol 1 at [21-292]. See also the recent decision of Edwards J in *Dodson Motorsport Ltd v Logiical Performance Ltd* [2019] NZHC 918 at [252].
- 28 [2018] NZCA 596 [75]–[88].
- 29 [2018] NZCA 596 [89]–[92].
- 30 [2018] NZCA 596 [66]–[73] and [123].
- 31 [2018] NZCA 596 [59]–[61]. Cf *Dodson Motorsport Ltd v Logiical Performance Ltd* [2019] NZHC 918 [261].
- 32 [2018] NZCA 596 [106].
- 33 [2018] NZCA 596 [104].
- 34 [2018] NZCA 596 [97].
- 35 High Court, Auckland, CIV 2006-404-6719 [2010] NZHC 532 [20].
- 36 [2002] EWCA Civ 1007.
- 37 [2002] EWCA Civ 1007 [20].
- 38 [2001] 1 AC 268, 279.
- 39 High Court, Auckland, CIV 2006-404-6719 [2010] NZHC 532 [29].
- 40 High Court, Auckland, CIV 2006-404-6719 [2010] NZHC 532 [52], following *Blayney v Clogau* [2002] EWCA Civ 1007 [33] and *SPE International Ltd v Profession Preparation Contractors UK Ltd* [2002] EWHC 881 (Ch) [87].
- 41 High Court, Auckland, CIV 2006-404-6719 [2010] NZHC 532 [53].
- 42 [2017] NZHC 2603 [346].
- 43 [2018] NZHC 769 [117].
- 44 [2018] NZHC 769 [125].
- 45 [2018] NZHC 769 [23].
- 46 [2018] NZHC 769 [117].

The User Principle in New Zealand Copyright – “the exercise of a sound imagination and the practice of the broad axe”?

- 47 *Force India Formula One Team Ltd v 1 Malaysia Racing Team SDN BHD* [2012] EWHC 616 (Ch); *Force India Formula One Team Ltd v Aerolab SRL* [2013] EWCA Civ 780.
- 48 *32Red Plc v WHG (International) Ltd* [2013] EWHC 815 (Ch).
- 49 [2018] NZHC 769 [33].
- 50 [2018] NZHC 769 [83] and [85].
- 51 [2018] NZHC 769 [33].
- 52 [2017] NZHC 2603 [338].
- 53 [2018] NZHC 769 [18].
- 54 [2018] NZCA 596 [39].
- 55 [2018] UKSC 20 [30]. Under the same reasoning, the Court held that the user principle can also apply in respect of contractual damages ([93]). The contractual right must be “of such a kind that its breach can result in an identifiable loss equivalent to the economic value of the right, considered as an asset, even in the absence of any pecuniary losses which are measurable in the ordinary way.” The Court considered that this would include breaches of the right to control the use of land, intellectual property or confidential information. This, and the application of the user principle in equity in substitution for injunctive relief or specific performance, are not the focus of this article. For a useful overview and critique of these points, see Caspar Batscherer, ‘Two Steps Forward, One Step Back: *One Step (Support) Ltd v Morris-Garner & Another*’ (2019) 82(2) *The Modern Law Review* 367.
- 56 *Force India Formula One Team Ltd v 1 Malaysia Racing Team SDN BHD* [2012] EWHC 616 (Ch) [386].
- 57 [2012] EWHC 616 (Ch) [426].
- 58 *Force India Formula One Team Ltd v Aerolab SRL* [2013] EWCA Civ 780 [108].
- 59 *32Red Plc v WHG (International) Ltd* [2013] EWHC 815 (Ch) [41]–[42].
- 60 [2013] EWHC 815 (Ch) [102].
- 61 [2012] EWCA Civ 608.
- 62 [2007] EWHC 2256 (Ch).
- 63 [2012] EWCA Civ 608 [51].
- 64 David Llewellyn ‘Assessment of Damages in Intellectual Property Cases’ (2015) 27 *Singapore Academy of Law Journal* 480, 502.
- 65 David Llewellyn ‘Assessment of Damages in Intellectual Property Cases’ (2015) 27 *Singapore Academy of Law Journal* 480, 502.
- 66 [2018] NZCA 596 [29]–[30], citing Gillian Davies, Nicholas Caddick and Gwilym Harbottle (eds), *Copinger and Skone James on Copyright* (Sweet & Maxwell, 17th ed, 2016) vol 1 [21-292].
- 67 [2018] NZCA 596 [93] – [96].
- 68 For example, Cull J’s conclusion in *Eight Mile Style* that the measure of damages is both compensatory and restitutionary.
- 69 Of course, account of profits is an alternative remedy available to a plaintiff.
- 70 [2018] NZCA 596 [29]–[30], citing Gillian Davies, Nicholas Caddick and Gwilym Harbottle (eds), *Copinger and Skone James on Copyright* (Sweet & Maxwell, 17th ed, 2016) vol 1 [21-292].
- 71 See for example *TS & B Retail Systems Pty Ltd v 3Fold Resources Pty Ltd (No 3)* (2007) 158 FCR 444; [2007] FCA 151.
- 72 The jurisdiction for further damages exists in s.115 of the Australian *Copyright Act* 1968 (Cth), and is similar to additional damages in New Zealand. That is, the court will have regard to matters such as the flagrancy of the breach and any benefit accrued by the defendant from that breach.
- 73 See, for example, *Dynamic Supplies Pty Ltd v Tonnex International Pty Ltd (No 3)* [2014] FCA 909.
- 74 [2017] NZHC 2603 [446] following *Feltex Furnishings of New Zealand Ltd v Brintons Ltd* (1992) 4 NZBLC 102, 913, 102, 921.
- 75 [2017] NZHC 2603 [447] and [449] following *Electroquip Ltd v Craigco Ltd (No 2)* High Court, Auckland, CIV 2006-404-6719 [2010] NZHC 532 [56], and *Skids Programme Management Ltd v McNeill* [2012] NZCA 314 [119].
- 76 In *Dodson Motorsport Ltd v Logiical Performance Ltd* [2019] NZHC 918 [312] Edwards J awarded NZ\$60,000 jointly and severally against four defendants.
- 77 *Jeans West Corp (New Zealand) Ltd v G-Star Raw CV* [2015] NZCA 14.
- 78 [2018] NZCA 596 [150]. The Supreme Court also declined leave in relation to additional damages: *Eight Mile Style, LLC v New Zealand National Party* [2019] NZSC 48.
- 79 [2014] FCA 909.
- 80 [2018] UKSC 20 [30] and [95].
- 81 David Llewellyn ‘Assessment of Damages in Intellectual Property Cases’ (2015) 27 *Singapore Academy of Law Journal* 480, 505.
- 82 [2017] NZHC 2603 [346].
- 83 *Watson, Laidlaw* (1914) 31 RPC 104, 118.

The Willing Licensee and the Willing Licensor – A Sound Imagination and the Broad Axe: the Australian Approach

Colin Golvan AM, QC¹

Introduction

How does one go about determining fair remuneration for damages for infringement of copyright? One of the important issues raised by this question goes to the very nature of the asset sought to be protected. It is intangible. It may have a trading history (in the form of licensing whether by private contract or on a compulsory basis, such as in the case of music). It may have an esteemed value in the eyes of the author, but little to show by way of monetary value.

Ascribing value to copyright is one of the really vexed questions in addressing the significance of copyright in the economy generally, let alone determining an amount of general or additional damages to be awarded in the case of infringement. Typically, Australian accountants have not engaged effectively with properly identifying the value of copyright. They have resisted placing a value on copyright in balance sheets, ostensibly on the basis of not wanting to include valuations of assets which cannot be tested in an open market. This policy will need to be reviewed to reflect the rise in the intangibles economy.

Absent guidance from accountants, there are significant issues for courts and practitioners in determining the correct approach to remunerating for loss in the nature of diminution in the value of copyright. Invariably, courts look to the harm suffered by a plaintiff by way of loss of opportunity (such as by lost sales or otherwise) or royalties, rather than approaching the issue from the perspective of a quantifiable loss in asset value. In turn, this potentially misses a claim for harm to the capital value of copyright.

In order to understand the role played in determining an approach to damages based on notional licensing, it is important to be conversant with the various approaches to damages available, and the tailoring of approaches to the specific facts of each case.

As noted by Justice Yates of the Federal Court of Australia (“Federal Court”) in a speech entitled *Recent Developments in IP Remedies*,² there are few cases in IP generally, let alone copyright, where the issue of damages has been pursued to final relief. In the case of copyright, this may be an incident of the awards of damages often being relatively small, and more often than not arising, if at all, in proceedings in the Federal Circuits Court rather than the Federal Court. Nevertheless, the Federal Court, at first instance, and on appeal, has given attention to the relevant principles as reviewed below.

General Damages

General damages are available under s.115(2) of the *Copyright Act 1968* (Cth) (“Copyright Act”). General damages for

infringement are compensatory (and not punitive). While damages are intended to compensate for the diminution in the value of copyright by reason of infringement, the award of damages is at large and subject to the discretion of the trial judge to make an award of adequate and sufficient compensation given the harm caused and the redress that is warranted. Damages are not available if an infringement was innocent, in the sense that the defendant was not aware, and had no reasonable grounds for knowing, that his/her conduct was infringing (s.115(3) of the Copyright Act).

Trial judges are commonly having to work with limited evidence of actual loss or potential loss, and intuition, or the judicial sense, plays a major role here. Judges may well differ markedly in their views about proper outcomes based on perceptions of the importance of the subject copyright under consideration.

There is a very wide discretion in determining the approach to damages in copyright, as noted by Bowen CJ in *Interfirm Comparison (Aust) Pty Ltd v Law Society of New South Wales*:³

The purpose of damages is to compensate the plaintiff for the loss which he has suffered as a result of the defendant's breach. It would, in my opinion, be wrong to regard it as the exclusive measure of damages for breach of copyright appropriate in all circumstances. Somewhat different considerations may apply to unpublished works from those which apply to published works. Furthermore, the circumstances in which breach of copyright arises vary widely. Various measures of damage appropriate to the particular circumstances have to be applied. This was recognised when the Copyright Act 1968 was passed (see sections 115, 116 and 122).

The Threshold Question

A critical starting point in understanding the law on general damages for copyright infringement involves the application of the principle that a plaintiff needs to show by evidence or reasonable inference that it has lost a benefit it was entitled to recover by reason of the infringing conduct. A plaintiff cannot rely on the benefit obtained by a defendant in engaging in infringing conduct. In other words, the benefit

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of use by a defendant – or user principle – has been rejected in Australia at least with respect to copyright infringement.⁴ The application of the user principle would in effect impose a royalty on a respondent notwithstanding, as may often be the case, that it is established that an applicant would never have licensed the infringing conduct (and which would currently mean that no such royalty is available).

Whether one looks at recovery by way of a notional licence or for loss of profits which would have been made by the plaintiff, the principle remains that it is necessary to show a likelihood of licensing, the earning of profit or other loss but for the infringement. This is distinguished from the concept of an account of profits being based on the gain obtained by the defendant, and which is generally understood as receiving the benefit of effectively approving or permitting the conduct, whilst at the same time retaining a right to injunctive relief.

In his speech, Justice Yates commented on how this limitation is inconsistent with the approach to the award of damages in other areas of tortious interference where the user principle applies. In fact, his Honour in *Winnebago Industries Inc. v Knott Investments Pty Ltd (No 4)* (“*Winnebago*”),⁵ while acknowledging the rejection of the user principle by the Full Court of the Federal Court of Australia (“Full Court”) in *Aristocrat Technologies Australia Pty Ltd v DAP Services (Kempsey) Pty Ltd (in liquidation)* (“*Aristocrat*”),⁶ considered that the Full Court was not concerned with passing off (as His Honour was in *Winnebago*) but rather copyright infringement and proceeded to make an award based on the user principle. This decision in *Winnebago* was appealed, but the matter subsequently settled. It is clear that a challenge to the Full Court decision in *Aristocrat* will emerge, although absent legislative reform, it will need to be by an appeal to a Full Court which will likely be constituted by five judges (enabling a reconsideration of the earlier Full Court decision), and then one would have to anticipate an application for special leave to the High Court of Australia (“High Court”).

The Two Approaches

In *Eagle Rock Entertainment Ltd v Caisley* (“*Eagle Rock*”),⁷ Tamberlin J referred to “two approaches” in compensating for damage in copyright in Australia – the notional royalty approach, which is particularly apt when the work is of a kind subject to licence, or alternatively remuneration for losses suffered. This second head is sometimes approached as loss of profits in the hands of the rights owner, and is often considered to be the more likely of the approaches to be adopted in determining general damages given difficulties concerning assumed licensing. That approach was adopted by Finkelstein J in *TS&B Retail Systems Pty Ltd v 3Fold Resources Pty Ltd (No. 3)* (“*TS&B*”)⁸ at [207]:

The plaintiff must show that he has lost sales to the defendant as a result of the infringement and quantify the loss suffered.

This requires the court to explore the counterfactual hypothesis of the contracts the plaintiff would have obtained absent the infringement and the costs associated with them. Necessarily the process will involve a degree of speculation, but that is no bar to recovery. The claim is not for loss of revenue but for loss of profits. The profits to be calculated are the lost net profits. By net profits I mean revenue less all costs including variable and indirect costs, but not including income tax. Care must be taken to ensure that costs savings are brought to account. If a plaintiff sells less of his products he will have less costs and that should be treated as a gain to be offset against the lost revenue which forms the basis of the computation of lost profits. The plaintiff is also entitled to recover indirect losses (such as damages to goodwill) as long as the cause is the infringement, the loss is foreseeable and is not unduly speculative. It will often be impossible to be precise in the calculation of lost profit. If needs be, the calculation can be rough and ready, with the benefit of any doubt favouring the plaintiff.

Loss of Profits

In determining the loss of profits approach, based on the assumption of sales by the plaintiff, it is necessary to make an appropriate allocation for the lost profits attributable to the infringement.⁹ From an accounting perspective, this would require a review of the profitability to the plaintiff of lost sales caused by the infringement, and invariably some element of discounting to take account of the typical reduced price of an infringing product.

In *TS&B*, Finkelstein J awarded AU\$200,000 based on a lost profits calculation, assuming that a supply contract would have been won by the plaintiff and not the defendant by reason of the infringing use of plans.

In *Bailey v Namol Pty Ltd*,¹⁰ compensatory damages were awarded in the sum of AU\$350,000 on the basis of a loss of profits claim – representing the benefit lost to the plaintiff by the wrongful use of plans to secure a contract for supply.¹¹ This approach was similar to that adopted by Finkelstein J in *TS&B*.

In *Henley Arch Pty Ltd v Lucky Homes Pty Ltd* (“*Henley Arch*”),¹² the plaintiff claimed loss of profits in not being able to build a home due to the infringing use of its plans. The home owner wished to have Henley Arch build the house but became frustrated due to delay and price considerations. Beach J found that but for the offer of the defendant to build the home making an infringing use of the plans, Henley Arch would likely have been appointed the builder, but in assessing general damages (or the loss of profits) His Honour discounted the amount by 20 percent to take account of the risk of Henley Arch not being engaged – “some estimation or even educated guesswork ... is justifiable”.¹³ Beach J assessed quantum on the basis of earnings before interest and tax (“EBIT”), calculating the profit at AU\$48,231 (which

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His Honour then discounted to AU\$43,000 for reasons as noted). The total build for the house in that case was quoted at approximately AU\$250,000.

In *Elwood Clothing Pty Ltd v Cotton on Clothing Pty Ltd*,¹⁴ Gordon J approached the issue of the calculation of profits lost to the plaintiff on a discounted basis, taking the benchmark of sales by the defendant and discounting the level of sales because of the difference in price between the plaintiff's and the defendant's garments.¹⁵ A similar approach was also adopted in *Seafolly Pty Ltd v Fewstone Pty Ltd*.¹⁶

This approach is in direct contrast to an account of profits which might be ordered against a defendant, and which is an alternative remedy to damages (including, as has been understood, a claim for further damages). It demonstrates the flexibility in the approach to awards of damages in copyright.

A Further Approach to Loss - Damage to Reputation

In *Milpurrurru v Indofurn Pty Ltd*,¹⁷ a case involving infringement of copyright in Aboriginal art,¹⁸ von Doussa J explored the issue of damage to reputation, arising from infringement by the unauthorised reproduction of artistic works on carpets, having regard to issues of standing and responsibility in traditional Aboriginal society, noting that there was no prospect of licensing of the works as to provide that approach to quantifying damages. His Honour considered the cases on remuneration for damage to repute by reason of infringing conduct (being *Beloff v Pressdram Ltd*¹⁹ and *Nichols Advanced Vehicle Systems Inc v Rees*²⁰) and determined that a limited award should be made for the exposure to distress caused by the unauthorised reproduction of important works of Aboriginal art on carpets.²¹

The losses arising ... are a reflection of the cultural environment in which the artists reside and conduct their daily affairs. Losses resulting from the tortious wrongdoing experience by Aborigines in their particular environments are properly to be brought to account ...

While the award under this head was relatively small (AU\$12,000), it was balanced by more significant awards under ss.115(4) and 116 of the Copyright Act (which took the total award to AU\$188,640. A further sum awarded against the non-executive directors of the defendant was reversed on appeal.)²²

The relative meagreness of the award of general damages in the case might be considered to be partly related to timing – in other words, a greater value might be ascribed today to loss of reputation, in the nature of loss of cultural standing of Aboriginal artists.

The Notional Licence

In considering the first of the two approaches referred to by Tamberlin J in *Eagle Rock* – the notional licensing approach

– much depends on whether a plaintiff would have licensed the usage (such as, by reference to a history of licensing). Then, there is the issue of the appropriate licence fee to be set and whether there should be an adjustment in favour of a plaintiff because the offending conduct was infringing, although the risk arises that an award of general damages might take on a punitive dimension.

Given the absence of the user principle, it is not possible to look at the benefit obtained by a respondent if a notional licence cannot be properly assumed. Accordingly, the presumption of licensing at least requires a practice or reasonable assumption of licensing by an applicant, which in addition to music, would apply readily in the case of infringement and books (where royalties on a licensing or assignment basis can be calculated) or in the case of a display builder which might offer licences in house plans to other builders, as occurred in the case of Barrett Homes and its claims against various home builders of copyright infringement, where there was an established commercial practice of licensing by the plaintiff.²³ In each case, the claims for damages were settled, but Barrett Homes raised a basis of calculation referable to its own practice of licensing its display home plans to builders in rural areas, and proposed that the licensing fee be adjusted to take account of a premium which should be paid by an infringer.

The test to apply is of willing (but not overly willing) licensing parties, and sees courts engaging in an exercise of commercial judgment, with often limited guidance other than possibly a history of actual licensing (which in itself needs to be approached with care given the case-by-case nature of outcomes in the determination of damages).

“Men at Work” case study

In the case of copyright infringement and musical works, the licence approach is readily available because of the compulsory licensing regime in the Copyright Act, as noted in *Larrikin Music Publishing Pty Ltd v EMI Songs Australia Pty Ltd (No. 2)*.²⁴ That decision was concerned with determining general damages for infringement of the musical work *Kookaburra Sits on the Old Gum Tree* (“*Kookaburra*”) by the Men at Work song *Down Under*.

Although the award was actually made under the *Trade Practices Act 1974* (Cth) and not the Copyright Act, given that there were limitations issues pertaining to the infringement of copyright claim which did not apply to the Trade Practices claim, the principles to be applied were agreed to be those pertaining to infringement of copyright. Jacobson J in the Federal Court noted that the test of willing licensee and licensor had to be applied in determining the amount of the notional licence fee.²⁵

Jacobson J outlined the principles to apply in determining a notional royalty approach as follows (drawing from *Ludlow Music Inc v Williams (No 2)* [2002] EWHC 638):²⁶

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[29] First, the respondents being wrongdoers, damages should be liberally assessed but the object is to compensate the applicant, not to punish the respondents.

[30] Second, it is common practice in the music industry for the owner of the copyright in a work to grant a licence to a person who seeks to use part of the original work in a derivative work. In those instances the owner of the copyright will grant a licence in return for a share of the copyright (or a share of the income) in or from the derivative work.

[31] Third, when an infringer uses the copyright work without a licence, the measure of the damages it must pay will be the sum which it would have paid by way of royalty if, instead of acting “illegally”, it had acted legally.

[32] Fourth, where (as in the present case) there is no “normal” rate of royalty or licence fee, evidence may be adduced of practice in the industry including expert evidence of factors which may guide the court in the determination of the applicable rate. Evidence of that type will be general and hypothetical and it will be a matter for the court to determine the weight to be given to it.

[33] Fifth, where (as in the present case) some form of royalty or profit share is appropriate, the basis for the assessment is a transaction between a willing licensor and a willing licensee. The assessment has to be made upon all the relevant evidence which may include evidence of rates agreed in other similar or “comparable transactions”.

[34] Sixth, the process is one of judicial estimation. Mathematical precision is not attainable. It would appear that if the court is to err, it should do so on the side of generosity to an applicant.

It is probably fair to say that Jacobson J was reluctant about the making of an award of damages in the case, but plainly considered that some award was necessary. Jacobson J accepted that the bars from *Kookaburra* constituted only a very small part of the *Down Under* song, and that they were difficult to recognise.²⁷

The judge considered examples of notional licensing outcomes in infringement settings, being the 7.5 percent royalty paid for the use of David Bowie’s *All the Young Dudes* in Green Day’s *21 Guns* and the 5 percent royalty paid for the use of Queen’s *We Will Rock You* in Eminem’s *Puke*. The *21 Guns* example is particularly telling.²⁸

Another issue which arose was “the character and status of the earlier work and the associations attached to it.”²⁹ The writer of the song, Paul Ham, was noted as having accepted that the purpose of including the flute passage was to inject an Australian flavour.³⁰

Jacobson J considered that the bars of *Kookaburra* which were used had to be considered in “a balanced way, by looking at their significance in the whole of the work.” He concluded that the “musical significance” was relatively small – “It is not easy to detect those bars as is plain from the fact that the resemblance went unnoticed ... for some 20 years.” Further, the judge said that he could only detect the resemblance “with the assistance of the experts”.³¹

Jacobson J said that evidence of comparables had to be approached with caution, and not treated in the same way as might occur in the active market scenario applying in cases involving the valuation of land – such as *Spencer v Commonwealth*.³²

Jacobson J determined to make an award at the lower end of “the scale”, noting that the owner of *Kookaburra* would not have had “substantial bargaining power” and with a small amount of the copyright work being taken.³³ While it had to be assumed that Men at Work would have been “willing licensees”, it is also fair to say that their willingness would have been at the bottom end of the range, and perhaps framed around the complications of possibly having to re-record the song to leave out the offending riff. The Federal Court ultimately held that a 5 percent royalty would be appropriate.

Issues of Proof and Nominal Damages

A court will not be deterred from determining an award of damages in the absence of actual evidence of loss.³⁴ Nevertheless, the absence of evidence indicating the approach to be adopted will often result in nominal and potentially no damages at all.³⁵

The issue of absence of evidence in proving damages was the subject of comment by Hayne J in the High Court in *Placer (Granny Smith) Pty Ltd v Thiess Contractors Pty Ltd*³⁶ (referred to in *University of Sydney v ObjectiVision Pty Ltd (No 8)*),³⁷ which concerned an application for late amendment of particulars of loss and damage), where it was stated that a distinction needs to be made between cases where a plaintiff is unable to adduce precise evidence of loss and where evidence ought to be available but not adduced. It was in the former case that the courts will make an “estimation”, and mere difficulty in making an estimate will not relieve a court of an obligation to do the best it can.

The problem of absence of evidence, where evidence was likely to be available (if there was loss in fact), was the subject of comment by Jessup J in *Facton Ltd v Mish Mash Clothing Pty Ltd*.³⁸

There was no detailed evidence as to the retail circumstances under which the applicants’ and the respondents’ goods were sold. For example, I do not know to what extent they might be sold in close physical proximity to each other; I do not know what category of consumer might be interested in goods

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of this kind; and I have no expert evidence as to the tendency for such consumers to make choices by reference to labels or known trading names rather than, for instance, by reference to the fabric, quality, style, comfort and other characteristics of a particular garment. The applicants made no attempt to match particular garments of their own with garments displayed for sale by the respondents, containing one of the infringing labels, to assist the court in determining what a consumer, confronted with the latter, would most probably have done in the absence of that label. Yet the applicants ask me to infer that every consumer who purchased a pair of jeans on which an infringing label was stitched would, in the absence of that label, have purchased a product (presumably a like pair of jeans) from the applicants instead. That would, in my view, be a matter of conjecture or surmise, rather than of inference. The gap in the evidence is just too wide to be crossed by the drawing of an inference, especially since it is the applicants themselves who have chosen to go to trial on this limited evidence.

Besanko J also followed this approach in *Futuretronics.com.au Pty Ltd v Graphix Labels Pty Ltd (No. 2)* (“*Futuretronics*”),³⁹ awarding AU\$10 to the applicant because of its failure to show any economic loss flowing from an infringement. It follows that it is often very difficult to determine an amount to be awarded for general damages, whether based on notional licensing or otherwise, where an infringer was engaged in sometimes heavy discounting and the idea of licensing or loss of a market was at best fanciful.

A similar kind of award to that in *Futuretronics* was made in *Pokemon Company International Inc v Redbubble Ltd*,⁴⁰ where AU\$1 was awarded in general damages. Redbubble operated an online market place for artists to sell work. Artists placing work on the site warranted that they were entitled to do so. Pokemon sought AU\$44,555 in general damages for lost royalties for infringement of Pokemon character artistic works. Pagone J awarded AU\$1 on the basis that Pokemon failed to show that it would have licensed the works in question. Also, there was no order for additional damages because Redbubble acted promptly to remove the infringing works.

This issue also arose in *Facton Ltd v Rifai Fashions Pty Ltd* (“*Facton v Rifai Fashions*”),⁴¹ where Bromberg J at trial rejected a claim for damages to reputation arising from copyright infringement in the absence of evidence of the value of the claimed reputation. The decision was reversed on appeal,⁴² with the Full Court observing that evidence on quantification was not necessary. The Full Court considered that an award of general damages could be based on the substantial and exclusive goodwill owned by the applicant in the copyright work. Nevertheless, the award of damages for loss of reputation was relatively nominal (AU\$5,000).

Applying *Facton v Rifai Fashions*, Bromwich J in *Geneva Laboratories Ltd v Prestige Premium Deals Pty Ltd*,⁴³ stated

that evidence of a positive reputation was sufficient and there was no need to prove actual loss to that reputation.⁴⁴ AU\$50,000 was awarded in general damages for loss to reputation.

In *Dynamic Supplies Pty Ltd v Tonnex International Pty Ltd (No 3)*,⁴⁵ Yates J awarded AU\$1 in compensatory damages but AU\$150,000 for additional damages. The AU\$1 amount was agreed between the parties. The additional damages awarded reflected the knowledge of infringement of Tonnex, indicated by the awareness of the employees involved in the infringing conduct (despite denials).

The issue of the appropriateness of an award of nominal damages arose in *Insight SRC IP Holdings Pty Ltd v Australian Council for Educational Research Ltd*,⁴⁶ with the result of a nominal award of general damages at trial was reversed on appeal (and a sum of AU\$130,000 awarded).⁴⁷ The Full Court found a genuine loss based on profits which would have been obtained by a licensee company owned by the copyright owner, notwithstanding that the copyright owner himself was not in a position to personally exploit the infringed copyright, although he was the guiding hand which controlled the exploitation of the copyright.

Precise proof of damages is not required and an estimate based on the available indications is often the approach to be adopted. Accordingly, it is sometimes said that the amount to be awarded by a trial judge is “what amount I think right as if I were a jury”.⁴⁸ There is, in the circumstances, no need for precision in the calculation. It remains that there is a strong judicial inclination to make small awards for general damages in the absence of evidence of actual or likely harm, including the loss of a genuine licensing opportunity.

Additional Damages

Given the weighting that is sometimes adopted between general and additional damages, it is important to have regard to the principles applying to the award of additional damages. This head of damages often is called in aid to provide some balance in an award of damages where the general damages result is small or nominal, but at the same time is available in supplement to an award of general damages.

Section 115(4) of the Copyright Act sets out matters to which the court should have regard:

Where, in an action under this section:

- (a) *an infringement of copyright is established; and*
- (b) *the court is satisfied that it is proper to do so, having regard to:*
 - (i) *the flagrancy of the infringement; and*
 - (ia) *the need to deter similar infringements of copyright; and*

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- (ib) *the conduct of the defendant after the act constituting the infringement or, if relevant, after the defendant was informed that the defendant had allegedly infringed the plaintiff's copyright; and*
- (ii) *whether the infringement involved the conversion of a work or other subject-matter from hardcopy or analog form into a digital or other electronic machine-readable form; and*
- (iii) *any benefit shown to have accrued to the defendant by reason of the infringement; and*
- (iv) *all other relevant matters;*

the court may, in assessing damages for the infringement, award such additional damages as it considers appropriate in the circumstances.

In *Facton v Rifai Fashions*, Gilmour J in the Full Court accepted the principle of a connection between the making of an award for general damages as being a precursor to the Court's power to make an award of additional damages.⁴⁹ This view has recently been called into doubt, as noted below.

The damages under this head are punitive, and are directed to conduct that is deliberate, rather than malicious.⁵⁰ In *Facton v Rifai Fashions*, AU\$25,000 was awarded having regard to the knowledge that the infringing goods were counterfeit, the provision of false undertakings on an inter partes basis (with goods continuing to be sold despite the undertakings), the improper denial of liability in the proceeding and the improper conduct of the proceeding through the giving of evidence found to be false. While the amount ordered was much less than sought (AU\$200,000 on appeal), it reflected the perilous financial position of the respondent and the small amount of profits made by the respondent (AU\$11,000).

Beach J, in *Henley Arch*, also referred to a function of additional damages being to discourage the improper conduct of litigation by a respondent. Thus, at [249], he stated:

A respondent's conduct after the commencement of litigation may be taken into account if it involves false denials of infringing conduct or only belatedly acknowledges wrongful conduct (see Facton Ltd v Rifai Fashions Pty Ltd (2012) 287 ALR 199; [2012] FCAFC 9 at [44] per Lander and Gordon JJ and at [114] per Gilmour J).

Beach J raised doubt about the view that an award under s.115(2) must be made before an award of additional damages may be made (at [252]). Nevertheless, additional damages will not be available if an election is made under s.115(2) for an account of profits.

In *Truong Giang Corporation v Tung Mau Quach*,⁵¹ Wigley J referred to improper conduct in a proceeding as being a factor in the award of additional damages, including the failure to comply with discovery orders.⁵²

The essential point of additional damages is to serve as a deterrent for improper conduct. As noted, the award under this head also operates to provide a proper balance in damages outcomes where an award of general damages might be unduly small, having regard to the egregiousness of the infringing conduct.

Conversion and Detention Damages

Section 116 of the Copyright Act provides a separate head for conversion or detention damages, which became discretionary following amendments in 1998. In particular s.116(1C) provides that a court is not to grant relief for conversion or detention "if the relief that the court has granted or proposes to grant under section 115 is, in the opinion of the court, a sufficient remedy."

In the case of conversion damages, the measure is based on the value of infringing copies of copyright works as if the copies were the property of the plaintiff. For example, conversion damages would allow a plaintiff to claim the full value of books sold which infringed copyright, in addition to damages for infringement under s.115. The windfall aspect of this separate head, in combination with the discretionary nature of the relief, has meant that the reliance on s.116 has been significantly reduced since the provision became discretionary in its operation.

Conclusion

The learning in the area exposes a number of issues about the approach to assessing damages for infringement of copyright:

1. The question of enabling courts to properly determine the question of diminution of copyright remains unresolved. There is much work to be done in developing proper models and approaches to evidence of the capital value of copyright. It is anticipated that this inadequacy will come to be remedied as the rise of the intangibles economy (and the copyright economy in particular) comes to be better established and accounting practices respond to this development.
2. The failure to apply the user principle would seem to be anomalous and contrary to general policy in the area of tortious relief. It should be possible for aggrieved applicants to claim a royalty from infringing respondents even though it cannot be established that the offending conduct was susceptible to a licensing arrangement.

The Willing Licensee and the Willing Licensor – A Sound Imagination and the Broad Axe: the Australian Approach

- 1 Barrister at Owen Dixon Chambers West in Melbourne. This article is adapted from a presentation given at the 32nd Intellectual Property Society of Australia and New Zealand Annual Conference in Queenstown, New Zealand on 8 September 2018.
- 2 Justice Yates, *Recent Developments in IP Remedies* (9 September 2016) Federal Court of Australia <<http://www.fedcourt.gov.au/digital-law-library/judges-speeches/justice-yates/yates-j-20160909>>.
- 3 (1975) 6 ALR 445 at 446-447.
- 4 *Aristocrat Technologies Australia Pty Ltd v DAP Services (Kempsey) Pty Ltd* (2007) 157 FCR 564 at [26]-[28]. See also *Autodesk Australia Pty Ltd v Cheung* (1990) 94 ALR 472, *Rutter v Brookland Valley Estate Pty Ltd* (2009) 81 IPR 549 at [98], *Krueger Transport Equipment Pty Ltd v Glen Cameron Storage & Distribution Pty Ltd (No 2)* (2008) 81 IPR 81 at [31] and *Dallas Buyers Club LLC v iiNet Ltd (No 4)* (2015) 114 IPR 297 at [22].
- 5 (2015) 241 FCR 271.
- 6 *Aristocrat Technologies Australia Pty Ltd v DAP Services (Kempsey) Pty Ltd* (2007) 157 FCR 564; [2007] FCAFC 40.
- 7 (2005) 66 IPR 504 at 509-510.
- 8 (2007) 158 FCR 444.
- 9 *AV Jennings Ltd v Bogden* (2009) 80 IPR 356 at [98].
- 10 (1994) 30 IPR 147.
- 11 See also *Henderson v All Around the World Recordings Ltd* [2014] EWHC 3087.
- 12 [2016] FCA 1217.
- 13 [2016] FCA 1217 at [214].
- 14 (2009) 81 IPR 378.
- 15 The infringement was illustrated in the Annex to the trial judgment at (2008) 76 IPR 83.
- 16 [2014] FCA 321.
- 17 (1994) 30 IPR 209 at 242-245.
- 18 For images concerning the claims of infringement, see Colin Golvan, *Images from the Carpets Case* <<http://www.colingolvan.com.au/archives/138-images-from-the-carpets-case>>.
- 19 [1973] 1 All ER 241 at 268.
- 20 [1979] RPC 127 at 140.
- 21 (1994) 30 IPR 209 at 144.
- 22 (1996) 66 FCR 474.
- 23 See *Metrickon Homes Pty Ltd v Barrett Property Group Pty Ltd* (2008) 75 IPR 455, *Carlisle Homes Pty Ltd v Barrett Property Group Pty Ltd* [2009] FCAFC 31 (note the illustration of the infringement in the Schedule to this decision) and *Barrett Property Group Pty Ltd v Dennis Family Homes Pty Ltd* (2011) 91 IPR 1.
- 24 (2010) 188 FCR 321 at [8].
- 25 (2010) 188 FCR 321 at [8].
- 26 (2010) 188 FCR 321 at [29]-[34].
- 27 See YouTube, *Men at Work – Down Under (Video)* <<https://www.youtube.com/watch?v=Xfr9iY5y94s>>.
- 28 See YouTube, *Green Day - 21 Guns [Official Music Video]* <https://www.youtube.com/watch?time_continue=104&v=r00ikilDxW4> at 1.05-1.35 compared with YouTube, *David Bowie - All the Young Dudes (Live at the Isle of Wight)* <<https://www.youtube.com/watch?v=ToXGVcrgNZA>> at 1.20-1.47.
- 29 (2010) 188 FCR 321 at [87].
- 30 (2010) 188 FCR 321 at [108].
- 31 (2010) 188 FCR 321 at [136]-[139].
- 32 (1907) 5 CLR 418.
- 33 (2010) 188 FCR 321 at [215]-[217].
- 34 *Spotless Group Ltd v Blanco Catering Pty Ltd* (2011) 93 IPR 235.
- 35 *Aristocrat Technologies Australia Pty Ltd v DAP Services (Kempsey) Pty Ltd* [2007] FCAFC 40 at [36].
- 36 (2003) 196 ALR 257 at [38].
- 37 [2018] FCA 1184.
- 38 (2012) 94 IPR 523 at [45].
- 39 [2008] FCA 746.
- 40 [2017] FCA 1541.
- 41 [2011] FCA 290.
- 42 (2012) 95 IPR 95.
- 43 (2017) 122 IPR 279.
- 44 (2017) 122 IPR 279 at [70].
- 45 [2014] FCA 909.
- 46 (2013) 101 IPR 484.
- 47 [2013] FCAFC 62.
- 48 *Fenning Film Services Ltd v Wolverhampton Walsall & District Cinemas Ltd* [1914] 3 KB 1171 at 1174 and *Columbia Pictures Industries Inc. v Luckins* (1996) 34 IPR 504 at 510.
- 49 (2012) 287 ALR 199; [2012] FCAFC 9 at [99].
- 50 *Microsoft Corp v Atifo Pty Ltd* (1997) 38 IPR 643 at 648, *Eagle Rock Entertainment Ltd v Caisley* (2005) 66 IPR 504 at [31], *Norm Engineering Pty Ltd v Digga Australia Pty Ltd* (2007) 162 FCR 1 at [302] and *Dynamic Supplies Pty Ltd v Tonnex International Pty Ltd (No 3)* (2014) 107 IPR 548 at [37]-[53].
- 51 (2015) 114 IPR 498.
- 52 (2015) 114 IPR 498 at [138].

Censorship Meets Intellectual Property: Harmonising Copyright, Trade Mark and Free Expression

The Honourable Judge M. Margaret McKeown¹

Intellectual property and free speech are not always comfortable partners. It is almost a cliché to say that copyright and the First Amendment are both in tension *and* in synergy with each other.² While this observation is broadly true, its specific implications are often muddled. I suggest that the most discussed tension between copyright and the First Amendment - sometimes dubbed “crowding out”³ - is overblown. Instead, we should focus on a more real and pressing tension - the growing number of claims that invoke copyright protection to remedy a broad array of personal harms, such as invasion of privacy, and in the process trump on the First Amendment and freedom of expression. In simple terms, a trumped-up copyright claim cannot justify censorship in the guise of authorship. The tables are somewhat turned in the trade mark arena, where free speech is implicated because legitimate marks are being rejected on the grounds that they are disparaging, scandalous, or immoral. This article traces recent developments in United States of America (“US”) courts.

I will first sketch the background of the copyright/First Amendment debate and then turn to *Garcia v Google*,⁴ a case that highlights the censorship tension. Then I will turn to the free expression tension that has developed in the trade mark world, highlighting the 2017 blockbuster US Supreme Court case, *Matal v Tam*,⁵ and query how far the right to offend extends. Finally, I will reflect on what these litigation trends teach us about this censorship tension.

I. The Tensions in Copyright

The longstanding rationale of copyright is that it incentivises the creation of new expression by guaranteeing a limited monopoly on the reproduction of expressive works.⁶ By definition, the limits on reproduction in copyright put boundaries on speech.⁷ Yet the US Supreme Court (“Supreme Court”) has said that “copyright itself can be the engine of free expression.”⁸ Traditionally, however, for free speech principles we look to the First Amendment, which says in categorical terms that “Congress shall make no law ... abridging the freedom of speech, or of the press ...”⁹

In the face of these potentially competing values, scholars have long argued that there is an inherent conflict that smother speech when intellectual property rights gain too much traction. It has been explained this way: public expression can be “crowded out” by the ever-expanding scope of copyright coverage.¹⁰

In practice, courts have routinely rejected this version of the conflict argument. According to one study that looked at more than 30 published copyright/speech cases for a 35-year period - between 1967 and 2002 - in all but two of those

cases, courts rejected this conflict thesis on various bases.¹¹ With few exceptions, the ship has sailed on the “crowding out” argument.

Case in point: in 2003, the Supreme Court was asked, metaphorically, to “Free Mickey Mouse” and invalidate a dramatic extension of the copyright term.¹² Instead the Court wrote in *Eldred v Ashcroft* that “copyright’s limited monopolies are compatible with free speech principles”¹³ and noted that “copyright law contains built-in First Amendment accommodations.”¹⁴

Returning to the same theme almost a decade later in *Golan v Holder*,¹⁵ the Court held that Congress did not violate the First Amendment by extending copyright protection to works previously in the public domain. Again, the Court identified the idea/expression dichotomy and the fair use defence as “built-in First Amendment accommodations.”¹⁶

The idea/expression dichotomy is intended to insulate “ideas” from copyright protection and give statutory protection only to the expression or representation of ideas. This division helps ensure discourse *about* ideas - which is a core concern of the First Amendment. One might argue with where courts have drawn the line, but it is a line with some definition and fair predictability.

The fair use defence¹⁷ likewise promotes free speech and new expression - it permits the use of copyrighted material for limited and transformative uses.¹⁸ But this defence defies line drawing. Although the Supreme Court identified fair use as a First Amendment “accommodation”¹⁹, even decades ago one court called it one of the most “troublesome” doctrines

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in terms of application.²⁰ Academics have characterised it as “billowing white goo.”²¹ One thing is for sure: the statute delineating the fair use factors might be described as a “mini lawyers’ relief act”, given the millions of dollars spent divining its application.

Perhaps it is not surprising, then, to hear from Professor Christopher Eisgruber - an outsider to copyright law but an insider to free speech jurisprudence - that there is something puzzling about the purported tension between copyright and the First Amendment:

*There is a good reason why courts have traditionally regarded copyright law as consistent with the Free Speech Clause. Most of Free Speech law rests on a concern about [government suppressing political or sensitive speech, such as speech on sex and religion]. Copyright is not censorious in this way ... Copyright does not pick and choose among ideas and subject-matters. Smutty pictures and subversive tracts get copyright protection along with reverent hymns and patriotic speeches.*²²

But in my view, there is another story to tell. Copyright as censorship *does* exist, and it *is* different.

What has been lost in the debate about “Freeing Mickey” is that there is *another* manifestation of tension between copyright and the First Amendment - one that presents a far more compelling case for judicial intervention to protect freedom of speech from prior restraint and censorship. I refer to the use of copyright injunctions to impose what amounts to prior restraints on offensive, unpopular or sensitive speech. These kinds of cases look, feel and smell like the real First Amendment cases. They are fundamentally about censorship of unpopular speech.

II. Illustrating the First Amendment Tension: *Garcia v Google*

I turn now to *Garcia v Google*, an illustrative case that was decided by the Ninth Circuit en banc in 2015,²³ to demonstrate in concrete fashion the ways that copyright is being used to promote censorship of ideas, as well as the judicial response.

Cindy Lee Garcia was paid US\$500 for a bit part in what she thought was an adventure film; she had two lines and five seconds of screen time.²⁴ Without doubt, she was bamboozled by the filmmaker, who claimed he was creating an action-adventure thriller set in ancient Arabia.²⁵ Instead, the filmmaker dubbed over her few lines and turned the film into an anti-Islam movie called *Innocence of Muslims*.²⁶ When a 14-minute trailer of the film was translated into Arabic in September 2012 and uploaded on YouTube, it sparked outrage and violent protests across the Middle East.²⁷ The video has even been linked to the attack on a US government outpost in Libya, although that point is hotly disputed.²⁸ The film was called “amateurish”²⁹ and “offensive.”³⁰ Most

viewers would agree it was a ham-handed attack on Islam, but should it have been banned under copyright law?

Garcia first filed suit against both the filmmaker and Google in California State Court under various tort theories - defamation, hate speech and right of publicity among them - and got nowhere.³¹ The State Court refused to issue a takedown order, ruling that Garcia was not likely to succeed on the merits.³²

Five months after the film had been uploaded to YouTube, Garcia turned to Federal Court and asked the Court to order removal of the film from Google’s sites under a theory of copyright infringement.³³ The District Court denied the injunction based on the weak copyright claim and the absence of irreparable harm.³⁴ The initial Ninth Circuit panel, over a dissent, reversed the denial of the injunction and concluded that Garcia had a “fairly debatable” copyright claim in her five-second performance, and that threats against her were cognisable as irreparable harm.

The panel first issued a secret takedown order, an extraordinary remedy - saying that Google had to remove all copies of *Innocence of Muslims* within 24 hours and couldn’t disclose the existence of the order. It then revised the takedown order to include only versions of the film featuring Garcia’s performance. Despite the Court’s dubious role as film editor, the result was no surprise - the entire film remained off the internet.

The Ninth Circuit reheard the case en banc. The en banc Court (10-1) affirmed the District Court - dissolving the injunction against airing the film. The central reason for the majority’s decision: Garcia was not likely to succeed on her copyright claim and she had shown no copyright harm.³⁵ Three important takeaways emerge from the legal analysis: 1) hand waving does not make a copyright; 2) copyright remedies must fit copyright principles; and 3) a weak copyright claim cannot trump free speech and the First Amendment.

Turning to the first of these points - copyright protection rests on a precise statutory scheme and you can’t just wave your hands and say something seems like it should be copyrightable. To begin, Garcia’s five-second performance is not a work, separate and apart from the film in which it appears. One can’t “cherry pick” bits and pieces from a unitary work. Garcia’s theory would make “swiss cheese” of copyright law - the practical result would be fragmenting a movie into thousands of copyrights.³⁶ Fight scenes in *Lord of the Rings* or the crowds in *Ben-Hur* come to mind.³⁷

The Copyright Office - to which the Court deferred³⁸ - denied Garcia’s effort to register a copyright, saying its “longstanding practices do not allow a copyright claim by an individual actor or actress in his or her performance contained within a motion picture.”³⁹ While the *Copyright Act* of 1976 doesn’t

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define “works of authorship”, it was clear that Garcia was not the “author” of her fleeting performance.⁴⁰ The filmmaker, not Garcia, fixed her performance, and Garcia certainly didn’t authorise the fixation.⁴¹ The parties disputed whether there was a work-for-hire agreement, but that question was not presented on appeal, and so did not factor into the analysis. But, of course, in many situations, these copyright disputes in the movie world are governed by such agreements.

A second important lesson is that there was no irreparable harm in the copyright sense. Indeed, there was a fundamental mismatch between Garcia’s claimed harm (death threats and reputational harm) and the purpose of the copyright laws (to stimulate creative expression, not to protect secrecy).⁴² In criminal law lingo - the punishment didn’t fit the crime. The Court was very sympathetic to Garcia’s plight, but copyright laws were not the right vehicle for her legitimate beef:

Although we do not take lightly threats to life or the emotional turmoil Garcia has endured, her harms are untethered from - and incompatible with - copyright and copyright’s function as the engine of expression. In broad terms, ‘the protection of privacy is not a function of the copyright law’ ...⁴³

Although American copyright law generally doesn’t embrace moral rights, i.e. the author’s right of attribution and the right to object to derogatory treatment of a work, both Australia and New Zealand recognise such rights.⁴⁴ However, none of these jurisdictions recognises the more recently-minted “right to be forgotten”, which permits individuals to request deletion of potentially damaging, private information from databases.⁴⁵ This principle was recently validated by the European Court of Justice.⁴⁶ Such a right generally encompasses the right to request deletion of potentially damaging, private information from databases. Perhaps Garcia would have had a better outcome and her privacy interests would have been treated differently had she been in Europe. She may also have fared better if her claim for an injunction had not been limited to a copyright theory. At the end of the day, though, the essence “of Garcia’s harm [was] untethered from her commercial interests as a performer”,⁴⁷ which is the primary interest that copyright protects if it protects her claimed work at all.

Finally, the most significant principle from the case is that a weak copyright claim cannot hijack the First Amendment. The initial order to remove the film from YouTube was both a mandatory injunction and a prior restraint of speech - remedies that face high legal hurdles, are particularly disfavoured and put a “heavy burden” on the plaintiff to overcome.⁴⁸ In the end, the Court concluded that the First Amendment implications were too important to ignore. We held:

[t]he takedown order ... gave short shrift to the First Amendment values at stake. The mandatory injunction censored and suppressed a politically significant film - based on a dubious and unprecedented theory of copyright. In so

doing, the panel deprived the public of the ability to view firsthand, and judge for themselves, a film at the center of an international uproar.⁴⁹

III. A Litigation Cottage Industry

Garcia’s case does not stand alone - it is one among many where plaintiffs invoked copyright to halt personal attacks. Recently, high-profile data breaches or email hacks have prompted victims to look to copyright law for protection of their image or reputation. Let me offer two case vignettes as examples: Exhibit A and Exhibit B. Together, they echo the same principles as *Garcia v Google*, but with two different outcomes. Of course, this result should be no surprise - facts matter.

Exhibit A: This case, *Bollea v Gawker Media*,⁵⁰ stems from the high-profile legal fight between Hulk Hogan, who is a famous American wrestler and television personality, and Gawker, the news and gossip website. It highlights the principle from *Garcia v Google* that copyright is not the answer to your privacy prayers. Gawker posted a sex tape of Hulk Hogan having an affair with a mistress.⁵¹ (She was the wife of a radio personality, Bubba the Love Sponge.)⁵² Hogan first pursued a preliminary injunction under a copyright theory in Federal Court.⁵³ He wanted the video pulled off Gawker’s website. The Federal District Court in Florida denied Hogan’s request for an injunction because the only harms were personal harm and harm “to his professional image due to the ‘private’ nature of the Video’s content.” Those claims are not “irreparable harm in the context of copyright infringement.”⁵⁴

The episode so far mirrors the *Garcia v Google* case. However, Hogan then moved his focus to his already-filed State Court invasion of privacy/emotional distress claims.⁵⁵ Of course he couldn’t bring his federal copyright claim in State Court. He had more success there: in 2013, the State Court granted Hogan’s request for a preliminary injunction and ordered Gawker to remove the tape.⁵⁶ Hogan went on to win US\$115 million in compensatory damages and US\$25 million in punitive damages - in a jury trial.⁵⁷ Gawker filed for bankruptcy and the case settled for US\$31 million.⁵⁸

Exhibit B: The next case, *Monge v Maya Magazines*,⁵⁹ highlights two of the principles from *Garcia v Google* - the obligation to follow the statutory provisions of copyright law (in this case the fair use principles) and the intersection of the First Amendment and copyright law - in a suit that was more about privacy than innovation.

Two Latin music pop stars sued a magazine, *TV Notas*, for copyright infringement after the magazine printed photos of their secret Las Vegas wedding.⁶⁰ The whole story had the feel of a “telenovela”.⁶¹ The previously unpublished photos were obtained from a disgruntled former driver who found the photos on a pen drive in an ashtray in the

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car.⁶² The District Court held for the magazine on fair use grounds, saying the photos were newsworthy, and could be published.⁶³ The Ninth Circuit reversed, concluding that the commercial publication was not transformative and could not be considered “fair use”, often referred to as fair dealing in other countries.⁶⁴ (The copyright status of the photos was not before the Court on appeal and was left to the District Court to consider on remand).⁶⁵

This was not an easy case, especially because the magazine claimed that the newsworthiness of the photos trumped the copyright interest. But like in all cases - facts matter, and application of the fair use factors favoured the singers.⁶⁶

Although fair use is not a “get out of jail free card” for news organisations,⁶⁷ the court must be very sensitive to the First Amendment dimensions of the newsworthiness defence. Nonetheless, the court’s charge is to look at the fair use factors as a whole. A court cannot sidestep the fair use statutory criteria: i.e., the “purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes,” the “nature of the copyrighted work,” the “amount and substantiality of the portion used in relation to the copyrighted work as a whole,” and the “effect of the use upon the potential market for or value of the copyrighted work.”⁶⁸

In a case like *Monge v Maya Magazines*, one can fairly question whether fair use provides a sufficient “internal safety valve”⁶⁹ for First Amendment values. My colleague in dissent thought not. The dissent noted the censorial nature of the copyright action, arguing that celebrities could now “invoke copyright protection to prevent the media’s disclosure of any embarrassing or incriminating works by claiming that such images were intended only for private use.”⁷⁰

These are but two of a steady stream of cases in federal courts where one side invokes copyright to protect personal interests and the other side counters that copyright is tantamount to censorship. Other examples include the following:

- A woman challenged *Hustler*’s publication of her wet T-shirt contest photo. The Sixth Circuit upheld the jury’s rejection of the fair use defence, despite the newsworthiness of the article.⁷¹
- A Miami businessman and partial owner of the Miami Heat filed a copyright infringement suit against a blogger who apparently made it his mission to criticise the businessman and posted an unflattering image of him. The blogger initially won on a summary judgment motion raising a fair use defence.⁷² The Trial Court’s decision garnered attention in the First Amendment blogosphere, where the headline read “Copyright as Censorship.”⁷³ The Eleventh Circuit affirmed the Trial Court, concluding that “[d]ue to [the businessman’s] attempt to utilize copyright as an

instrument of censorship against unwanted criticism, there is no potential market for his work.”⁷⁴

- Another recent case was aptly described by law Professor Rebecca Tushnet when she said, “If hard cases make bad law, it may also be that sometimes jerks make good law.”⁷⁵ A student at Liberty University posted videos of the former Dean that were intended to expose the former Dean’s “dishonesty.”⁷⁶ The Dean first filed a takedown notice with YouTube and then filed a copyright infringement lawsuit.⁷⁷ The embattled dean previously claimed to have been raised in a jihadi Muslim community in Turkey. That claim turned out to be untrue.⁷⁸ The Dean lost his University position, and he also lost his copyright claim in court.⁷⁹ Afterwards, the Judge granted the defendant attorney’s fees because the Dean “displayed his improper motivation for bringing this suit and took many objectively unreasonable positions.”

IV. Censorship in Trade Mark Clothing

As in copyright, the trade mark context has featured efforts to restrict certain forms of expression. This tension is not new: “Congress left little doubt that it did not intend for trade mark laws to impinge the First Amendment rights of critics and commentators.”⁸⁰

Indeed, according to one trade mark scholar, “[t]rademark laws can conflict with the free speech right when noncommercial expression or non-misleading commercial expression is suppressed or punished by the government in trade mark disputes.”⁸¹

Several cases illustrate efforts by public figures or organisations to claim that a trade mark use defamed them or put them in a false light. Not surprisingly, courts gave those arguments short shrift. Ginger Rogers, a famous Hollywood actress and dancing companion to Fred Astaire, complained that a Federico Fellini film, titled *Ginger and Fred*, violated her trade mark rights.⁸² The Court said that “[t]hrough First Amendment concerns do not insulate titles of artistic works from all *Lanham Act* claims, such concerns must nonetheless inform our consideration ...”⁸³ That principle led the Court to conclude that “[t]o the extent that there is a risk that the title will mislead some consumers ... that risk is outweighed by the danger that suppressing an artistically relevant though ambiguous title will unduly restrict expression.”⁸⁴

A similar effort to invoke trade mark law to suppress speech, in this instance controversial political speech, is found in a case involving the National Association for the Advancement of Colored People (the “NAACP”). An anti-abortion group published an incendiary article entitled “NAACP: National Association for the Abortion of Colored People.”⁸⁵ The article accused the historic civil rights organisation of taking positions that hurt the African-American community.⁸⁶ The NAACP sued and was successful in the Trial Court.⁸⁷ On

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appeal, the Court first noted that “[t]rademark protection, however, comes at a potential cost to free expression”⁸⁸ and then went on to reject the NAACP’s claim on statutory trade mark grounds, including the notion that the use was not “in connection with” goods or services, that trade mark law “is not designed to protect mark holders from consumer confusion about their positions on political or social issues,” and that the commentator’s use fell within the “fair and noncommercial use exclusions” of dilution law.⁸⁹

These examples highlight efforts of trade mark holders to defend their marks on creativity and free speech grounds. But the blockbuster case came in 2017 in the Supreme Court’s vindication of a trade mark holder’s efforts to register a mark on free speech grounds - *Matal v Tam*. Before looking at the Supreme Court’s decision, it is important to examine the statute and the state of disparaging trade marks.

US law provides:

*No trademark by which the goods of the applicant may be distinguished from the goods of others shall be refused registration on the principal register on account of its nature unless it ... [c]onsists of or comprises immoral, deceptive, or scandalous matter; or matter which may disparage or falsely suggest a connection with persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt, or disrepute ...*⁹⁰

The New Zealand *Trade Marks Act* 2002 has a similar anti-disparagement provision, with special emphasis on the Maori:

*The Commissioner must not register as a trade mark or part of a trade mark any matter ... the use or registration of which would, in the opinion of the Commissioner, be likely to offend a significant section of the community, including Maori.*⁹¹

Australia has a slightly different version, although with similar scope:

Section 42(a) of the *Trade Marks Act* 1995 (Cth) provides:

An application for the registration of a trade mark must be rejected if:

- (a) *the trade mark contains or consists of scandalous matter.*⁹²

Provisions of this nature have stood the test of time. Since 1883, under the *Paris Convention for the Protection of Industrial Property*,⁹³ trade marks can be banned if they are contrary to morality or public order. The US followed suit, with a variation on the current disparagement section enacted in 1946.⁹⁴ The rationale behind these restrictive provisions is that they uphold morality; protect members of racial, religious, indigenous, and other disadvantaged groups; avoid the appearance of government endorsement; and, ultimately, that such marks do not further the purpose of trade mark law.

The rationale is much easier to state than the reality. Over the years, the US statute has suffered from subjective application and inconsistency. Arguably, the disparagement provision also runs afoul of the notion that trade mark law should be value neutral. In practice, predicting registrability of a controversial mark is like throwing a dart and hoping it lands where you want.

Now back to *Matal v Tam*, where a pop band claimed that it had a First Amendment right to register a trade mark for its group name, “the Slants.”⁹⁵ The Patent and Trademark Office (“PTO”) denied registration on the ground that the name was “offensive” and disparaged people of “Asian descent”.⁹⁶ The head of the band later asked: “Do they know we are of Asian descent?”⁹⁷

The Supreme Court held that the disparagement clause “violates the Free Speech Clause of the First Amendment [and] offends a bedrock First Amendment principle: Speech may not be banned on the ground that it expresses ideas that offend.”⁹⁸

Explaining that the disparagement clause permitted the government to engage in a species of viewpoint discrimination, the Court said that the provision “denies registration to any mark that is offensive to a substantial percentage of the members of any group[.] ... [t]hat is viewpoint discrimination: Giving offense is a viewpoint.”⁹⁹

The government raised three arguments for why this section was constitutional - none had merit:

- Trade marks are “government speech”, giving the government, in prohibiting certain marks, greater leeway against First Amendment challenge.
- Trade marks are a form of “government subsidy”, also providing increased protection against First Amendment challenge.
- Trade marks should be judged under a new “government program” doctrine.¹⁰⁰

These rationales failed primarily because the “Federal Government does not dream up the [trade]marks” registered by the PTO, and it is implausible to suggest that the vast array of trade marks registered by innumerable companies in the US could all constitute governmental speech, subsidies, or programs.¹⁰¹

Matal v Tam is analogous in many ways to *Garcia v Google*. Just as, in the copyright context in *Garcia v Google*, a weak copyright claim could not trump the First Amendment, so too in the trade mark context, a weak trade mark rationale cannot strip a mark of First Amendment protection.

Matal v Tam was an 8-0 decision, decisively re-affirming the primacy of First Amendment protection for expressive speech against arguments sounding in trade mark - including attempts to preclude offensive speech. Had *Matal v Tam* gone the other way, the government, and others, would

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have had more leeway to invoke the trade mark regime to suppress unpopular or disagreeable speech. Trade mark law would not be just a shield but an affirmative sword.

Section 1052(a) is staggering in its breadth, perhaps a central reason that the Court found the statute facially unconstitutional rather than ruling more narrowly that it was unconstitutional as applied to the respondent band.¹⁰²

Matal v Tam has triggered the same result in at least two follow-on cases in the lower courts. In one instance, the PTO rejected the mark “fuct” for a clothing line. Brunetti, the owner of the clothing brand, challenged the constitutionality of 15 U.S.C. § 1052, which permits the PTO to refuse to register a trade mark that consists of immoral or scandalous matter. Although the Court found that substantial evidence supported the determination that the mark was vulgar,¹⁰³ the Court held that the “bar on registering immoral or scandalous marks is an “unconstitutional restriction of free speech.”¹⁰⁴ In view of *Matal v Tam*, it is no surprise that the Supreme Court granted review to determine if the scandalous-marks provision in § 1052(a) is facially unconstitutional under the Free Speech Clause of the First Amendment.¹⁰⁵ One commentator predicted this case “could have a substantial impact on ‘shock value’ marks in commerce.”¹⁰⁶

In another highly publicised case, the owner of the professional football team, the Washington Redskins, held six federally registered trade marks for the team’s name and logos.¹⁰⁷ A group of Native Americans filed a petition seeking to cancel the registration of the marks, on the basis that the marks “disparage[ed] ... persons, living or dead, institutions, beliefs, or national symbols, [and] br[ought] them into contempt, or disrepute.”¹⁰⁸ The Court of Appeals vacated and remanded in light of *Matal v Tam*, reasoning that since the disparagement clause had been ruled unconstitutional, the petition to cancel the Washington Redskins’ marks should accordingly be denied.¹⁰⁹

With respect to the future frontiers of trade mark and free speech jurisprudence, one core question is: will the Supreme Court address whether the “immoral” and/or “scandalous” provisions of the *Lanham Act*, 15 U.S.C. § 1052(a), are unconstitutional for similar reasons as the “disparagement” clause?

V. Advancing Intellectual Property in the Name of Free Speech

Why, you might ask, have copyright and trade mark claims become a go-to legal tool to prevent the spread of damaging or offensive information? For starters, the internet is a game changer in this field. By its nature, the internet is a platform for political and civic speech ensuring frequent and emotional clashes over the spread of information. To say the internet is ubiquitous understates its reach. With more than 4 billion users worldwide¹¹⁰ - more than 2 billion on Facebook monthly¹¹¹ - the potential for copyright and trade mark infringement (and creativity) is unlimited, and

the potential damage to reputation and loss of privacy is often incalculable. The internet knows no borders. So, in many respects, the lid comes off the traditional principles of territorial jurisdiction, national privacy laws, and other long-established jurisprudence, such as third-party infringement.

To a degree, the trend in seeking protection under the intellectual property umbrella may be attributable also to a cultural shift in attitudes about free expression. In his book *Trigger Warning*, a British journalist, who at one time wrote for a libertarian Marxist publication, wrote:

*In normal circumstances we in the West now spend far more time discussing how to restrict and outlaw types of speech than how to defend and extend that precious liberty. Almost everybody in public life pays lip service to the principle of free speech. Scratch the surface, however, and in practice most will add the inevitable ‘But’ to button that lip and put a limit on liberty.*¹¹²

There are many examples to back that observation. In the 1980s, the Ayatollah Khomeini issued a fatwa for the acclaimed author Salman Rushdie after Rushdie published the allegedly sacrilegious *Satanic Verses*. While many advocates for free speech supported Rushdie, the response was not universal. Likewise, the same views and emotions played out with the more recent tragic events involving the French publication *Charlie Hebdo* and the massacre of its editor and staff. The point is that we don’t have cultural homogeneity about the contours of free speech. In this sense, the US appears to be the exception, rather than the rule, in affording broad constitutional protection to offensive speech. At the same time as Europe has created a right to be forgotten, the US has embraced the right to offend.

Another cultural trend is the evolving and continually shifting view on the importance and role of copyright. It is not unusual to see Napster-generation “pirates” turned advocates for intellectual property, as author Joshua Cohen recently demonstrated. Despite being part of a “test generation” for whom “[e]verything was free ... or felt free”, Cohen now says that “culture has to be paid for, if not with money or even praise, then with time and attention. There are more things to hear and see and read than ever before, but the cheaper it is to get your hands on them, the cheaper your appreciation of them will be.”¹¹³ In contrast, others view copyright as crushing creativity.

As with the ongoing debate on free speech, the debate over copyright and trade mark values is heated and intense. How much the recent litigation in this area is driven by societal or cultural trends is an open question, but one worth pondering. Ultimately, neither copyright nor trade mark can be everything to everybody. Our legal system, starting with the Constitution, protects freedom of expression. No matter how noble and important the values of privacy, protection of reputation, or preventing offense, intellectual property law is not the perfect vehicle for their vindication.

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- 1 Judge, United States Court of Appeals for the Ninth Circuit. Portions of this article are adapted from remarks delivered on 25 September 2015 at the Chicago-Kent Supreme Court IP Review and on 8 September 2018 at the 32nd Intellectual Property Society of Australia and New Zealand Annual Conference in Queenstown, New Zealand. Judge McKeown thanks her law clerk, Taylor Davidson (Stanford 2017), for his research assistance.
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- 3 See, e.g., David McGowan, 'Why the First Amendment Cannot Dictate Copyright Policy' (2004) 65 *University of Pittsburgh Law Review* 281.
- 4 *Garcia v Google, Inc.*, 786 F.3d 733 (9th Cir. 2015) (en banc).
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- 6 See, e.g., *Eldred v Ashcroft*, 537 U.S. 186, 219 (2003) (calling copyright an "engine of free expression"); see also David S. Olson, 'First Amendment Interests and Copyright Accommodations' (2009) 50 *Boston College Law Review* 1393, 1395-96 ("[A]lthough copyright does give exclusive rights to authors, these rights incentivize authors to produce many more works than would be produced absent the copyright regime. Thus, the argument goes, copyright law, on net, greatly encourages the production of speech.").
- 7 Mark A. Lemley and Eugene Volokh, 'Freedom of Speech and Injunctions in Intellectual Property Cases' (1998) 48 *Duke Law Journal* 147, 165-66 ("Copyright law restricts speech: it restricts you from writing, painting, publicly performing, or otherwise communicating what you please. If your speech copies ours, and if the copying uses our 'expression', not merely our ideas or facts that we have uncovered, the speech can be enjoined and punished, civilly and sometimes criminally.").
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- 22 Christopher L. Eisgruber, 'Censorship, Copyright, and Free Speech: Some Tentative Skepticism About the Campaign to Impose First Amendment Restrictions on Copyright Law' (2003) 2 *Journal on Telecommunications and High Technology Law* 17, 18-19.
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Swallowing the Red Pill: Sufficiency and the New Fragility of Patent Protection

Jane Glover¹

In light of a recent United Kingdom (“UK”) decision, patentees in a number of jurisdictions are obliged to consider a new and uncomfortable truth: their patents may be more vulnerable than they had previously believed.

The majority of the UK Supreme Court in the recent watershed decision *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 (“*Warner-Lambert*”) took what some view as a hard-line approach to the application of the test for patent sufficiency, with the result that Warner-Lambert lost patent protection for a hugely successful drug, pregabalin (Lyrica).²

This article explores the significance of the decision in *Warner-Lambert* for the law of patent sufficiency in Australia and New Zealand. The decision gives rise to similar issues in both jurisdictions, as the legislation relating to sufficiency in both New Zealand and Australia is now virtually identical (and is very similar to that of the UK).

Overview

It is suggested that the *Warner-Lambert* decision, in conjunction with recent changes to the law of sufficiency in Australia and New Zealand, is proving to have a significant impact – perhaps more so than might have been predicted.

In broad terms, the reasons why the decision is so important, and the historical background in which it is situated, are as follows:

- (a) The UK legislation relating to sufficiency changed in 1977 to ensure harmonisation with European patent law, but Australia and New Zealand did not follow suit.
- (b) In fact, the UK and Australian case law on sufficiency entered a period of increasing mutual hostility and divergence. During this time, Australian judges, in particular, expressed the view that UK and European case law was irrelevant because of the different legislative frameworks. A gulf developed, and the law of Australia and New Zealand became quite different to that of the UK and Europe.
- (c) The UK case law continued to develop in quite a different direction. For example, because the UK *Patents Act* 1977 did not include lack of support as a ground of revocation (although it is still relevant at the examination stage), the principles of support were simply conflated with those of sufficiency.
- (d) In 2012 and 2013, the Australian *Patents Act* 1990 (Cth) and the New Zealand *Patents Act* 2013 were respectively amended in order to re-establish a degree of harmonisation with the UK and other jurisdictions. The legislative differences between Australia/New

Zealand and the UK largely disappeared as a result, although some differences remain.

- (e) The first cases trickling through under the new legislative regime in Australia and New Zealand now appear to be applying the very UK and European concepts that were stoutly rejected during the period of relative estrangement. Even the high-water mark decision in *Warner-Lambert*, which is the focus of this article, has not only been simply applied in Australia, but the principles espoused in *Warner-Lambert* have been accepted as relevant in a much broader range of circumstances than those actually considered by the UK Supreme Court in *Warner-Lambert* itself.
- (f) The result of the legislative change, coupled with cases such as *Warner-Lambert* that take quite a trenchant view about what is required in order for a patent to be sufficient, represents an abrupt and substantial change of direction in the law of sufficiency in Australia and New Zealand.

Warner-Lambert: UK Supreme Court decision

The *Warner-Lambert* litigation concerned the blockbuster drug pregabalin, the patent for which was owned by Warner-Lambert, a division of Pfizer. Perhaps one measure of pregabalin’s success is the fact that there has been patent litigation in relation to it in many jurisdictions around the world.³

Background

The drug pregabalin is not new – it has been used for years to treat anxiety and epilepsy. But Warner-Lambert realised that pregabalin could also be used to treat pain, and it obtained a second medical use patent in respect of the treatment of pain. It was this second medical use patent that was in issue.⁴

Generics (UK) Ltd, trading as Mylan, and Actavis Group are pharmaceutical companies that market generic pharmaceutical products. Actavis markets a generic pregabalin product under the brand name “Lecaent” under a “skinny label”, i.e. for the treatment of some medical conditions only. A leaflet in the Lecaent packet said that it was indicated for epilepsy and generalised anxiety disorder, namely the conditions in respect of which patent protection had expired.

Warner-Lambert claimed against Actavis for infringement of claims 1 and 3 of its second medical use patent. In response, Mylan and Actavis sought revocation of the patent on the basis of lack of insufficiency and inventive step. They also denied that their actions amounted to patent infringement.

Claims

The key claims at issue were claims 1 and 3, which were the claims that Warner-Lambert alleged had been infringed:

1. *Use of [specified chemical compound] for the preparation of a pharmaceutical composition for treating pain.*
...
3. *Use according to Claim 1 wherein the pain is neuropathic pain.*

The Court was unanimous in finding that claim 1 extended to all types of pain (including inflammatory pain, neuropathic pain, and central sensitisation), and that claim 3 extended to all types of neuropathic pain, whether peripheral or central.

Sufficiency

For the reasons set out below, a majority of the Court found that the disclosure in the specification was sufficient only insofar as the claims extended to inflammatory pain. Accordingly, the information provided in the body of the specification was *not* sufficient to enable claim 1, which covered all types of pain, inflammatory or otherwise, or claim 3, which related to neuropathic pain.

Claim must be plausible for everything claimed

As noted, the patent was construed to extend to use of the compound in respect of all types of pain.

Lord Sumption SCJ said that where a feature of the claim is an assertion of therapeutic efficacy for a given condition, it need not work for all patients suffering from that condition, or work on every occasion when it is applied by way of treatment in order for the patent to be sufficient. Nonetheless, where the relevant condition encompasses a number of different pathologies, and the claim is construed as here – as asserting the efficacy of the product in respect of each of them, the assertion must be “plausible” in relation to them all.⁵ It must be possible to make a reasonable prediction that the invention will work with substantially everything falling within the scope of the claim.⁶

As with sufficiency generally, under post-1977 UK law, plausibility must be demonstrated across the whole scope of the claim.⁷

What does “plausible” mean?

Interestingly, both the majority and the minority in *Warner-Lambert* applied the concept of plausibility, yet they disagreed on the meaning to be given to this term.

Lord Sumption SCJ, giving the leading majority decision, applied the strictest form of “plausibility”. Although his Lordship described plausibility in terms that sounded unthreatening, ultimately the manner in which he and the other members of the majority interpreted the test of plausibility tolled the death knell for the patent.

His Lordship said that the test of plausibility is “relatively undemanding”, but that it cannot be deprived of all meaning, or reduced to little more than a test of good faith.⁸ A bare assertion of efficacy is not enough.⁹ The Judge reviewed a number of European Patent Office (“EPO”) Technical Board of Appeal decisions and concluded that although the disclosure need not prove definitively that the product works for the designated purpose, there must be something that would cause the skilled addressee to think that there was a reasonable prospect that the assertion would prove to be true. This could arise from a direct effect on a known mechanism involved in the disease, either via experimental data or a priori reasoning.¹⁰

Lord Reed DP and Lord Briggs SCJ agreed with this reasoning.¹¹

Lord Hodge SCJ, giving a minority decision, agreed that “plausibility” should be the relevant guiding principle, but disagreed with the standard of plausibility that a patentee must meet. In Lord Hodge’s view, a patentee is not required to demonstrate a prima facie case of therapeutic efficacy. His Lordship considered that the EPO Technical Board of Appeal decisions referred to by Lord Sumption SCJ did *not* require that the patent disclose experimental evidence to demonstrate plausibility unless there was an allegation, supported by sufficient evidence, that the invention did not work.¹²

Lord Mance SCJ, also in the minority on this issue, agreed that Lord Sumption’s analysis imposed too high a threshold, and that it imposed a burden on a patentee that the case law of the Board of Appeal of the EPO did not justify.¹³ In Lord Mance’s view, it put the test too high to suggest that the specification must disclose some reason for supposing that the implied assertion of efficacy in the claim was true.¹⁴

Whether or not the product actually works is largely irrelevant for assessing sufficiency

Subsequent clinical trials suggested that pregabalin was in fact effective for different types of pain. Lord Sumption SCJ observed, for example, that we now know pregabalin works for the treatment of both peripheral and central neuropathic

pain because it underwent demanding clinical trials after the priority date. On that basis it received marketing authorisation for all types of neuropathic pain.¹⁵

Lord Sumption SCJ took the view that these later trials were largely irrelevant, however. The question is not whether the invention works but whether the discovery that it can be expected to work was disclosed in the patent. Subsequent clinical trials cannot assist with that question. In fact, only those medicaments that actually work will be worth fighting over in patent litigation, so in that sense, efficacy is a given.

His Lordship said that the inherent difficulty of demonstrating that an invention it is likely to work before clinical trials have been undertaken is taken into account in the modest standard – plausibility – which is applied to test it.¹⁶

Close relationship between sufficiency and other grounds including support

Lord Sumption SCJ referred to the patent bargain, namely the principle that the inventor obtains a monopoly in return for disclosing the invention and dedicating it to the public for use after the monopoly has expired.¹⁷ His Lordship noted that this principle remains the foundation of modern patent law, and is recognised in the case law of both the UK and the EPO. In *EXXON/Fuel Oils*, the EPO Technical Board of Appeal observed that it was:¹⁸

... the general legal principle that the extent of the patent monopoly, as defined by the claims should correspond to the technical contribution to the art in order for it to be supported, or justified. ... This means that the definitions in the claims should essentially correspond to the scope of the invention as disclosed in the description. ... Although the requirements of articles 83 and 84 are directed to different parts of the patent application, since article 83 relates to the disclosure of the invention, whilst article 84 deals with the definition of the invention by the claims, the underlying purpose of the requirement of support by the description, insofar as its substantive aspect is concerned, and of the requirement of sufficient disclosure is the same, namely to ensure that the patent monopoly should be justified by the actual technical contribution to the art.

(emphasis added)

Lord Sumption SCJ went on to say that the principal conditions of validity, novelty, inventive step, industrial application and sufficiency are all, in one way or another, directed to satisfying this principle.¹⁹

In this passage, therefore, his Lordship is effectively endorsing the creeping conflation of sufficiency with other grounds that had been seen in earlier UK case law,²⁰ on the basis that the purpose of the various grounds is the same in any event.

Arguably, this approach is somewhat lacking in the intellectual rigour for which Lord Sumption SCJ is usually renowned. There are also practical difficulties with the

conflation of sufficiency and support, at least to the extent that support is completely subsumed within sufficiency. For example, in New Zealand, the priority date of a claim is the filing date of the patent application if the claim is “supported” by the matter disclosed in that provisional specification.²¹ In this context, support must have a standalone meaning and application, separate from that of sufficiency.

Findings on sufficiency

According to Lord Sumption SCJ, the relevant question to ask was not whether it was plausible that pregabalin was effective for the treatment of neuropathic pain and other types of pain, but whether the specification disclosed something that would make it so in the eyes of the skilled person.²²

In this case, the experimental data in the specification was predictive of efficacy for the treatment of inflammatory pain. The specification did not make it plausible that pregabalin was effective for the treatment of other types of pain.²³ The majority held that on the basis of the information disclosed in the patent, a skilled person would not necessarily have predicted that pregabalin would work for types of pain other than inflammatory pain.

No ability for the patentee to patch things up

Once the claims were held to be invalid for insufficiency, there was no ability for the patentee to rescue them by way of a narrowing amendment.

At first instance, Arnold J rejected as an abuse of process an application after judgment to amend the patent by narrowing the claims in terms that would arguably have made them valid. The UK Supreme Court unanimously affirmed Arnold J’s decision rejecting Warner-Lambert’s application to amend the patent so as to limit the scope of claims 1 and 3.²⁴

As a result of what the UK Supreme Court considered to be over-claiming, Warner-Lambert not only lost its patent protection for those broad claims, but also had no ability after the event to amend the claims to something narrower.

No infringement: skinny labelling

If this case were not already fairly grim reading for patent-holders, the comments made in relation to infringement makes the position even worse. Naturally, though, these statements were made on an obiter basis only. The Court’s primary finding that the claims were invalid means that, strictly speaking, it was unnecessary for the Court to make any findings with regard to infringement.

The allegedly infringing goods were sold with leaflets indicating that the drug was for the treatment of seizure disorders and generalised anxiety disorder, which were not conditions covered by patent protection. The leaflets made no mention of the use of the drug for the treatment of pain.

This approach to labelling is often referred to as “carving-out” patent protected labelling or skinny labelling.

The UK Supreme Court held that even if claims 1 and 3 had been valid, they would not have been infringed by goods sold in this manner. Again, the Judges varied in their reasoning for arriving at this conclusion.

Lord Sumption SCJ and Lord Reed DP considered that the intention of an alleged infringer is irrelevant and that the sole criterion of infringement is whether the product as it emerges from the manufacturing processes, including and labelling or accompanying leaflets, is presented for the uses which enjoy patent protection.

Lord Mance SCJ agreed that the test depends on the objective appearance and characteristics of the product as it is prepared, presented and put on the market, but left open two additional possibilities:

- (a) That in rare cases the context may make it obvious that the accompanying materials are not to be taken at face value; and
- (b) That there may be circumstances in which the generic manufacturer should positively exclude use for the patent-protected purpose.

Lord Hodge and Lord Briggs SCJJ considered that the test is whether the alleged infringer subjectively intended to target the patent-protected market. (In this case, Arnold J found at first instance that the alleged infringers did not intend to do so.)

Warner-Lambert principles applied in an expansive manner

It is clear that the majority decision in *Warner-Lambert* will be a significant authority in UK law. It has already been applied in a different context in a recent decision of Arnold J: *Eli Lilly & Co v Genentech Inc* [2019] EWHC 387 (Pat) (“*Eli Lilly*”). Significantly, the *Eli Lilly* decision did not involve a second medical use patent. It concerned a patent for antibodies and their use in the treatment of psoriasis and rheumatoid arthritis. The claimed antibodies were not known, although there were claims framed as Swiss form claims (purpose-limited process claims), and one claim was framed as a purpose-limited product claim.

Both parties in *Eli Lilly* accepted that the guidance given by Lord Sumption SCJ in *Warner-Lambert* was applicable, although the different context was to be borne in mind.²⁵ Arnold J agreed that he was bound by the law as stated in *Warner-Lambert*, and said that the fact that the *Eli Lilly* case concerned a new member of a known family did not require any modification of the principles set out in *Warner-Lambert*.²⁶

Pre-RTB divergence between Australia and the UK/Europe

Prior to the amendments introduced by the *Intellectual Property Laws Amendment (Raising the Bar) Act 2012* (Cth) (“RTB”), the Australian case law and the case law of the UK were headed in very different directions, and senior judges were trading barbs as the law in the respective jurisdictions parted ways.

Set out below is commentary on three important and often-cited decisions in which the Australian courts made abundantly clear their view that the laws of the Australia and the UK were very different and that, accordingly, post-1977 UK decisions had little to offer.

The law in New Zealand remained the same as that of Australia during this period, but the New Zealand judiciary did not engage in the debate in the same manner, probably because the lack of cases meant that it was not required to do so.

***Kimberly-Clark Australia Pty Ltd v Arico Trading International Pty Ltd* (2001) 207 CLR 1 (HC) (“*Kimberly-Clark*”)**

The Australian High Court (the “High Court”) decision in *Kimberly-Clark* has long been viewed as a leading authority on the law of sufficiency generally, despite the fact that because it concerned a simple product patent (a nappy) some of the more controversial issues in the law of sufficiency were not brought to the fore as they might otherwise have been. In particular, the issue of whether there was a need for enablement across the full scope of the claim was not analysed with the same level of detail as it would have been in a patent for a class of chemical compounds, for example.

The decision is notable for two reasons. First, for the extensive scatological references that are perhaps to be expected from the subject matter of the patent (an object of which was to deal with explosive liquefied bowel movements). Secondly, for adopting the pithy and often-cited test on the law of sufficiency:²⁷

The question is, will the disclosure enable the addressee of the specification to produce something within each claim without new inventions or additions or prolonged study of matters presenting initial difficulty?

By virtue of this passage, the High Court firmly planted a flag in the “one thing only” camp of sufficiency. Patentees were required to demonstrate merely “something within each claim”, as opposed to enablement across the full scope of each claim.

***Lockwood Security v Doric Products* (2004) 217 CLR 274 (“*Lockwood v Doric*”)**

The High Court decision *Lockwood v Doric* is probably the most well-known of all the pre-RTB decisions in Australia. The patent at issue concerned door locks and other latches

and, in particular, whether a patent that disclosed one way of achieving a result was entitled to claim all methods of achieving that result.

The sufficiency ground was not available in the High Court as it was not a live issue. In relation to fair basis (now support), Doric submitted that it would be unjust if the patentee could claim every method of achieving a result when the law of sufficiency required only one result to be disclosed, and where there was a disparity between the breadth of the claim and the limited merit of the preferred embodiment revealed in the drawings.²⁸ It said that it would be absurd if the fair basis test could be satisfied by a mechanistic investigation of whether the specification contained language that did no more than match the key integer of a claim.²⁹

Unlike the courts of the UK and Europe, the High Court resisted any attempt to conflate the sufficiency and fair basis/support grounds. The Court said that much of Doric's fair basis argument kept cleaving back to the insufficiency ground, which was not available. It said that the unavailability of the insufficiency argument was not a passport to success under lack of fair basis.³⁰ The language of the legislation suggested that it was wrong to employ reasoning relevant to one ground of invalidity in considering another;³¹ the grounds of invalidity must be kept conceptually distinct.³² A patent can be challenged successfully on the ground that the claims are not fairly based even though every other possible ground of challenge fails.³³

The High Court reiterated that for the purposes of sufficiency, it is not necessary for the inventor to disclose all of the alternative means; it is enough that there is disclosure in the sense of enabling the addressee of the specification to produce something within each claim without new inventions or additions or prolonged study of matters presenting initial difficulty.³⁴ The High Court observed that judicial criticism from the UK of Australia's important "one way only" rule, recognised in *Kimberly-Clark*, as "mechanistic and impoverished" suggested that post-1977 UK law was no guide to Australian law on sufficiency.³⁵

The High Court also noted that Australia is not a party to the *Convention on the Grant of European Patents* (the "*European Patent Convention*"), and that the courts of Australia are not bound by what the EPO says. Perhaps even more pointedly, it said that Australian courts do not regard EPO decisions to be "jurisprudence".³⁶

The High Court noted that for the s.40 grounds such as sufficiency and fair basis, it is not necessary to look at the common general knowledge (except to construe the patent).³⁷ In assessing whether the invention is fully described or fairly based, it is necessary to take into account only what is said about it in the specification.³⁸ It is a narrow inquiry.

***Warner-Lambert Co LLC v Apotex Pty Ltd (No 2)* [2018] FCAFC 26**

This case related to the Australian limb of the pregabalin litigation, and is perhaps the best example of how matters stood pre-RTB.

The Full Court of the Federal Court of Australia (the "Full Court") reiterated the approach taken in *Kimberly-Clark* and *Lockwood v Doric* that diverged so markedly from post-1977 UK jurisprudence. It said that the appropriate test to be applied was whether the disclosure enabled the addressee of the specification to produce something within each claim without new inventions or additions or prolonged study of matters presenting initial difficulty.³⁹

The Full Court gave short shrift to the notion that this test should be broadened to encompass the UK concept of "undue burden", which derives from EPO case law. The Full Court said that the expression undue burden had not entered the lexicon of Australian case law on insufficiency,⁴⁰ and it said, baldly, that such considerations are "foreign to Australian patent law",⁴¹ and that undue burden was a "little explained and somewhat indeterminate standard".⁴² It noted the High Court's caution in *Lockwood v Doric* against an uncritical adoption of post-1977 UK cases on provisions that were, at best, only broadly similar to the equivalent Australian provisions.⁴³

Incidentally, in the UK limb of the litigation, the UK Supreme Court made it clear that this lack of regard was mutual. The UK Supreme Court was supplied with the decision of the Full Court before making its decision, but appeared to be indifferent to it. Lord Sumption SCJ said that the Australian decision did not cause him to doubt the conclusions reached as a matter of English law.⁴⁴

Legislative change

The changes ushered in by RTB and the New Zealand *Patents Act* 2013 have the explicit purpose of harmonising the laws of Australia and New Zealand with those of the UK and Europe. The changes represent a deliberate shift away from the approach taken under earlier legislative provisions, and that shift imposes a much higher burden on patentees and applicants for patent protection.

The key provisions are s.39(1)(a) of the New Zealand *Patents Act* 2013, and s.40(2)(a) of the Australian *Patents Act* 1990 (Cth) as amended, both of which provide that every complete specification must disclose the invention in a manner that is "clear enough and complete enough" for the invention to be performed by a person skilled in the (relevant) art.

Amendment to s.40(2)(a) of the Australian *Patents Act* 1990 (Cth)

According to the *Explanatory Memorandum to the Intellectual Property Laws Amendment (Raising the Bar) Bill* 2011 (the “Explanatory Memorandum”), the amendment to s.40(2)(a) of the Australian *Patents Act* 1990 (Cth) was intended to align the disclosure requirement with that applying in other jurisdictions, with the effect that sufficient information must be provided to enable the whole width of the claimed invention to be performed by the skilled person without undue burden, or the need for further invention.⁴⁵ This was intended to reflect more clearly a fundamental principle of the patent system: in exchange for the exclusive rights given to the patentee, the patentee must share with the public the information necessary to make and use the invention.⁴⁶

It identified two problems with the “one thing only” rule that was applied pre-RTB:⁴⁷

- *a patentee may gain protection over something which they have not sufficiently disclosed: the monopoly extends beyond the knowledge that the patentee has shared with the public; and*
- *other innovators do not have the information necessary to allow them to improve on embodiments that have not been disclosed: this hinders follow-on innovation and denies to the public the benefits of subsequent improvements on the invention.*

The Explanatory Memorandum recorded that the intention of the amendment to s.40(2)(a) was that it be given, as close as is practicable, the same effect as the corresponding provisions of UK legislation and the *European Patent Convention*.⁴⁸

Section 39 of the New Zealand *Patents Act* 2013

Section 39 of the New Zealand *Patents Act* 2013 started life as cl.37 of the *Patents Bill* (the “Bill”), and it changed significantly before it passed into law. Clause 37 as it was introduced provided that the specification must particularly describe the invention and the method by which it is to be performed – in other words, sufficiency was dealt with in the same terms as in s.10(3)(a) of the 1953 Act.

This clause was amended at the select committee stage. The Commerce Committee recommended that the Bill be passed with various amendments, including an amendment to cl.37 so that it incorporated the “clear enough and complete enough” test discussed above. In commentary to the Bill, the Commerce Committee noted that no other major jurisdictions used the old test, and it recommended a new, stricter test based on the wording of s.14 of the UK *Patents Act* 1977.

The New Zealand Ministry of Economic Development noted that the Australian Government had also recently proposed changes to the Australian *Patents Act* 1990 (Cth)

in order to strengthen the criteria for granting a patent, and to bring the relevant criteria into line with that applied in other jurisdictions such as Europe and the United States.⁴⁹ The Ministry of Economic Development considered the Australian proposals, and concluded that there would be benefits if similar changes were to be made to the Bill. It observed that these changes would be in keeping with the philosophy behind the Bill of strengthening the criteria for granting a patent.⁵⁰

Australian and New Zealand decisions under the new law

The first cases under the new legislation are starting to trickle through in both jurisdictions. So far, most of these have been at the Intellectual Property Office of New Zealand (“IPONZ”)/Australian Patent Office level. The approach adopted in both countries has been to follow the UK’s lead, including the adoption of principles derived from the EPO that are referred to in UK decisions.

Several of the more significant recent decisions are discussed below to illustrate this.

Evolva SA [2017] APO 57

Evolva SA was only the second decision from the Australian Patent Office regarding the amended law of sufficiency, but it is impressively comprehensive. The Delegate, Dr Leslie McCaffery, considered that regard could be had to recent UK and EPO decisions on sufficiency, including the consideration of plausibility in relation to claims of excessive breadth.⁵¹ The Delegate noted, however, that it is not unusual for the same application to have different outcomes in different jurisdictions, and the fate of an application in another jurisdiction will not be determinative of the corresponding application in Australia.⁵²

The claims in that case recited peptides with at least 90 percent sequence identity to any one of five reference sequences. The Examiner had taken the view that it was not reasonable to assume that every single peptide having the recited sequences would have the requisite activity. In order to know which of the peptides were encompassed by the claims, the person skilled in the art would need to produce every peptide, out of a large number, and test them all.

The Delegate accepted that the only variable for the person skilled in the art to consider was which functional homologs of the five identified polypeptides could be used. That determination did not require any inventive thought or research. There was in fact quite a limited number of polypeptides and this did not amount to an undue burden in the context of a technology where it is routine to produce/express and screen large numbers of polypeptides.⁵³

Cox v MacroGenics, Inc [2019] APO 13

This decision of the Australian Patent Office also followed the UK approach resolutely.⁵⁴ It referred to the UK Supreme

Court decision in *Warner-Lambert*, and applied it in an expansive manner.

The Delegate noted that while Lord Sumption SCJ's comments were made in the context of second medical use claims, the reasoning from *Warner-Lambert* is applicable more generally.⁵⁵ Moreover, the Delegate described the *Warner-Lambert* decision as highly persuasive because it draws from a body of UK and European cases.⁵⁶ This represents a remarkable about-turn from the attitude taken towards UK and European case law prior to the RTB amendments.

***Encompass Corporation Pty Ltd v InfoTrack Pty Ltd* [2018] FCA 421**

This decision of the Federal Court of Australia concerned a method and apparatus for displaying business information to provide business intelligence. For example, the claimed invention assisted with searching for information about directors and individuals across multiple databases. Numerous grounds of invalidity were pleaded, and the sufficiency ground was not analysed in great detail. With respect, such analysis as there was in respect of sufficiency was perhaps a little unusual.⁵⁷

Consistently with other recent decisions, however, Perram J referred to the statement in the Explanatory Memorandum that the changes were intended to align the disclosure requirement with that applying in other jurisdictions, with the effect that sufficient information must be provided to enable the whole width of the claimed invention to be performed by the skilled person without undue burden, or the need for further invention.⁵⁸

***Bree* [2017] NZIPOPAT 16**

This was an examination decision from Assistant Commissioner Casey QC in relation to support, not sufficiency. Nonetheless, it is interesting to note that some of the analysis draws quite strongly on the language and principles of sufficiency.

In *Bree*, the Assistant Commissioner said that the leading discussion on the meaning of “support” in this context is *Biogen Inc v Medeva Plc* [1997] RPC 1,⁵⁹ and she said that Lord Hoffman makes it clear that “support” requires more than that the specification “enables the invention to be performed”. It is apparent from this choice of language that the Assistant Commissioner accepted that there was a close nexus between sufficiency and support. This approach is very different to the pre-RTB Australian decisions, which were very resistant to any conflation between the two grounds.

Conclusion

Regardless of the extent to which the plain words of the New Zealand *Patents Act* 2013 and the post-RTB legislation actually differ from their predecessors, it is clear that significant changes in approach were intended. As described

above, the early indications from the case law emerging in both New Zealand and Australia are that the signalled change in approach is being heeded, and that Australian and New Zealand case law is being influenced by UK and European jurisprudence.

Whilst to a certain extent this change is inevitable, and to be welcomed, there are two areas of potential concern, as outlined above. The first is the risk that the pendulum may swing too far in the other direction, and patents may become unduly vulnerable to challenge. The second is that the approach taken by the UK and Europe involves a high level of conflation between sufficiency and other grounds. This may cause difficulties with establishing a logical and coherent body of jurisprudence.

So far, for better or for worse, the intended harmonisation appears to be unfolding as intended. The real test of the bonds of harmonisation, though, will be when the first cases under the new law are considered by the higher courts, especially the High Court of Australia which for so long evinced a palpable level of hostility toward the EU-influenced UK law of sufficiency.

- 1 Jane Glover is a barrister at Sangro Chambers in Auckland, New Zealand.
- 2 In many jurisdictions, the colour of a pregabalin pill is red, hence the title of this article.
- 3 As is discussed in more detail later in this article, on 23 February 2018, the Full Court of the Federal Court of Australia issued a decision in relation to the Australian arm of this litigation, upholding the patent, i.e. coming to the opposite conclusion to the UK Supreme Court. This case was decided under the pre-RTB amendments, however, and so sufficiency was assessed in a much more circumscribed fashion, and on the basis of very different arguments. The differences in approach highlight the gulf between the old law and the new, and gives a sense of just how much the law in Australia and New Zealand may change over the next few years.
- 4 The first sentence of the decision suggests that the fact that the patent is a second medical use patent is significant: “These proceedings raise, for the first time in the courts of the United Kingdom, the question how the concepts of sufficiency and infringement are to be applied to a patent relating to a specified medical use of a known pharmaceutical compound.” *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [1]. Yet many of the principles arising from the decision do not seem to be limited to this type of patent – see, for example, para. [22] at which Lord Sumption explains that speculative “armchair” claiming for new uses of known compounds is just one of a number of ways in which a patentee may attempt to claim a monopoly more extensive than anything that is justified by its contribution to the art. In *Eli Lilly and Co v Genentech Inc* [2019] EWHC 387 (Pat), Arnold J applied the *Warner-Lambert* decision in a different context.

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- 5 *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [39]. This approach does raise difficult issues given that the frontiers of medicine are advancing all of the time. It is often the case that there are more sub-categories of a particular ailment than were originally appreciated. So, for example, it is now known that “cancer” is not one condition, but many different ones. It may be that the reason a treatment does not work for all patients suffering from that condition is because they are suffering from different versions of the condition.
- 6 Citing *Regeneron Pharmaceuticals Inc v Genentech Inc* [2013] RPC 28 at [100].
- 7 *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [39].
- 8 *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [36].
- 9 *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [37].
- 10 *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [37].
- 11 *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [15(2)] and [90].
- 12 *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [181].
- 13 *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [193].
- 14 *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [195].
- 15 *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [40].
- 16 *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [40].
- 17 *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [17].
- 18 *EXXON/Fuel Oils* (T 409/91) [1994] OJ EPO 653 at [3.3] and [3.4], cited in *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [17].
- 19 *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [17].
- 20 Notably, *Biogen v Medeva* [1997] RPC 1.
- 21 *New Zealand Patents Act* 2013, s.58(b).
- 22 *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [48].
- 23 *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [42].
- 24 *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [15(1)].
- 25 *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [523].
- 26 *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [531].
- 27 *Kimberly-Clark Australia Pty Ltd v Arico Trading International Pty Ltd* (2001) 207 CLR 1 (HCA) at [25], citing *No-Fume Ltd v Frank Pitchford & Co Ltd* (1935) 52 RPC 231 at 243.
- 28 *Lockwood Security v Doric Products* (2004) 217 CLR 274 at [39].
- 29 *Lockwood Security v Doric Products* (2004) 217 CLR 274 at [39].
- 30 *Lockwood Security v Doric Products* (2004) 217 CLR 274 at [40].
- 31 *Lockwood Security v Doric Products* (2004) 217 CLR 274 at [43].
- 32 *Lockwood Security v Doric Products* (2004) 217 CLR 274 at [43].
- 33 *Lockwood Security v Doric Products* (2004) 217 CLR 274 at [48].
- 34 *Lockwood Security v Doric Products* (2004) 217 CLR 274 at [60].
- 35 *Lockwood Security v Doric Products* (2004) 217 CLR 274 at [67].
- 36 *Lockwood Security v Doric Products* (2004) 217 CLR 274 at [66]. It is interesting to look back on comments such as this which were made in the pre-RTB context, given that the Australian courts now seem to be accepting and adopting European concepts of patent law without complaint.
- 37 *Lockwood Security v Doric Products* (2004) 217 CLR 274 at [49].
- 38 *Lockwood Security v Doric Products* (2004) 217 CLR 274 at [72].
- 39 *Warner-Lambert Co LLC v Apotex Pty Ltd (No 2)* [2018] FCAFC 26 at [26] and [113].
- 40 *Warner-Lambert Co LLC v Apotex Pty Ltd (No 2)* [2018] FCAFC 26 at [100].
- 41 *Warner-Lambert Co LLC v Apotex Pty Ltd (No 2)* [2018] FCAFC 26 at [113].
- 42 *Warner-Lambert Co LLC v Apotex Pty Ltd (No 2)* [2018] FCAFC 26 at [113].
- 43 *Warner-Lambert Co LLC v Apotex Pty Ltd (No 2)* [2018] FCAFC 26 at [113].
- 44 *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [59] and [60].
- 45 Explanatory Memorandum, *Intellectual Property Laws Amendment (Raising the Bar) Bill* 2011 (Cth), item 8.
- 46 Explanatory Memorandum, *Intellectual Property Laws Amendment (Raising the Bar) Bill* 2011 (Cth), item 8.
- 47 Explanatory Memorandum, *Intellectual Property Laws Amendment (Raising the Bar) Bill* 2011 (Cth), item 8.
- 48 Explanatory Memorandum, *Intellectual Property Laws Amendment (Raising the Bar) Bill* 2011 (Cth), item 8.
- 49 *Patents Bill 2008 Departmental Report – Ministry of Economic Development: Clause-by-Clause Analysis of Submissions*, 49.
- 50 *Patents Bill 2008 Departmental Report – Ministry of Economic Development: Clause-by-Clause Analysis of Submissions*, 49.
- 51 *Evolva SA* [2017] APO 57 at [45].
- 52 *Evolva SA* [2017] APO 57 at [48].
- 53 *Evolva SA* [2017] APO 57 at [67]-[68].
- 54 *Cox v MacroGenics, Inc* [2019] APO 13.
- 55 *Cox v MacroGenics, Inc* [2019] APO 13 at [61].
- 56 *Cox v MacroGenics, Inc* [2019] APO 13 at [63].
- 57 The sufficiency ground turned on a somewhat unusual point. Perram J accepted that while the “old” version of s.40(2)(a) included a requirement that the patent needed to make plain the nature of the invention to persons having reasonably competent knowledge of the subject, this requirement did not survive the amendments to the legislation. Therefore, if this reasoning is correct, although the RTB amendments caused the sufficiency “bar” as a whole to be raised, the removal of this particular requirement represented a localised lowering of the bar: See *Encompass Corporation Pty Ltd v InfoTrack Pty Ltd* [2018] FCA 421 at [162].
- 58 *Encompass Corporation Pty Ltd v InfoTrack Pty Ltd* [2018] FCA 421 at [164].
- 59 *Bree* [2017] NZIPOPAT 16 at [16].

Concurrent Expert Evidence: Still Flavour of the Month?

The Honourable Justice John Middleton¹

The purpose of this report and the question asked in its title is to promote discussion about the benefits and drawbacks of concurrent expert evidence and to ask whether the so-called “hot tub” method is still attractive amongst intellectual property (“IP”) lawyers.

Much has been written concerning the use of concurrent evidence at trials, so I am going to assume that readers will be familiar with the process of preparing concurrent evidence and the giving of concurrent evidence in trial – see generally the Honourable Justice Steven Rares, ‘Using the “Hot Tub”: How Concurrent Expert Evidence Aids Understanding Issues’ (2011) 10 *The Judicial Review* 171; Adam Butt and Hugh Stowe, ‘Playing in the Hot Tub – A Guide to Concurrent Expert Evidence in New South Wales’ [2018] (Spring) *Bar News* 44–55.

I am also going to assume that it is generally accepted that the giving of concurrent evidence has many advantages, including enabling all those involved in the trial to hear the experts discussing the same issues at the same time, which enhances the comprehension and exploration of the evidence, especially by the bench.

The effectiveness of the giving of expert evidence in the Federal Court of Australia is buttressed by the *Harmonised Expert Witness Code of Conduct* which emphasises that the experts have a duty to the Court – not the party that retained them – and to act impartially at all times. Courts in other Australian jurisdictions maintain similar codes of conduct in respect of expert evidence.

Some may be sceptical about the extent to which an expert called by and paid by a party would adhere to such codes but in practice, I think in the main, they are adhered to.

However, despite the obvious advantages of concurrent expert evidence, there has been in some quarters a resistance to the use of concurrent expert evidence and some of that resistance can be summarised as follows:

1. The exclusion of lawyers from expert conclaves and the problems that may arise as to defining the issues for the experts.
2. Even though rules of court provide for procedural guidelines, there is uncertainty and lack of structure as to the process, particularly at the hearing itself.
3. There is the concern that the personality of one expert may overbear the personality of another expert – see, for example, *Britax Childcare Pty Ltd v Infa-Secure Pty Ltd (No 4)*.²

4. There is the concern that in some cases it may be necessary to cross examine the expert as to creditability and this may not fit in with the way in which concurrent expert evidence is given.
5. There are the cost implications in certain cases which may not justify the use of concurrent expert evidence and the joint report.
6. The timing of expert conclaves can be significant and the parties may not have the opportunity to arrange their experts to appropriately meet and discuss their reports.
7. There is the issue of whether or not concessions in a joint report should be able to be resiled from.
8. There is the concern about the role of the judge, particularly as to whether he or she is too interventionist during the course of the giving of concurrent expert evidence.

In addition to these matters, there has been the issue in jury trials (both civil and criminal) whether or not concurrent evidence would be appropriate. In the United States of America (“US”), this issue has elicited different reactions from various judges. One view is that concurrent evidence in jury trials would be inappropriate, while other judges feel comfortable in using experts in a conclave before a jury as long as the matter is managed carefully by giving appropriate directions.³ The judge ordinarily must be careful not to inappropriately intervene in jury trials, particularly in the case of criminal jury trials.

There are other concerns with concurrent expert evidence. They are:

1. The experts may not deal with all the issues that parties consider relevant.
2. The experts may not deal with all the issues the judgment has to address.
3. The experts will not have the opportunity to prepare a report based on the correct facts.
4. The joint report may represent two individual reports collated by a few covering pages or a series of unreasoned assertions by each expert.

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5. Some judges like to have the opportunity of assessing an expert being cross examined in the normal way.

As to the last point, I should say that the current approach seems to be cautious about drawing conclusions too readily concerning truthfulness or reliability based on the appearance of witnesses. In *Fox v Percy*,⁴ the High Court of Australia approved the observation of Atkin LJ in *Société d'Avances Commerciales (Société Anonyme Egyptienne) v Merchants' Marine Insurance Co (The "Palitana")*:

*I think that an ounce of intrinsic merit or demerit in the evidence, is to say, the value of the comparison of evidence with known facts, is worth pounds of demeanour.*⁵

Another issue that has been raised recently is the use of assessors, although they could be used even when one has the advantage of concurrent evidence. Engaging an independent assessor whose sole duty is to the court can have additional benefits to the joint meeting of experts, joint reports and concurrent evidence sessions. Assessors appointed by the court can perform a variety of functions at the discretion of the judge at the pre-trial, trial and post-trial stage of proceedings – see generally the comments of J Forrest J in *Matthews v SPI Electricity Pty Ltd (No 19)*,⁶ and the related *Matthews v SPI Electricity Pty Ltd (No 32)*.⁷

The functions performed by assessors appointed by the court may include:

- acting as a human primer to deliver tutorials to the judge, explaining some questions that a judge might have concerning technical evidence;
- sitting with the judge to listen to the expert evidence;
- assisting the judge in relation to complex technical matters;
- putting questions directly to counsel or witnesses at the hearing or suggesting questions for the judge to put to counsel or witnesses;
- conferring with judge to get the technical concepts correct; and
- reviewing draft judgments for technical accuracy.

A suggestion has also been made that it may be better to introduce depositions so that prior to the expert giving evidence, the opposing party has the opportunity of examining the expert with a view to determining and reducing the issues that need to go to trial.⁸ The use of depositions in the US is said to have a number of advantages including the aim of finding out information, encouraging witnesses to make admissions, and then once key witnesses (including the experts) on both sides have been deposed, the case may be evaluated from an educated position, which may ultimately lead to summary judgment, settlement between the parties, or at the very least remedying some deficiencies in the underlying case. I will not go into the advantages and

disadvantages of depositions in an Australian setting – the prime disadvantage being of course cost and abuse.

So, to answer the question “Is concurrent expert evidence still flavour of the month?”, I think in most instances the advantages outweigh the disadvantages.

It all depends upon the case, and in some situations the normal process of examination, cross examination and re-examination may still be the most efficient and effective method for adducing expert testimony and informing the bench. Ultimately, it will be for the practitioners of IP law to, in any given case, determine how best to present their client's case and represent their client's interests, subject to the interests of efficiency, expedition and the administration of justice.

1 Judge, Federal Court of Australia. This report is adapted from a presentation given at the 32nd Intellectual Property Society of Australia and New Zealand Annual Conference in Queenstown, New Zealand on 9 September 2018.

2 (2015) 113 IPR 280.

3 See, e.g., Adam Butt, ‘Concurrent Expert Evidence in U.S. Toxic Harms Cases and Civil Cases More Generally: Is there a Proper Role for Hot Tubbing?’ (2017) 40(1) *Houston Journal of International Law* 1, 26–28.

4 (2003) 214 CLR 118, 128–9 [30]–[31].

5 (1924) 20 LI L Rep 140, 152.

6 [2013] VSC 180 (18 April 2013).

7 [2013] VSC 630 (18 November 2013).

8 See, e.g., Michael Legg, ‘The United States Deposition – Time for Adoption in Australian Civil Procedure?’ (2007) 31(1) *Melbourne University Law Review* 146.

Admission to the Manner of Manufacture Club – Patent Eligibility of Computer Implemented Business Methods

Cynthia Cochrane and Catherine Bembrick¹

The High Court of Australia (the “High Court”) has indicated that, when it comes to the ground of patent invalidity known as “manner of manufacture”, the “right question” is whether “the invention so far as claimed in any claim” falls within the *confines* of “the principles which have been developed for the application of s.6 of the Statute of Monopolies”: see *National Research Development Corporation v Commissioner of Patents* (1959) 102 CLR 252 (“*NRDC*”) at 264, 268-9 and *D’Arcy v Myriad Genetics Inc* (2015) 258 CLR 334 at [4], [18] (“*Myriad*”).

The right question is thus whether a claimed invention is *included* within the “breadth of the concept which the law has developed” as being within the “established ambit” (or club).²

The High Court has also indicated that patent eligibility in a given case is to be determined by reference to principles in the authorities and *reasoning by analogy*: see *NRDC* at 272 and *Myriad* at [18]. That is, the characteristics of existing club members is relevant to eligibility.

The patentability of computer implemented business methods is a vexed question. While such claims do not constitute a special class, they require special scrutiny to determine whether, as a matter of *substance*, the general principles of patent eligibility have been satisfied.

During the 1990s, the Federal Court of Australia (the “Federal Court”) admitted a number of computer implemented business methods to the manner of manufacture club: see *International Business Machines Corporation v Commissioner of Patents* (1991) 33 FCR 218 (Burchett J) (“*IBM*”); *CCOM Pty Ltd v Jiejing Pty Ltd* (1994) 51 FCR 260 (Spender, Gummow and Heerey JJ) (“*CCOM*”) and *Welcome Real Time SA v Catuity Inc* (2001) 113 FCR 110 (Heerey J).

In 2015, the Federal Court (Kenny, Bennett and Nicholas JJ), in two separate decisions, denied admission to the club to two types of computer implemented business methods: see *Research Affiliates LLC v Commissioner of Patents* (2014) 227 FCR 378 (“*Research Affiliates*”) and *Commissioner of Patents v RPL Central Pty Ltd* (2015) 238 FCR 27 (“*RPL*”). In refusing special leave to appeal from *RPL*, Nettle and Gordon JJ said that “[t]he Full Court was plainly correct”.³

In 2018, applying *Research Affiliates* and *RPL*, the Federal Court denied admission to the manner of manufacture club to a computer implemented business method: *Encompass Corporation Pty Ltd v InfoTrack Pty Ltd* [2018] FCA 421 (Perram J) (“*Encompass v InfoTrack*”). An appeal from this decision was heard by the Full Court (Allsop CJ and

Kenny, Besanko, Nicholas and Yates JJ) in November 2018. Judgment is reserved.

Later in 2018, also applying *Research Affiliates* and *RPL*, the Federal Court admitted a computer implemented business method to the manner of manufacture club: see *Rokt Pte Ltd v Commissioner of Patents* [2018] FCA 1988 (Robertson J) (“*Rokt v Commissioner*”).

The Commissioner of Patents (the “Commissioner”) has filed an application for leave to appeal this decision to the Full Court.

At the same time, the Australian Patent Office has shown a tendency to deny admission of computer implemented business methods to the manner of manufacture club.⁴

This paper considers manner of manufacture in terms of the general principles and then how those general principles have been applied in the context of computer implemented business methods, including recently in *Encompass v InfoTrack* and *Rokt v Commissioner*.

Manner of manufacture: general principles

A patentable invention is an invention which, so far as is claimed in any claim “is a manner of manufacture within the meaning of s.6 of the Statute of Monopolies”:⁵ ss.18(1)(a), 18(1A)(a) *Patents Act* 1990 (Cth) (“*Patents Act*”). Section 3 of the *Patents Act* also defines “invention” by reference to manner of manufacture as follows: invention means “any manner of new manufacture the subject of letters patent and grant of privilege within section 6 of the Statute of Monopolies, and includes an alleged invention”.

In *NRDC*, the High Court held that the definition is satisfied by any manner of manufacture which is alleged to be new: at [261][262].

Importantly, the High Court in *NRDC* expressly *excluded* the possibility of defining the boundaries of “manner of manufacture” by reference to an “exact verbal formula” at

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[271], recognising that the concept of manufacture had changed over time. Similarly, the plurality of the High Court in *Myriad* observed at [28] that there has been an incremental expansion over time of the fields to which the concept of manner of manufacture may apply.

The High Court has indicated that, to come within the confines of patentability, the claimed invention must be more than “the use of a known material ... for the purpose of which its known properties make that material suitable” (having regard to the body of the specification, properly construed): see *Commissioner of Patents v Microcell Ltd* (1959) 102 CLR 232; *NRDC* at [262], [263], [265], [276]; and *Myriad* at [131].

The claimed invention must also satisfy the conditions set down by the High Court in *NRDC*. There the High Court identified two conditions *necessary* for an invention to qualify as a manner of manufacture: (1) it must result in an “artificially created state of affairs”; and (2) the significance of that state of affairs must be “economic”: at [277].

Importantly, the claim must satisfy the *NRDC* formulation as a *matter of substance* rather than simply form: see *NRDC* at 264-5, 270, 276; *Research Affiliates* at [95](8), [102], [107], [114] and [116]; *Myriad* at [19][24]; *Encompass v InfoTrack* at [191](3), [193]. Further, recent High Court authority has indicated that the presence of an “artificial effect of economic utility” is not a *sufficient* answer to the *NRDC* question of whether a claimed invention is the proper subject of letters patent: see *Myriad* at [20][24], per French CJ, Kiefel, Bell and Keane JJ; and *Apotex Pty Ltd v Sanofi-Aventis* (2013) 253 CLR 284 at [83] per Hayne J, [224] per Crennan and Kiefel JJ, and [309] per Gageler J.

Manner of manufacture: computer implemented business methods

In determining whether a claim to a computer implemented business method comes within the confines of patentability, the *NRDC* conditions have been applied regularly in Australia.

In 1994, the Full Court of the Federal Court in *CCOM* at [295B-D] held that the computer implemented business method in that case was patentable subject matter on the basis that it satisfied the *NRDC* conditions, being a mode or manner of achieving an end result which was an artificially created state of affairs of utility in the field of economic endeavour.

In more recent times, however, the Federal Court has questioned the application of the *NRDC* conditions to computer implemented business methods, in circumstances where, by their nature, computer programs tend to answer the broad description of being “an artificially created state of affairs that has utility in the field of economic endeavour”: see *Research Affiliates* at [102], [107], [114] and [116]; and *RPL* at [116][117].

It was in this context that Perram J observed in *Encompass v InfoTrack* that it is often more useful to ask whether the invention involves the mere *implementation* of an abstract idea in a computer (not patentable) or whether it involves the implementation of an abstract idea that creates an *improvement* in the computer (patentable): at [191], citing *Research Affiliates* at [103][104]. Perram J noted that “viewed that way, it is difficult to see how a business system embodied in a computer can ever be an improvement in the computer”: at [191].

The Full Court in *Research Affiliates* had adopted this distinction from the United States of America (“United States”), specifically Thomas J’s reasons for judgment in *Alice Corporation v CLS Bank International* 573 U.S. 208, 134 S. Ct. 2347 (2014) (“*Alice*”). In the United States, the court asks whether the claim is “directed to” a judicial exception, such as an abstract idea, and, if so, whether the claim recites “significantly more” than the judicial exception. That is, a claim to an abstract idea per se does not fall within the confines of patentability. It must have limiting integer(s) sufficient to bring it within the confines of patentability.

In *Alice*, Thomas J noted that the function performed by the computer at each step of the intermediated settlement process was “purely conventional” (taking the claim elements separately) and, considered as an ordered combination, the computer components added “nothing ... that is not already present when the steps are considered separately”; the claims did not “purport to improve the functioning of the computer itself” nor did they “effect an improvement in any other technology or technical field”: at [15]. Thomas J held that the “method claims recite[d] the abstract idea implemented on a generic computer” and “the system claims recite[d] a handful of generic computer components configured to implement the same idea”: at [16].

In *RPL*, the Full Court considered whether the claimed invention was a manner of manufacture. The patent claimed a computerised method and system for assessing the competency or qualification of individuals with respect to recognised standards (such as whether the person’s skills were suitable to be awarded a qualification by an education or government agency): at [7][9]. In one embodiment the steps of presenting automatically generated questions to the person and receiving corresponding responses were performed via an automated computer interface such as a web-based interface: at [12].

The Full Court stated that where the claimed invention is to a computerised business method, the invention “must lie in that computerisation. It is not a patentable invention simply to ‘put’ a business method ‘into’ a computer to implement the business method using the computer for its well-known and understood functions”: at [96]. Simply because the method cannot be carried out without the use of a computer will not make it patentable, rather, a computer implemented

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business method can be patentable where the invention lies in the way in which the method is carried out in the computer. This necessitates some ingenuity in the way in which the computer is utilised: at [104], citing *Research Affiliates* (see also at [107]). To be patentable, the solution to the problem identified by RPL Central needed to involve “more than the utilisation of well-known search and processing functions of a computer, for example an invention in the way in which the computer is utilised”: at [111].

The Full Court considered where the inventiveness or ingenuity was said to lie in the patent at issue and found that the method did not include any steps outside the normal use of a computer: at [112]. Accordingly, RPL Central’s claimed invention was held to be to a scheme or business method not properly the subject of letters patent: at [113].

Encompass v InfoTrack

Encompass Corporation Pty Ltd (“Encompass”) was the proprietor of two innovation patents both entitled “Information displaying method and apparatus” and both based on a standard patent with a priority date of 25 March 2013. SAI Global Property Division Pty Ltd (“SAI Global”) was the exclusive licensee with the entitlement to exploit them in Australia.

In summary the patents described a method of displaying information relating to one or more entities following searches conducted across various disparate databases, where such searches could have disparate data within them (such as different names for the same entity). Encompass and SAI Global contended that the respondent, InfoTrack Pty Ltd (“InfoTrack”) had infringed the patents by making available from its portal a computer platform entitled “Reveal”. InfoTrack admitted that it infringed the patents but, relevantly, alleged by way of cross-claim that both patents were invalid and liable to be revoked on the basis, inter alia, that the invention the subject of the patents was not a manner of manufacture.

Perram J had no doubt that the invention claimed in the patents passed both limbs of the “tests” in *NRDC*: “it brings about an artificially created state of affairs consisting of the network diagrams generated from querying remote data sources” and the “significance of that state of affairs is economic”: at [192]. However, his Honour noted that the satisfaction of that test is not enough, rather it is necessary to ask whether the method (or apparatus) disclosed in the patents involves the implementation of an abstract idea which, in the language of *Research Affiliates* at [104], results in an improvement in the computer: at [193].

His Honour pointed to the difficulties of applying the test in respect of cases such as the one before him, stating (at [194]):

This is a most difficult test to apply in a case such as the present for it raises the question of what an improvement in

the computer is. In some senses, any form of software residing in a computer which performs a task is an improvement in the computer because without it the computer could not perform the task. Plainly, this is not what was intended. Certainly, ‘improvement’ seems designed to capture the computer performing some activity which it was not possible to perform prior to the method. Thus in IBM the method for drawing the curves without using floating point arithmetic opened the way for the computer to be used more efficiently than had been previously possible and, I suppose, the method for using Chinese characters in CCOM might arguably be seen the same way (although that seems less clear to me).

His Honour considered that although the method disclosed in the patents (and the apparatus) resulted in the computer being used to do something it had not been used to do before, it was not clear that in doing so it improved the functionality of the machine (at [195]):

This is because the method (and apparatus) merely involve a concatenation of three other methods, none of which is new ...

Although finding that the addition of a purchasing step in the method provided an innovative step, his Honour considered that did not follow that the method and apparatus involved any improvement in the computer. None of the elements in the claims was, in itself, an improvement in the functionality of the computer. Although an enhanced user experience resulted from the combination of well-known computing mechanisms, his Honour noted that unless the combination can itself be said to have brought about an improvement in the computer this will be beside the point: at [196].

His Honour considered that it was (at [197]):

... difficult to see how a person could use the method and apparatus disclosed in the Patents to do something with a computer which could not already be done. An improvement in the computer does not result. For that reason I do not think that the Patents involve a manner of manufacture and they are accordingly invalid.

In November 2018, a five-member bench of the Full Court heard Encompass’s appeal against the finding of no manner of manufacture and InfoTrack’s notice of contention against the finding that the claimed invention should be taken to involve an innovative step.

Rokt v Commissioner

On 13 March 2013, Rokt Pte Ltd (“Rokt”) applied for the grant of a patent entitled “A Digital Advertising System and Method” and requested examination. Following a series of amendments and re-examinations, on 11 July 2017 the Commissioner, by her delegate, decided that the patent application should not proceed to grant.⁶ One reason for the refusal was that claim 1 of the patent application did not disclose a manner of manufacture within the meaning of s.18(1)(a) of the Patents Act.

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Rokt appealed under s.100A(3) of the Patents Act from the whole of that decision and the appeal was upheld in *Rokt v Commissioner*. The Federal Court found, among other things, that the patent satisfied the manner of manufacture requirements under the Patents Act. Claim 1 of the patent was for a computer implemented method. In summary the invention related to digital advertising, specifically a method for linking a computer user to an advertising method by way of an “intermediate engagement offer”. The intermediate engagement offer would be included in the webpage publisher’s content at relevant points during a purchase transaction by the user, such as when the user had recently completed a transaction on the site. If the user interacted with the intermediate engagement offer by accepting it, then the Rokt method presented an advertisement to the user. The intermediate engagement offer was designed to drive a higher level of engagement with the advertising method received by the user than if the message was presented cold without the offer, for example by simply popping up as an advertisement on the side banner of the site.

In relation to manner of manufacture, Rokt submitted that what was claimed was something which created an artificially created state of affairs of economic utility and was something new and innovative; it “created an effect in a device for use in a business, as distinct from conducting something that was a business”: at [174].

Rokt pointed to the evidence of its expert, Professor Verspoor (a Professor in the School of Computing and Information Systems at the University of Melbourne) that the operation of the method produced a “dynamic, context-based advertising system”. It submitted that this was accurately described as a “technological invention” referred to in *RPL* at [100], which was a manner of manufacture and produced a useful physical result: at [178][179].

Rokt also submitted that, unlike in *RPL* and *Research Affiliates*, the method could not be operated without computers – it was not just some scheme “put into” a computer, but the method altered the way that running computers functioned. Use of a computer was integral to carrying out the invention and the invention involved steps foreign to the normal use of computers as it drew together different streams of information and put them together in a way that was new and had not been done before: at [180][181]. The invention therefore involved a technological innovation that solved existing technical problems in digital advertising and produced a new digital advertising system of software and hardware which, according to existing legal principles, clearly disclosed a manner of manufacture: at [187].

The Commissioner submitted that the substance of the invention was an unpatentable business method or scheme for advertising. The method or scheme was implemented using computer technology but innovation or ingenuity did not lie in the way the method or scheme was implemented

in the computer. Instead it resided in the method or scheme itself. Accordingly it was an innovation or an ingenuity in relation to the advertising method, not its implementation in a computer system: at [188]. If inventive ingenuity lay only in the advertising scheme, the invention was not patentable: at [195].

In considering the parties’ submissions Robertson J was of the view that the resolution of the appeal lay largely in the realm of facts, with no substantial relevant differences between the parties as to the legal principles to apply: at [200]. His Honour noted a difference of substance between the approaches of Rokt and the Commissioner in relation to the level of detail at which the submissions were made and in relation to the claimed significance of any distinctions. In his view the Commissioner’s focus was on issues of discrete differences or distinctions rather than on the claim or claims as a whole and as a matter of substance. His Honour stated that a focus on elements known as at the priority date of the patent in isolation “tends to lose sight of the combination of techniques or components in an innovative and previously unknown way”: at [202].

His Honour agreed with Rokt that the substance of the invention was to (at [203]):

... introduce a dynamic, context-based advertising system, introducing a distinction between an engagement offer, without a direct advertising benefit, and an advertisement designed to lead directly to the sale of the product. This was an improvement in computer technology.

His Honour found that the invention “solved not only a business problem but a technical problem ... it provided a single platform in which user engagement data could be coupled with transactional data and user context data to provide a personalised ranking of offers to the user” and solved the technical problem of providing a single platform: at [205]. His Honour found that there was a business problem of attracting the attention of the user and having the user choose to interact with the advertiser, but this problem “was translated into the technical problem of how to utilise computer technology to address the business problem”: at [207].

Justice Robertson also found that the use of computers was integral, rather than incidental, to the invention in the sense that “there is an invention in the way in which the computer carries out the business scheme”: at [208], citing *RPL* at [107]. It was not feasible to store and manage large amounts of tracking data collected from real time interactions with digital devices and manipulate large quantities of data for context-sensitive decision making without the use of computers: at [208].

His Honour stated (at [209]):

Storage and manipulation of data at the magnitude and speed that was required to implement the method could

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only be done on a computer or computers. The data analysis claimed in the patent could not be performed without a computer or computers, particularly having regard to the gathering, manipulation and subsequent use of the data by the engagement engine.

Further, the patent introduced a method which was foreign to the use of computers as at the priority date. Not only did the patent draw together different streams of information and put them together in a new way, “certain elements of the invention were also new in their own right” including the use of widgets to monitor the user’s interaction with the website to determine when to display the intermediate engagement offer: at [211]. In addition, known components had been integrated into a single system in an innovative and previously unknown way and known and unknown elements formed a “working combination that had not previously been achieved and involved the use of computers in a way that was foreign to their normal use” as at the priority date: at [212].

On 16 January 2019, the Commissioner filed an application for leave to appeal to the Full Court, together with a draft notice of appeal. The application for leave to appeal states that the prospective appeal raises questions of general importance about the proper manner of application of the principles that govern whether a computer implemented invention is a manner of manufacture within the meaning of s.18(1)(a) of the Patents Act.

Despite this, it appears unlikely that any reasons for judgment delivered by the Full Court in relation to any appeal in *Rokt v Commissioner* will provide any further clarity concerning the ground of manner of manufacture in the context of computer implemented business methods. The Commissioner’s first three draft grounds of appeal challenge factual findings made by the primary judge and the extent of the primary judge’s reliance upon certain expert evidence. The final draft ground of appeal alleges a failure by the primary judge to keep the requirement for an invention to be novel separate and distinct from the requirement that an invention must be a manner of manufacture.

What next?

Practitioners with an interest in the patentability of computer implemented business methods should await the reasons for judgment of the five member bench of the Full Court in *Encompass v Infotrack* and any application made for special leave to appeal to the High Court.

- 1 Cynthia Cochrane and Catherine Bembrick are barristers at 5 Wentworth Chambers in Sydney. Cynthia Cochrane appeared for Infotrack Pty Ltd in *Encompass Corporation Pty Ltd v InfoTrack Pty Ltd*, at trial and on appeal. The opinions in this report are the authors’ own.
- 2 *National Research Development Corporation v Commissioner of Patents* (1959) 102 CLR 252 at 269, as cited in *D’Arcy v Myriad Genetics Inc* (2015) 258 CLR 334 at [124].
- 3 *RPL Central Pty Ltd v Commissioner of Patents* [2016] HCASL 84.
- 4 For example, the following decisions in 2017: *Todd Martin* [2017] APO 33; *Swiss Reinsurance Company Limited* [2017] APO 12; *Discovery Life Limited* [2017] APO 36; and *Elo, Inc* [2017] APO 55.
- 5 Section 6 of the *Statute of Monopolies* 1623, 21 Jac 1 c 3 provides, relevantly, for letters patent and grants of privilege for the “sole working or making of any manner of new Manufactures within this Realm, to the true and first Inventor and Inventors of such Manufactures...”.
- 6 *Rokt Pty Ltd* [2017] APO 34.

Book Review

Fiona Rotstein

Commercialisation of Intellectual Property
by Natalie P Stoianoff, Fred Chilton and Ann L Monotti

[LexisNexis 2019 pp 304]

In the foreword to the recently published *Commercialisation of Intellectual Property*, Bill Ferris AC, Inaugural Chair of Innovation and Science Australia (“ISA”), writes:

Innovation will be crucial to a future Australian economy less dependent upon our commodities exports and more widely driven by the commercialisation of our ideas and inventiveness. The authors of this book provide a blueprint for innovators embarking upon the commercialisation pathway.

Indeed, the authors of this book, Natalie P Stoianoff, Fred Chilton and Ann L Monotti, are to be praised for providing innovators with a comprehensive analysis of the commercialisation of intellectual property (“IP”). The book successfully ties together the legal, business and technical aspects of IP commercialisation in Australia within an international trade and economics context. Lamenting the fact that too often Australians have had to look overseas to commercialise locally produced innovations, the book provides a wholistic approach to the relevant issues. It is divided into four parts: (A) “Setting the Scene for Intellectual Property Commercialisation”; (B) “Business Issues”; (C) “Intellectual Property Licensing”; and (D) “Completing the Picture”.

Part A examines the intersection of IP rights and commercialisation. It consists of four chapters. In chapter one, “Introduction”, the commercialisation of ideas and innovations is identified as the focus of Australian economic growth. Referring to ISA’s report for the Australian Government, *Australia 2030: Prosperity through Innovation*, the authors pinpoint Recommendation 22: “Increase commercialisation capability in research organisations by establishing a new stream of funding for translational activities.” While the response of the Government was to support this recommendation in principle, it did not directly address how such commercialisation capabilities could be enhanced, other than to encourage the research sector to work together with business. According to the authors, what is required for any commercialisation of research and development (“R&D”) or other innovation is an understanding of what IP rights are created and how they can be exploited.

Hence, chapter two, “Overview of Intellectual Property Rights”, in which the authors discuss the protection in Australia of patents, copyright, trade marks, designs, circuit layouts, plant breeders’ rights and confidential information. The principles relating to ownership, licensing and

assignment of IP are also discussed. Chapter three, “Drivers of Innovation”, examines what propels innovation and commercialisation from an economic theory perspective and considers the role of IP rights within this context. Chapter four, “Issues Regarding the Development of Intellectual Property Rights”, focuses on the research and business sectors. The issue of ownership of IP created is examined from various viewpoints, including employer-employee arrangements for both public and private enterprises.

Part B’s three chapters examine various business considerations for commercialisation of IP. Chapter five, “Structures for Commercialisation”, discusses the advantages and drawbacks of the alternative legal structures available in Australia to bring a commercialised product or service to market. Structures used outside Australia, like those in the United States (“US”), the European Union and Japan, are also examined. Chapter six, “Funding Innovation and Commercialisation”, considers the different sources of capital available to innovative enterprises, including a variety of Australian Government initiatives. Chapter seven, “Commercialising University Research and Development”, examines the sources of research income for Australian universities and the various legal, policy and administrative frameworks that support the conversion of university-based research into commercial outcomes. It also addresses the growing expectation of university engagement with industry. According to the authors, Australia needs to learn from other countries that have more experience commercialising university R&D, such as the US.

Part C consists of three chapters that each examine licensing – considered by the authors as a fundamental form of commercialising IP. Chapter eight, “Licensing of Intellectual Property Rights”, provides an extensive overview of the different types of licensing agreements as well as the business considerations in negotiating a licence.

The chapter also provides guidance on the different stages of an IP audit and the review that should follow once an audit is completed. Chapter nine, "Drafting Licences", offers a practical overview of the key provisions in a licence agreement for commercialising IP, exploring the relevant issues to both the licensor and the licensee. Chapter 10, "Multimedia Licensing and Commercialisation in the Age of the Digital Entrepreneur", serves as a case study to illustrate the pertinent issues around licensing of IP, with a focus on copyright.

Part D's two chapters discuss issues related to what the authors term "ongoing operations and end-of-business-life issues". Chapter 11, "Security and Insolvency", examines the use of IP assets as collateral for secured finance and what happens when either an IP owner or a licensee become insolvent. Chapter 12, "Taxation Considerations in the Commercialisation of Intellectual Property", discusses the

tax implications of creating, using and then disposing of IP. Acknowledging the complexities of the Australian tax system, the chapter provides guidance on the questions that need to be asked of a tax advisor before starting any business venture. The need to consider tax early in the innovation process is emphasised, even prior to the creation of IP.

Commercialisation of Intellectual Property provides a straightforward and practical examination of the relevant issues related to the commercialisation and licensing of IP rights in Australia. It offers a comprehensive understanding of the varied legal, business and policy considerations relevant to Australian entrepreneurs and businesses in today's globalised economy. Its wide-ranging analysis gives an excellent overview of the IP rights created from R&D and innovation and how they can best be exploited. The book is suitable for students and academics in addition to legal and other professionals working with IP and its commercial exploitation.



Expressions of Interest

are invited from IP lawyers and writers

to contribute to the Profile Section of *Intellectual Property Forum*

Since 1997, *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.

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Current developments - Australia

IP AUSTRALIA

Martin Friedgut and Roseanne Mannion
Spruson & Ferguson

Patents

The Australian Intellectual Property Report 2019

IP Australia has released the *Australian Intellectual Property Report 2019* (the “Report”) highlighting trends in intellectual property (“IP”) activity in Australia.

For patents, the highlights of the Report are as follows:

- In 2018, IP Australia received 29,957 standard patent applications - up more than 3 percent from the previous year.
- Worldwide patent applications have been growing at around 8 percent annual growth between 2010 and 2016. Applications with IP Australia increased by 2 percent over the same period, ranking Australia eighth among Organisation for Economic Co-operation and Development (“OECD”) countries in terms of patent growth.
- Australian residents demonstrated faster growth (9 percent) in applications than non-residents (3 percent).
- Medical technology was the leading field for patent filings in 2018. Applications for biotechnology and pharmaceuticals also grew strongly. Civil engineering, on the contrary, saw a sharp decline.
- Over the past decade, provisional applications have been in decline in Australia - falling by around 3 percent per annum. They decreased by 5 percent in 2018, down to 4,954. Australian residents are overwhelmingly the primary users of this system, filing 96 percent of all provisional applications in 2018.
- Applications for innovation patents decreased in 2017, however they rebounded in 2018 - increasing by 24 percent - and now exceed the demand in 2015. Australian residents are the primary users of the innovation patent, accounting for 51 percent of all applications in 2018.
- Standard patent grants fell by 25 percent in 2018 from their level in 2017. The rate of decrease in grants was consistent across resident and non-resident applicant groups.

- Overseas applications by Australians increased by 1 percent in 2017, continuing the low growth observed in 2016.

Designs

The Australian Intellectual Property Report 2019

For designs, the highlights of the Report are as follows:

- The number of design right applications reached a record high in 2018, increasing to 7,816 from 7,708 in 2017. The 2018 growth rate in applications, being around 1 percent, is well below the 5 percent average annual growth experienced over the past decade.
- The share of applications filed by Australian residents has steadily decreased over the past decade, from 50 percent in 2009 to 40 percent in 2018.
- While non-residents accounted for a larger share of total applications in 2018, their applications fell by nearly 3 percent from their level in 2017. In contrast, resident applications increased by more than 8 percent in the same period.
- In 2018, the Locarno class to which the highest number of design applications was attributed was means of transport or hoisting with 8 percent of all class attributions going to this class. It encompasses all land, sea, air and space vehicles including their component parts and accessories. The second-ranked class was articles of clothing and haberdashery, which received slightly less than 8 percent of all class attributions.

Trade marks

The Australian Intellectual Property Report 2019

For trade marks, the highlights of the Report are as follows:

- Applications grew by approximately 4 percent in 2018 to a record 79,460.
- A total of 148,156 classes were nominated in the 79,490 applications filed.
- The most popular classes are class 9 (technological and electrical apparatus, computer software and hardware), class 25 (clothing, footwear and headgear), class 35 (advertising, retailing and business services), class 41 (education, training and entertainment) and class 42 (scientific and technological services).
- 59,984 trade marks were registered in 2018 which is an increase of approximately 4 percent from 2017.

- Non-resident filings increased by approximately 11 percent and resident filings were reduced by less than 1 percent.
- The share of non-resident applications is now 42 percent up from 32 percent in 2009.
- Direct applications increased by 1 percent and filings via the World Intellectual Property Organization's Madrid system increased by approximately 13 percent.
- The share of Madrid applications is now at its highest ever level at approximately 22 percent.
- The top five applications in Australia by country of origin ranked from one to five are Australia, United States ("US"), China, United Kingdom and Germany.
- Australian resident entities have also been busy filing applications with the latest data (2017) showing 18,356 applications filed overseas with the US being the top destination (3,754 applications) followed by New Zealand (2,745).

The Report also discussed whether Australia's trade mark register is cluttered with unused or overly broad marks that block the same or similar marks from being registered. The 2016 Productivity Commission inquiry had highlighted this issue but research conducted by IP Australia's Office of the Chief Economist has found that trade mark cluttering in Australia is not an immediate concern. Although the number of potential "cluttering marks" have been increasing, the current mechanisms for removing marks for non-use which are blocking later filed applications appear to be working effectively. The research paper is available from the Office of the Chief Economist.

New analytics platform

IP Australia has launched the "Intellectual Property Data Platform". This will enable researchers and policy makers to investigate and interrogate data to make decisions and to create economic and policy insights involving IP rights, trade and innovation. The platform currently contains all Australian IP data and international data on patents and trade marks allowing data to be compared within and across these data collections.

The "TM-Link" dataset available on the platform contains trade mark data from Australia, Canada, the European Union, New Zealand, the United Kingdom and the US.

Researchers, economists and analysts are invited to participate in a free trial of the platform. To register, visit www.ipdataplatfom.com.

CASES

Peter Heerey AM QC, Tom Cordiner QC & Alan Nash Barristers¹

In this edition, we consider disputes involving extracting metals from mining ores, adding metal to Commodores, and awarding medals for riding horses. And the *Lazer Safe* appeal.

Davies v Lazer Safe Pty Ltd

[2019] FCAFC 65

(26 April 2019)

Patents – construction – infringement – validity only if primary judge's construction was wrong

Greenwood, White and Burley JJ addressed an appeal by Kevin Davies from a finding by McKerracher J in May last year that Lazer Safe Pty Ltd ("Lazer") did not infringe various claims of their patent for "A Safety System" (the "patent") applied to machinery with moving parts such as a press brakes – stopping the movement of the parts when an obstacle is detected in the path of the moving part. McKerracher J had also dismissed a cross-claim by Lazer for invalidity of the asserted claims which Lazer cross-appealed, but only if the Full Court of the Federal Court of Australia (the "Full Court") found McKerracher J had erred in finding the asserted claims were not infringed.

The primary issue in the appeal concerned the findings made by McKerracher J in relation to the construction of claim 1 of the patent, the construction of which meant Lazer did not infringe. While the Full Court agreed with his Honour's conclusion as to infringement of claim 1, they disagreed with some aspects of how his Honour reached that conclusion. Those errors are the focus of this note.

The patent commences by identifying how prior art safety systems included the use of light beams which, when disturbed by an obstacle, would cause the moving parts of a machine to stop moving. The difficulties identified with such prior art systems included "the need to re-align the light beams when tools are changed, and the possibility that an operator may move his or her hand under the tool just as the beams are deactivated. Also, as with light curtains, all parts of the work must be kept clear of the beams, because operator confirmation is required every time a new obstruction is encountered." The patent stated that the invention sought to overcome at least some of these difficulties.

Claim 1 (with the various integers identified by numbers) is to:

"(1.1) A safety system for use with a machine having a moving part arranged to move through a known path of movement, the safety system characterised by comprising: (1.2) at least one light emitting means arranged to emit light; (1.3) the

axis of the emitted light being generally perpendicular to the path of movement of the part such that a region including at least a portion of said path is illuminated; (1.4) at least one light receiving means arranged to receive light from the or one or more of the light emitting means which has passed through said region; and (1.5) a processing and control means arranged to receive image information from the light receiving means and thereby recognise the presence of one or more shadowed regions on the light receiving means cast by obstructions in the region; (1.6) wherein the illumination of the region is such that the processing and control means has sufficient image information to determine the boundaries of the or each shadowed region and control movement of the part dependent on said image information.”

The debate on infringement concerned the construction of integers 1.5 and 1.6. Readers may recall from our note on the primary judge’s decision that Davies asserted that claim 1 did not require the shape of an obstruction to be determined and did not require a comparison with a stored image. Lazer’s position, accepted by McKerracher J, was that the claim required the system to determine the shape of any obstruction and compare that against stored images and thereby control the movement of the part based on the determination of identification of the shape of the obstruction. His Honour did so by noting that his preferred dictionary meaning of “recognise” is “to know again; perceive to be identical with something previously known” and then pointed to descriptions of systems in the patent which required identification of specific shapes of the obstruction.

However, as the Full Court observed, to adopt that meaning is to set to one side the words “the presence of” that immediately follow the word “recognise”. That is, if one recognises the “presence of” something that does not necessarily mean one recognises what that thing is. Their Honours therefore preferred another dictionary meaning of “recognise” being simply “to perceive as existing” rather than as inviting comparison with something previously known. Furthermore, the Full Court considered that the primary judge relied on a preferred embodiment of the invention to construe the claim, when the patent made clear there were four methods by which a shadow of the obstruction might be perceived, only two of which required the shape of the shadow to be recognised. Accordingly, McKerracher J fell into error by adding limiting glosses to the clear and broad words of the claim.

However, luckily for Lazer, that was not the end of the matter. There remained one issue of construction of integer 1.6, where McKerracher J held that, even if the system need not recognise the shape of an obstruction, because a “boundary” must enclose “a region or area, extending around the entire perimeter of an object”, claim 1 “requires the boundary determination of an obstruction claimed by recognising a realistically substantial portion or part of the shadowed region, so as to determine a sizable portion of the

outline or shape of the obstruction, in contrast to a dot, spot, point or edge of any such region.” Lazer’s product did not determine a sizable portion of the outline of any obstruction.

The Full Court identified the construction issue in relation to this aspect of integer (1.6) as: what is meant by the requirement that the illumination of the region is such that the processing and control means has “sufficient image information to determine the boundaries of the or each shadowed region”? The Full Court concluded that the processing means must have sufficient information to be capable of controlling the movement of the part dependent on identifying the bounds or limits of the shadowed region. Put another way, integer 1.6 required the system to first determine the boundaries of the, or each, shadowed region, and secondly, control movement of the part dependent on the image information. The word “boundaries” has no antecedent in the language of the specification and is to be understood as requiring identification of a realistically substantial portion or part of the shadowed region so as to determine the outline or shape of the obstruction.

Finally, the Full Court reiterated that, even if a construction leads to redundancy with respect to other dependent claims, that does not mean the construction must be wrong – the latter claims may simply be poorly drafted.

GM Global Technology Operations LLC v S.S.S. Auto Parts Pty Ltd

[2019] FCA 97

(11 February 2019)

Designs – infringement – defences – use of a component part of a complex product for the purposes of repair – proof of knowledge that a part to be used for a non-repair purpose – unjustified threats – whether potential availability of repair defence to be taken into account

As Justice Burley astutely observes in the opening paragraph of this decision, “car enthusiasts, particularly young men, like to upgrade, enhance or ‘up-spec’ the appearance of their standard vehicles to make them look different and, in their view, better”. His Honour is to be commended for avoiding the phrase “pimp my ride”. Apparently this is a desire particularly prevalent among drivers of Holden Commodores. Like the decorator crab, these young drivers add to their modest vehicles parts designed for more expensive Holden models, much to the disapproval of owners of genuine HSV and VE Commodores. The applicant (for simplicity, GMH) implements controls over the sale of HSV and VE parts with a view to discourage drivers of humbler Holdens from using such parts as a form of automotive bling.

But looks matter more than substance to these young drivers: there exists a trade in replica body parts for HSV and VE models that lack GMH’s quality controls. In 2013, GMH traced the source of these replica parts to the respondents (collectively S.S.S. Auto Parts), and sent letters of demand to S.S.S. Auto Parts and its direct customers (parts resellers)

alleging infringement of designs registered under the *Designs Act 2003* (Cth) (the “Act”).

It was not in dispute that GMH’s parts fall within section 71 of the Act. S.S.S. Auto Parts relied, however, on the relatively untested section 72 of the Act as providing a complete defence. That section provides that certain repairs do not infringe registered designs. S.S.S. Auto Parts also cross-claimed for unjustified threats, based on GMH’s letters of demand.

The structure of section 72 is worthy of note. In particular, under section 72(1), the use or authorisation of a product that embodies a registered design does not infringe that design if (a) the product is a “component part” of a “complex product” (a matter not in dispute in this case), and (b) the use or authorisation is for the purpose of the “repair” of the complex product so as to “restore” its “overall appearance” in whole or part (for convenience, the “repair purpose”). Section 72(5) provides an inclusive definition of “repair” that includes restoring or replacing a “decayed or damaged component part” of the complex product or “necessarily replacing incidental items” in the course of such a restoration or replacement, and carrying out maintenance on the complex product. Section 72(3) elaborates on the application of the “repair purpose” by specifying that repairs that (a) result in the complex product having an overall appearance immediately after the repair that is not materially different from its original appearance, or (b) result in a material difference in overall appearance that is solely attributable to the fact of repair, both satisfy the repair purpose so far as it relates to overall appearance in “whole” or in “part” respectively. The standard of the “informed user” is to be applied when considering section 72(3): section 72(4).

Prima facie one might expect that supply of replica car parts to cater to the vanity of financially challenged car enthusiasts has little to do with the statutory definition of “repair” (or the ordinary meaning of the word, for that matter). Indeed, the purpose for some users of S.S.S. Auto Parts’ products was not to restore their vehicle’s original appearance, but to alter it. However, section 72(2) provides that where a respondent invokes the defence afforded by section 72(1), “the registered owner of the design bears the burden of proving [the respondent] knew, or ought reasonably to have known, that the use or authorisation was not for the [repair purpose].” Accordingly, the onus fell on GMH to prove that S.S.S. Auto Parts knew, or should have known, that its replica parts were not going to be used to repair (in the relevant sense) HSV or VE Commodores.

Of more than 1,000 transactions pleaded by GMH as infringement by selling, 26 representative transactions were the subject of detailed evidence. Of these, GMH succeeded in discharging the burden of proof imposed by section 72(2) in relation to a small number. In the main, GMH’s lack of success overall reflected what his Honour described at [24] as GMH’s “unrealistic expectations as to

what individuals (whose knowledge could be attributed to an S.S.S. party) knew or ought reasonably to have known about a transaction”.

For example, GMH was only able to identify a very small number of S.S.S. Auto Parts’ other products as being promoted for customisation rather than repair (none of these covered by registered designs) and isolated incidents of junior salespeople at S.S.S. Auto Parts observing that some VE Commodore products might also fit lower specification vehicles. His Honour declined to find that there was a general view within the S.S.S. Auto Parts businesses that their relevant aftermarket parts were intended for anything other than repair.

Further, S.S.S. Auto Parts’ witnesses gave positive evidence that the business had a policy of selling parts for repair only. Although some of those witnesses conceded that some of S.S.S. Auto Parts’ customers might not use its products for that purpose, that did not make good GMH’s case. His Honour noted at [82] that section 72 does not require a party to “maintain control over the part after its importation, sale or keeping to make sure it is ultimately applied to a vehicle for repair or to track the progress of goods it sells through the supply chain”. The focus is on the intention of the importer or seller, not the buyer.

In addition, after GMH’s initial letters of demand but before litigation commenced, S.S.S. Auto Parts made the repair focus of its business explicit. For example, it began including express statements to its customers that its products were for “repair only”, initially on invoices and later also on the outer packaging and labelling of its products. A directive to the same effect was circulated to S.S.S. Auto Parts sales staff, including a script for dealing with customers who obviously intended to use a product for customisation rather than repair.

The cross-claim by S.S.S. Auto Parts for unjustified threats under section 77 of the Act also met with limited success, however. The thrust of S.S.S. Auto Parts’ argument was that GMH’s letters of demands to it and its resellers were unjustified primarily because of the operation of section 72: GMH lacked evidence to discharge its onus under section 72(2) to prove the parts were being supplied for a non-repair purpose, especially since in most cases the relevant parts had yet to be applied to an end-user’s vehicle.

Under section 78 of the Act, relief may be granted in respect of a threat unless the respondent (in this case, GMH under the cross-claim) satisfies the Court that the relevant acts infringe, or would infringe the registered design. The flaw in S.S.S. Auto Parts’ argument was that but for the application of section 72, the relevant acts of the recipients of GMH’s letters of demand would infringe GMH’s designs. It is not enough that the infringing articles are potentially a component part of a complex product to which section 72 might apply; section 72 only applies if a purported infringer invokes that section as part of infringement proceedings. His

Honour held at [560] that the “evident legislative intention is that a registered owner is not expected to assume that the repair purpose will be asserted.”

Accordingly, S.S.S. Auto Parts’ success on its cross-claim was limited to a small subset of threats in GMH’s letters of demand that related to designs that had never been certified. The matter now continues for hearing in relation to the application of his Honour’s findings on the representative transactions to the remaining transactions and what declaratory, injunctive and pecuniary relief, if any, should flow from his Honour’s findings.

SNF (Australia) Pty Ltd v BASF Australia Ltd

[2019] FCA 425

(27 March 2019)

Patents – appeal from decision of the delegate – lengthy trial and voluminous evidence – alternative dispute resolution mechanisms

The tailings dam patent saga continues. Astute readers of this journal will no doubt recall the numerous case notes of SNF’s tales of woe.

First, in 2008, SNF sought revocation of Ciba’s (BASF’s predecessor in title) five innovation patents and Ciba cross-claimed for infringement. In 2011, Kenny J found the innovation patents valid and infringed: *SNF (Australia) Pty Ltd v Ciba Speciality Chemicals Water Treatments Ltd* [2011] FCA 452; (2011) 92 IPR 46.

Next, SNF appealed that decision to the Full Court, where a majority dismissed the appeal: *SNF (Australia) Pty Ltd v Ciba Speciality Chemicals Water Treatments Ltd* [2012] FCAFC 95; (2012) 204 FCR 325. SNF then sought special leave to appeal to the High Court of Australia, which was refused.

Then in 2014, SNF filed an interlocutory application seeking to re-open the 2008 proceedings and Kenny J’s judgment therein on the basis that Ciba had failed to give proper discovery which, if it had been provided, would have enabled SNF to argue that the innovation patents were invalid by reason of secret use. That application was dismissed by Davies J in 2015: *SNF (Australia) Pty Ltd v Ciba Speciality Chemicals Water Treatments Limited* [2015] FCA 787; (2015) 114 IPR 231. SNF then sought leave to appeal that decision, but the Full Court refused such leave: *SNF (Australia) Pty Ltd v Ciba Speciality Chemicals Water Treatments Ltd* [2016] FCAFC 88.

In the meantime, two of Ciba’s standard patent applications, related to the innovation patents, continued to be prosecuted through the Patent Office. SNF opposed the acceptance of the applications for grant on the basis that the claims lacked an inventive step and the inventions had been secretly used (SNF now having its chance to run the secret use case it could not against the innovation patents). In one of the Patent Office oppositions, some 38 declarations were filed by the parties.

SNF finally obtained some success with the Delegate of the Commissioner observing in 2016:

The patent application is about flocculation – the use of a chemical to cause particles to clump together. The case brings to mind a word that looks a bit like flocculation: floccinaucinihilipilification (the estimation of a thing as valueless). For the reasons set out at length in the following pages, the invention lacks an inventive step but cannot be simply characterised as a thing of no value.

While various claims of the two standard patent application were found by the Delegates to lack an inventive step, not all claims were found bad, there was no finding of secret use and Ciba was given an opportunity to amend. Accordingly, SNF appealed the two Patent Office decisions set out in *SNF (Australia) Pty Ltd v Ciba Specialty Chemicals Water Treatments Limited* [2016] APO 8; and *SNF (Australia) Pty Ltd v Ciba Specialty Chemicals Water Treatments Limited* [2016] APO 72. Unsurprisingly, Ciba (now BASF) cross-appealed.

Justice Beach was assigned the appeals in 2016. First of all, BASF amended the claims in dispute in such that all of the delegates’ concerns were met. That left SNF’s appeals to be determined as the amendments did not deal with its concerns.

His Honour’s reasons for judgment ran to 1784 paragraphs. In the end, SNF failed in establishing lack of inventive step, secret use or lack of novelty for any of the claims. Rather than seek to address Justice Beach’s perspicacious and detailed consideration of the underlying technology, evidence and submissions, it is the last paragraph of the decision which has already gained some notoriety amongst practitioners and perhaps bears the most interest for them:

Let me conclude with one final observation. The hearing of these appeals has not proceeded smoothly. The three weeks initially set aside for the hearing turned out to be inadequate. The hearing had to be adjourned over for a further week of evidence months later, and then further adjourned for several days of closing addresses. The substantial adjournments were necessary to accommodate the other significant commitments of counsel, witnesses and the Court. I make no criticism. It is what it is. But the sheer length, complexity and delays involved in these appeals does give cause to reflect on the following questions. Should appeals of this type be permitted to proceed as rehearings de novo allowing the parties to run any ground they like, whether raised before the delegate or not, and upon any evidence they choose, whether adduced or available to be adduced before the delegate or not? Or should they be permitted to proceed only upon the grounds and evidence led before the delegate with truly fresh evidence only being permitted in exceptional circumstances? Or should there be no appeal at all from the decision of the delegate, but only judicial review permitted demonstrating jurisdictional error? Or should there be an appeal for error of

law only, and perhaps only with leave? Now these are policy questions, and legislative amendment would be necessary. But on any view it is not sufficient to tinker with the problem by fiddling with the standard of proof, which provided no real solution to deal with the length and complexity of what unfolded before me, notwithstanding the case management techniques available. But perhaps a more robust approach can be taken. One solution may be to put the parties on a chess clock to limit a hearing of the present type to 5 days rather than 5 weeks. And instead of 20 volumes of double-sided material as the standard length of a court book, this could be severely confined. Further, perhaps it is time for appellate courts to show some guidance in permitting short form reasons. Anyway, these reasons should not be further drawn out.

Reading between the lines, one can appreciate a certain frustration arising from a failure of the *Intellectual Property Laws Amendment (Raising the Bar) Act 2012* (Cth) to address what was considered a central problem with the patent opposition system – the length of time and complexity of oppositions. Justice Beach’s perceptive comments fall into two categories: those which can be effected by the Court’s internal procedures and those requiring legislation.

The former, as his Honour suggests, is likely to provide more immediate improvement. In this regard, some of the solutions identified by Justice Beach have indeed found favour in other jurisdictions, such as the “chess clock” attribution of time over a five-day trial period. The chess clock procedure seems worth trying. Presumably the parties would need some input into the times fixed. Since the natural tendency would be for the parties to put opening bids, the Court should be prepared to be robust. As the maxim reminds us, work tends to expand to fill the time allotted for it. Necessarily, the extent of evidence also would need to be reduced and agreement as to non or less-contentious facts would be required to achieve such timelines in cases like this.

Justice Beach’s suggestion that the appellate court indicate that short form reasons should suffice is unlikely to address the length and complexity of opposition proceedings, but may bring about a quicker result in terms of the time it takes for judgment. While it may be noted that Beach J handed down this tome in just four months, it seems to us that, the need to only provide short-form reasons would reasonably be expected to speed up the final determination of all matters in the Court.

As to documents, while 20 or so volumes may need to be available, a useful practice adopted by some prominent intellectual property counsel has been to hand up a relatively small folder, say a few dozen pages, containing the documents which are actually going to be the subject of oral discussion.

But the Courts can only do so much and it will be interesting to see whether parliament will take up the invitation to revisit the patent opposition system, as suggested by his Honour.

And in other news:

- Mr Douglas, the former designer of medals awarded by Racing Victoria each year to outstanding jockeys and trainers, has failed in his claims of copyright infringement, breach of contract, misleading and deceptive conduct and fraudulent concealment against Racing Victoria. The medals in question depict the three racing celebrities after whom they are named: Scobie Breasley; Tom Corrigan; and Fred Hoysted. Douglas supplied the medals to Racing Victoria until 2003, at which time Racing Victoria began sourcing the medals from a different supplier. Douglas claimed that those new medals infringed his copyright in the artistic works comprised in the original medals; that first dispute was settled (without admission of liability by Racing Victoria). In 2008 Racing Victoria changed suppliers again (this time with a specific brief to design medals different to those produced by Douglas); the present case involved Douglas’s claims that those new medals nevertheless also infringed his copyright. His claims failed at every hurdle, however. Not only did Kelly J find that there had been no copying by Racing Victoria, Douglas’s other claims were not substantiated and, in some cases, were statute barred.

To add insult to injury, his Honour held that Douglas was not the owner of copyright in the original medals he supplied; the relevant intellectual effort was performed by a contractor and the copyright had not been assigned to Douglas.

In relation to costs, his Honour declined to award Racing Victoria its costs on an indemnity basis, but did order that Racing Victoria’s costs be taxed under the scale in the *Federal Court Rules 2011* (Cth): ***Douglas v Racing Victoria Ltd & Anor* [2019] FCCA 49** (primary decision) and ***Douglas v Racing Victoria Ltd & Anor (No.2)* [2019] FCCA 715** (costs).

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

Taryn Lovegrove

Davies Collison Cave

Notaras v Barcelona Pty Limited [2019] FCA 4

Coffee machines, coffee cups, coffee, coffee roasting, coffee bar ... While coffee is a common theme, Justice Robertson decided this was not sufficient to make these items goods or services of the same kind or related, in recent Federal Court of Australia (“Federal Court”) proceedings.

Ms Irene Notaras imported and sold coffee machines under the ATOMIC brand since 1964 under an exclusive licence from the Italian designer and inventor Mr Giordano Robbiati. She subsequently also became the manufacturer of the ATOMIC coffee machines for the Australian market. For a short period of time she sold cans of coffee branded ATOMIC, but this ceased in 1972.

Ms Notaras had registrations for the word ATOMIC (since 2002) for coffee percolators, coffee makers and coffee machines in class 21, and



(since 2009) for stove top coffee makers, also in class 21.

Barcelona Pty Ltd (“Barcelona”) opened ATOMIC cafes in Western Australia in 2005, the name of which was inspired in part by the 1940s Italian ATOMIC coffee machines created by Mr Robbiati but also the Atomic Age design era from the 1940s to 1960s. Cafe owner Mr Michele De Marte gave evidence that he only became aware that ATOMIC machines were still being sold in Australia a few years after he first opened his cafe when he walked past Ms Notaras’ Sydney shopfront. In 2015, Barcelona sought registration of its ATOMIC trade mark (application no. 1686087) in classes 16, 21, 29, 30, 35, 40 and 43 for various goods and services including coffee cups, coffee, coffee grinding, coffee roasting, cafes and restaurant services.

Ms Notaras opposed Barcelona’s application to register the ATOMIC trade mark on the following grounds (among others):

- the applied for trade mark is substantially identical or deceptively similar to Ms Notaras’ prior registered trade marks in respect of similar or closely related goods (s.44 *Trade Marks Act* 1995 (Cth));
- Barcelona is not the owner of the trade mark (s.58 *Trade Marks Act* 1995 (Cth)); and
- the use of Barcelona’s mark would be likely to cause deception or confusion in the marketplace because of Ms Notaras’ prior reputation in the ATOMIC trade

marks in Australia at the date of filing (s.60 *Trade Marks Act* 1995 (Cth)).

Ms Notaras was unsuccessful before the Trade Marks Office and appealed the decision to the Federal Court on the basis of the three grounds set out above.

Despite the marks containing the word element ATOMIC and relating in some way to coffee, Justice Robertson concluded that coffee cups, coffee, coffee roasting and cafe services were not goods and services of the same kind as coffee machines for the purposes of the s.44 opposition, despite some minor overlap in trade channels. Irrespective of that finding, the Court found Barcelona would have been able to establish honest concurrent use. Further, while Barcelona was inspired by Mr Robbiati’s ATOMIC coffee machines when choosing the cafe name, this did not amount to dishonest adoption.

In considering whether Ms Notaras was the owner of the trade mark in relation to the goods and services covered by the Barcelona application for the purposes of s.58, given that the evidence established that Ms Notaras ceased using the ATOMIC trade mark in relation to ground coffee in the 1970s, Robertson J concluded that Ms Notaras abandoned her common law rights in the mark in relation to those goods. Providing unbranded coffee samples with the purchase of a coffee machine to demonstrate the required consistency of the grind was held not to constitute use of the trade mark in trade or commerce for coffee.

Finally, turning to whether the use of Barcelona’s mark would be likely to cause deception or confusion for s.60 purposes, it was determined that although Ms Notaras had a reputation in the ATOMIC trade mark before the priority date, this related solely to coffee machines. Furthermore, considering the stark difference in retail price between coffee machines and coffee goods and cafe services, there was unlikely to be any deception or confusion arising out of Barcelona’s use of their ATOMIC trade mark in relation to their goods and services of interest. This was particularly given Ms Notaras’ sales in Western Australia (the cafe’s locations) were minimal and no instances of confusion were identified.

Consequently, Ms Notaras’ appeal to the Federal Court was unsuccessful, the Barcelona ATOMIC trade mark was registered and the trade marks now co-exist not only in the marketplace (as they have for 14 years), but also on the Trade Marks Register.

Dr Dimitrios Eliades

Barrister²

In this edition, I consider a first instance decision of Justice Greenwood dated 15 March 2019, in relation to copyright and trade mark infringement claims and a cross claim for revocation of the trade marks in suit on the basis on non-use. The case has a common respondent in Redbubble Ltd (“Redbubble”), with the decision of Justice Pagone in *Pokémon Company International, Inc. v Redbubble Ltd* [2017] FCA 1541 (“*Pokémon*”). In general terms, that commonality arises due to the business model adopted and implemented by Redbubble through its website www.redbubble.com (“Redbubble website”).

Redbubble filed a Notice of Appeal in *Pokémon*. Orders were also made by Kenny J on 20 March 2018 to stay the *Pokémon* appeal pending the determination of this proceeding, whereupon if an appeal is filed in this proceeding, the two appeals will be dealt with together for further directions as to their conduct.

Hells Angels Motorcycle Corporation (Australia) Pty Limited v Redbubble Limited

[2019] FCA 355

[15 March 2019]

Background

The applicant (HAMC Aust.), claimed to be the authorised user under the *Trade Marks Act* 1995 (Cth) (“*Trade Marks Act*”) s.8, in respect of the trade marks in suit, and the exclusive licensee of the copyright in an image referred to as the “Membership Card,” which comprised the words “Hell’s Angels”, “Membership Card” and included the image of a side view of a human skull with wings or headdress emanating from a helmet shape as depicted below.

HAMC Aust. claimed its rights to enforce the copyright in the works under a written agreement titled “Exclusive Licence” from the Hells Angels Motorcycle Corporation (HAMC US), the second respondent in the proceeding as it was the registered owner of the trade marks in suit: *Trade Marks Act* s.26(2).

HAMC US had filed a submitting notice under the *Federal Court Rules* 2011 (Cth) r.12.01 in November 2015, and although the cross-claim for revocation was brought against HAMC US, HAMC Aust. opposed the application pursuant to s.96 of the *Trade Marks Act*.

His Honour set out certain characteristics as to the functionality and operation of the Redbubble website [2]–[4]. Relevantly, Redbubble operated the Redbubble website, which enabled an artist, or anyone seeking to appropriate another person’s works or trade marks for their commercial gain, to upload an image, drawing, photo or design, name, mark or sign. The uploading was subject to Redbubble’s protocols which were designed to manage the conduct of

uploaders. Redbubble had a pre-determined list of products from which the uploader could choose to have their uploaded image applied to, such as T-shirts, mugs, phone covers or pillows. Consumers could search the Redbubble website by using keywords or tags to locate an image or images they may wish to have applied to a product from the product range selected. Once a consumer placed an order for a particular image on a particular product, the Redbubble website caused a particular third-party manufacturer or fulfiller, from Redbubble’s pre-selected fulfillers, to apply the image to the selected product and fulfil the order. The product order, fulfillment, despatch, tracking and delivery were all part of the functionality and features of the Redbubble website.

Redbubble also had a portfolio of trade marks registered in respect of products, which included the products Redbubble selected to make available to the uploaders to choose from. One or more of these trade marks appeared on order confirmation notices, on progress tracking of the order, on the packaging of the product on delivery, and also on swing tags attached to a garment.

Redbubble claimed that it was not the seller of the products, as HAMC Aust. contended. Instead, Redbubble said it acted as agent of the artist/uploader [5]. Further, it contended it set up adequate warnings to persons wanting to upload images, in the registration process through documents such as the user agreement, which warned uploaders not to infringe intellectual property (“IP”) rights of third parties and provide Redbubble with an indemnity against actions by such IP rights holders [245]–[246]. The uploaders were not joined by Redbubble to the proceeding.

HAMC Aust. also pleaded a case under the *Australian Consumer Law* but did not develop this claim by evidence or submissions at trial [546].

Copyright

The works

In its copyright case, HAMC Aust. initially relied on two works. The Membership Card, which HAMC Aust. said was created in 1954 by a person identified as “Sundown” and a subsequent image, created in 1983 an artistic work described as the “current Death Head design”.





HAMC Aust. accepted that there was no assignment (or no evidence of an assignment) in writing vesting the legal title to the copyright in HAMC US in respect of the Membership Card [18]. Redbubble submitted that HAMC Aust. had not established originality in the current Death Head design.

The technological timing of any copyright infringement claim

Redbubble pleaded that an order by a consumer would automatically “bounce” from the Redbubble website to servers held in the United States. Redbubble contended that HAMC Aust. failed to identify precisely, in terms of the technology, at what point in the ordering and fulfilment process an infringing step occurred, thereby enabling the question of authorisation of an infringement to be properly considered [9].

HAMC Aust. contended that Redbubble had directly infringed the copyright in the Membership Card image by communicating the work to the public and by reproducing the work in a material form, although HAMC Aust.’s case really focussed on the infringement of the copyright by exercising the communication right. Alternatively, HAMC Aust. argued that Redbubble authorised the infringement, by the uploader, of each work said to be a communication to the public of the work in suit by the “artist” or is said to have authorised a reproduction of the work by the artist. Further, and in the alternative, Redbubble and the uploader were joint tortfeasors in relation to the acts of copyright infringement [406].

Section 34 defence

The relevant iteration of the *Copyright Act 1968* (Cth) (“Copyright Act”) included s.34 as at December 2015. This section provided that in the case of anonymous and pseudonymous works, copyright subsisted until the expiration of the period of 50 years after the expiration of the calendar year in which the work was first published. However, this did not apply where, at any time before the expiration of the 50 years, the identity of the author of the work “is generally known” or “can be ascertained by reasonable inquiry”: s.34(2).

The rights held as at 31 December 2004 were material because the *US Free Trade Implementation Act 2004* (Cth) commenced operation on 1 January 2005, and this increased the term of protection from 50 years to 70 years. Therefore, if Sundown’s work was first published anonymously or pseudonymously prior to 31 December 1954, the subsistence of copyright in the work ended on 31 December 2004, unless one of the exceptions in s.34(2) applied.

Redbubble said that Sundown’s identity was not generally known in the period contemplated by s.34(1) and his identity could not have been ascertained by reasonable inquiry. HAMC Aust. contended otherwise. A further related issue involved publication within the meaning of the Copyright Act s.29(1)(a). Redbubble submitted that the Membership Card was published in 1954 because reproductions of the work were supplied “to the public”. HAMC Aust. submitted that the Membership Card was not supplied to the public but used only between members.

Exclusive license to copyright in works

Hells Angels Sydney was appointed on 1 July 1987 as a non-exclusive licensee of certain trade marks. The exclusive rights were said to arise under an agreement of 14 May 2010, which was said to supersede the 1987 license. The relevant terms are set out in his Honour’s reasons [333]–[340].

Trade marks

The claims

HAMC Aust. relied upon the Australian registered trade marks [37]–[43]. These were:

- 526530 registered in class 16 and being a composite mark of the words “Hells Angels MC” and an image of a side view death head;
- 723219 for the words “HELLS ANGELS” registered in Classes 14, 16, 25 and 26.
- 723463 registered in classes 14, 16, 25 and 26 for the following image:



- 1257992 for the words “HELLS ANGELS” registered in Classes 14, 16, 25 and 26; and
- 1257993 for an image of a side view death head registered in classes 14, 16, 25 and 26.

At trial, HAMC Aust. presented three T-shirt designs and one poster. The products bearing the images are reproduced as Examples one to four: [44]–[45]. Examples one to three were the subject of trap purchases by HAMC Aust., whilst Example four was not sold, but was viewed 11 times on the Redbubble website [51].

HAMC Aust. claimed that Redbubble has, by reason of the way the Redbubble model functioned and operated, used a sign as a trade mark, which was substantially identical with or deceptively similar to one or more of the trade marks in suit, within the meaning of the *Trade Marks Act* s.120. HAMC Aust. pleaded in the alternative, that Redbubble and

the uploader were joint tortfeasors. Redbubble said it was not “using” the trade marks as HAMC Aust. contended, and that other elements of s.120 were not made out.

Authorised user

The *Trade Marks Act* s.8(1) provides that a person is an authorised user of a trade mark if the person used the trade mark in relation to goods or services “under the control of the owner of the trade mark”. Financial and quality control are given in s.8(3) as indicia which could establish such control. However, s.8(5) specifically states that these indicia do not limit the meaning of the expression “under the control of” in s.8(1).

The issue was whether the control HAMC US exercised over HAMC Aust. in relation to the trade marks in Australia, was control in a practical or a theoretical sense [382]; *Lodestar Anstalt v Campari America LLC* (2016) 244 FCR 557 referred to.

Cross-claim for revocation of the trade marks

Redbubble also crossclaimed for revocation of the registered trade marks in suit on the ground of nonuse [71]. Greenwood J dealt with this in the reasons as a separate matter, as HAMC Aust. had presented a substantial amount of evidence of its use within the non-use period and for a considerable time before and after it, being matters relevant to any discretion which might arise under s.101(3) of the *Trade Marks Act*.

Decision

Greenwood J determined:

- in relation to copyright:
 - according to Australian law, there had been no assignment in writing from Sundown to members of the HAMC US of copyright in the Membership Card [111];
 - if legal title to the copyright had been established in HAMC US, copyright infringement would have been established as Redbubble by its business model, made available online the designs and thus communicated the works in Australia, notwithstanding the path taken by the images was via the United States [436];
 - Sundown was a person who could reasonably be ascertained, which defeated the defence under s.34 of the *Copyright Act* [159];
 - HAMC Aust. was an exclusive licensee of the copyright in the works, if ownership has subsisted [375];
 - issuing a Membership Card with the Sundown image endorsed upon it to members of the HAMC US was not a supply of reproductions of the work “to the public” for the purpose of s.29(1); and

- the current Death Head design was “simply a derivative standardised version of the earlier Membership Card image” [123].
- in relation to trade mark infringement:
 - Redbubble was “using” the registered trade marks within its own business and revenue model, in the course of its supplyside transactional trade effected through the Redbubble website, in relation to the supply of goods (T-shirts) bearing the marks, in respect of which the HAMC USA trade marks, relevant to Examples one, three and four were registered [468]–[474].
 - one image, Example two, did not amount to “use” as a trade mark by either the artist or Redbubble of any of the relevant HAMC US registered trade marks, in connection with goods for which the trade marks were registered [470]; and
 - HAMC Aust. was an authorised user under s.8 of the *Trade Marks Act* [402].
- In relation to the cross-claim for revocation of the marks, this action failed save for one category [531]–[533]. For that one non-use, sporting goods, his Honour exercised his discretion not to remove it from the Register [532]–[535].

2 Barrister, Queensland. Dr Dimitrios Eliades appeared for Hells Angels Motorcycle Corporation (Australia) Pty Limited in *Hells Angels Motorcycle Corporation (Australia) Pty Limited v Redbubble Limited* [2019] FCA 355.

Current Developments – New Zealand

Andrew Brown QC

Auckland

Correspondent for New Zealand

Case law developments

International Consolidated Business Pty Ltd v S C Johnson & Son Inc

Court of Appeal of New Zealand, Kós P, French and Brown JJ

23 August 2018 – 19 March 2019

[2019] NZCA 61

Trade marks – registrability – ownership – whether an application for a trade mark may be made on a date when an identical, pre-existing registration for that trade mark exists on the register.

Facts

International Consolidated Business Pty Ltd (“ICB”) owned trade mark registration 648953 ZIPLOC in class 16 (the “ICB registration”). The ICB registration was removed from the register on 26 June 2014 after S C Johnson & Son Inc’s (“Johnson”) applied for its removal for non-use. The effective date for the registration’s removal was 22 April 2013, being the date on which Johnson’s application was made.

On 19 April 2013, three days before it made its application to remove registration 648953, Johnson filed trade mark application 975954 for ZIPLOC in class 16 (the “Johnson application”). On 26 September 2014, three months after registration 648953 was removed, ICB filed its own, new application for ZIPLOC in class 16 (the “ICB application”). ICB then opposed the Johnson application on the grounds that Johnson could not own the trade mark under s.32(1) of the *Trade Marks Act 2002* (the “Act”) given ICB’s existing registration.

The Assistant Commissioner of Trade Marks (the “Assistant Commissioner”) upheld the opposition on two grounds.

First, when Johnson applied for the Johnson application on 19 April 2013, the ICB registration was still on the register. ICB was accordingly the “owner” of the ZIPLOC trade mark in class 16 (even though its registration had subsequently been removed three days later).

Secondly, ICB pointed to its use of the ZIPLOC trade mark prior to any use by Johnson and prior to Johnson’s application for registration on 19 April 2013.

On appeal to the High Court of New Zealand (the “High Court”), Cull J ruled that the effective revocation date of ICB’s registration 648953 was 19 April 2013: *S C Johnson & Son Inc v International Consolidated Business Pty Ltd* [2017] NZHC 3238. Her Honour considered that holding ICB

to be the true owner of the ZIPLOC mark as at 19 April 2013 when its registration would be revoked three days later for non-use “defies logic, common sense and the purpose of the Act” [124]. The Judge therefore quashed the Assistant Commissioner’s finding that ICB was the owner of the ZIPLOC trade mark on 19 April 2013, i.e., the first ground referred to above. Her Honour referred the proceeding back to the Commissioner of Trade Marks (the “Commissioner”) for determination of the second issue, whether in light of that finding whether ICB or Johnson was the true owner of the trade mark ZIPLOC.

Held

A. *Did the High Court err in treating 19 April 2013 as the effective revocation date of the ICB registration?*

(i) The Judge was wrong to treat 19 April 2013 as the effective revocation date of the ICB registration [45]. There was no factual foundation for the exercise of the discretion under s.68(2)(b) of the Act to deem an earlier revocation date than the date for the application for revocation [44]. Further, there was not even jurisdiction to consider that question, which would have been properly considered in the context of the revocation decision, not the existing opposition [44].

B. *Was the presence on the register of the ICB registration on 19 April 2013 a bar to Johnson’s application for registration on 22 April 2013?*

(i) This issue turned on whether in 2002 the Act changed the law, which had previously permitted the filing of an application to register a trade mark prior to an application for removal of the same or similar pre-existing trade mark registration [48]. Before the 2002 Act, it was established that a trade mark registration was not revoked until the order for its revocation was made [49]. It was an established practice that an aspiring owner of a trade mark would apply for that trade mark in anticipation of a successful application for revocation [51]. If it were otherwise, the applicant would have to re-apply after being advised during the examination process that its application was blocked by an existing registration that was later removed for non-use [52].

Re Trade Mark “Palmolive” (1932) 49(8) RPC 269, *E & J Gallo Winery v Lion Nathan Australia Pty Ltd* [2009] FCAFC 27, (2009) 175 FCR 386, *Unilever plc v Cussons (New Zealand) Pty Ltd* [1997] 1 NZLR 433 (CA), *Kambly SA Specialities de Biscuits Suisses v*

Intersnack Knabber-Gebäck GMBH & Co KG [2004] EWHC 943 (Ch) referred to.

- (ii) Section 68(2) of the Act now provides that the rights of an owner whose trade mark is revoked cease either (a) on the date of the revocation application or (b) an earlier date if the Commissioner or court is satisfied grounds for revocation exist at that earlier date. The effect of s.68(2) is to advance the effective date of the removal of a registered trade mark from the actual date of the removal order that had previously applied at common law [55]. It thereby deprives the owner of rights which it would otherwise have had in the period between the dates of the application for removal and the order for removal, or even earlier if s.68(2)(b) is invoked [55].

- (iii) Section 68(2) is an ameliorative provision to prevent the prospect of infringement proceedings being pursued by trade mark owners whose registrations have been revoked for infringements occurring in the period up to revocation [61]. It does not operate to prevent the making of a trade mark application until a pre-existing trade mark registration that blocks that application from proceeding to registration [61]. If Parliament had intended to change the law so as to prohibit the previous practice of filing a trade mark application in anticipation of a successful revocation application being made, it would have done so by more direct means than s.68(2) [68].

Although s.68(2) enables the effective date of removal to be earlier than the date of the actual order for removal, it has no bearing on the date on which an applicant for revocation may file its own application for registration [83]. Accordingly, the fact that Johnson's application for registration was filed three days prior to the effective date of removal of registered trade mark 648953 had no bearing on the validity of Johnson's application [85].

RIVERIA Trade Mark [2003] RPC 50 (Trade Marks Registry), *Campomar SL v Nike International Ltd* [2011] SGCA 6, [2011] 2 SLR 846 not followed.

- C. Does first use of a trade mark determine ownership in perpetuity or can an initial entitlement to ownership be lost through cessation of use?

- (i) The applicant for registration carries the onus of proving ownership. As a matter of interpretation, a person "claiming to be the owner" must justify its claim and establish its right [86]. Accordingly, the applicant should be in possession of a proprietary right which if questioned can be substantiated [86]. In order to establish ownership, the applicant must establish that it is the first person to use the mark

in New Zealand; and that, if challenged, there is no prior use by another party such as an opponent [86]. Subject to considerations such as honest concurrent user and special circumstances within the scope of s.26(b), prior genuine use of a trade mark by an opponent to an application would preclude an applicant's legitimate claim to ownership [87].

The North Face Apparel Corp v Sanyang Industry Co Ltd [2014] NZCA 398 referred to.

- (ii) If a person whose registered trade mark is removed for non-use wishes to make a fresh application to register the trade mark, that person can only rely on their use in support of a claim to ownership which occurs subsequent to the continuous period of three years non-use [91]. While earlier use which pre-dates the continuous period of non-use may remain relevant in the context of the consideration of issues of deception or confusion under s.17(1)(a), such earlier use may not be invoked in support of an assertion of ownership [91]. Accordingly, the November 2009 use upon which ICB sought to rely could not be prayed in aid of ICB's opposition on the grounds of prior ownership to Johnson's application [91].

Target Australia Pty Ltd v Target New Zealand Ltd

Intellectual Property Office of New Zealand, Assistant Commissioner Glover

1 May 2018 – 18 May 2019

[2019] NZIPOTM 16

Trade marks – non-use application – whether trade mark use on an Australian website could amount to genuine use in New Zealand – whether trade mark use on bedsheets in New Zealand could amount to genuine use in New Zealand – whether trade mark use in email newsletters could amount to genuine use in New Zealand – whether trade mark use in negotiations with a New Zealand online retailer could amount to genuine use in New Zealand.

Facts

Target Australia Pty Ltd ("Target Australia") is an Australian company that operates 300 department stores in Australia as part of the Wesfarmers Group.

In New Zealand, Target Australia owned trade mark registrations 245344 TARGET, 245345  and 245346  in class 24; it also owned trade mark registrations 245347 TARGET, 245348  and 245349  in class 25 (together, "Target Australia's marks").

Target New Zealand Ltd (“Target NZ”) is a New Zealand company that trades primarily as a furniture retailer. On 15 May 2015, Target Australia wrote to Target NZ in relation to Target NZ’s use of a device it alleged was similar to Target Australia’s trade marks. On 29 May 2015, Target NZ applied to revoke Target Australia’s six trade mark registrations on the grounds of non-use under s.66(2) of the Act.

On 6 July 2015, Target NZ filed applications 1022893  and 1022894 TARGET in classes 20, 21, 24, 35, 37 and 39. The Intellectual Property Office of New Zealand (“IPONZ”) cited all six of Target Australia’s registrations against both applications.

Held, revoking all of Target Australia’s marks for non-use except in relation to bedsheets in class 24

A. *Was Target NZ an “aggrieved person” with standing to apply to revoke Target Australia’s registrations within the meaning of s.65(1) of the Act?*

- (i) Target NZ was an aggrieved person with standing to apply to revoke Target Australia’s registrations in both class 24 and 25 [29]. Target NZ’s application to revoke Target Australia’s trade marks was in response to Target Australia’s 15 May 2015 letter and it was not “acting as a mere busybody in taking those steps” [27]. There was evidence of the impact of Target Australia’s registrations on Target NZ’s continuing business operations [28].

B. *Did evidence of use of Target Australia’s marks on the Target Australia website (target.com.au) and sales via that site prove genuine use of the marks in New Zealand?*

- (i) Simply using a trade mark on a website that can be accessed worldwide does not amount to use of the mark in every jurisdiction in which the site can be accessed [39]. Evidence of sales made from a foreign website to the local jurisdiction may amount to evidence of genuine use [42].

800 Flowers Trade Mark [2000] FSR 697, *Ward Group Pty Ltd v Brodie & Stone Plc* [2005] FCA 471, *Deckers Outdoor Corp v B&B McDougall* [2006] ATMO 5, referred to.

- (ii) There was no indication on the Target Australia website that New Zealand customers were being targeted specifically [52]. Use on the Target Australia website did not amount to use in New Zealand [53].

- (iii) There was evidence of purchases by New Zealand customers from the Target Australia website [58]. However, this was not necessarily evidence that New Zealand customers were targeted by that website [62]. Further, there was no evidence of actual use

in New Zealand of Target Australia’s marks on the goods sold from the website [64].

VinoMofa Holdings Pty Ltd v Blackmarket.com.au Pty Ltd [2018] ATMO 14 referred to.

- (iv) The proposition established in the High Court of Australia’s decision in *E & J Gallo Winery v Lion Nathan Australia Pty Ltd* [2010] HCA 15, (2010) 86 IPR 224 that a trade mark owner does not need to “knowingly project” its goods into a particular market in order for there to be use of a trade mark in that market has not been tested in New Zealand [76]. A different approach was taken by the Assistant Commissioner in *Cadbury Ireland Ltd v Societe des Produits Nestle SA* [2007] NZIPOTM 4 [77]. In any event, the correct approach did not need to be considered given there was no evidence that goods sold to New Zealand customers were TARGET-branded goods [81].

E & J Gallo Winery v Lion Nathan Australia Pty Ltd [2010] HCA 15, (2010) 86 IPR 224, *Cadbury Ireland Ltd v Societe des Produits Nestle SA* [2007] NZIPOTM 4 referred to.

C. *Did evidence of use of Target Australia’s marks on bedsheets sold in Kmart stores in New Zealand prove genuine use of the marks in New Zealand?*

- (i) The evidence established that Target Australia had sold 13 types of TARGET-branded bedsheets in Kmart stores in the period 2012 to 2015 [84]. The TARGET word mark, Target device and Target composition mark were used on all bedsheets sold [84]. The evidence accordingly established that Target Australia used the marks at issue in relation to bed sheets in New Zealand during the relevant period [86].

C. *Did evidence of use of Target Australia’s marks in email newsletters prove genuine use of the marks in New Zealand?*

- (i) The evidence established that 3531 subscribers to Target Australia’s email newsletter for the period ending 4 August 2015 utilised email addresses with a “.nz” suffix [88]. However, the email newsletter was not aimed at consumers from New Zealand [94]. The newsletters could accordingly not amount to use of Target Australia’s marks in New Zealand [94].

D. *Did evidence of use of Target Australia’s marks during negotiations with a New Zealand online retailer prove genuine use of the marks in New Zealand?*

- (i) The evidence established that Target Australia was in communication with TradeMe, a New Zealand

Current Developments – New Zealand

online retailer, regarding the sale of Target Australia goods on TradeMe's website in the period 26 March 2015 to 13 April 2015 [95]. The evidence was of emails between the two companies relating to Target Australia's intention to sell clothing and apparel products bearing trade marks of other traders [99], [106].

- (ii) As a result, the evidence failed to establish use of Target Australia's marks in relation to class 24 and 25 goods [112]. At most, it could have proved use in relation to retail services [112]. However, the evidence did not establish an objective commitment to sell goods via TradeMe and amounted only to investigation [116].

E. Result

- (i) The Assistant Commissioner directed that trade mark registrations 245344 TARGET, 245345  and 245346  remain on the register in respect of bed sheets, but that the registrations be revoked in respect of all other goods in class 24.
- (ii) The Assistant Commissioner directed that registration 245347 TARGET, 245348  **Target.**, and 245349  in class 25 be revoked.

Current Developments – Asia

CHINA & HONG KONG

Dan Plane

Simone Intellectual Property Services (“SIPS”) Hong Kong
Correspondent for China & Hong Kong

Prosecuting Trade Marks in China - An Insider’s Guide for Foreign Brand Owners in 2019 (Part II) – Appeals

Introduction / new developments

In our “Insider’s Guide Part I” published in Issue 115 (March 2019) of *Intellectual Property Forum*, we shared best practice tips regarding prosecuting trade marks in China. In Part II we will discuss the appeals process, focusing on two common actions: trade mark application appeals and non-use cancellations. We will also provide a few practice points on the formalities of court appeals, in particular, in relation to documentation requirements, a vexing topic of late for many foreign brand owners.

But first things first: since our last contribution was published, there have been some major developments in intellectual property in China that affect the entire trade mark landscape here:

- **Revisions to Trade Mark Law** – on 23 April 2019, the Tenth Session of the Standing Committee of the 13th National People’s Congress passed significant revisions to the People’s Republic of China (“PRC”) Trade Mark Law, which will go into effect starting from 1 November. This was done without any notice and comment period for the adopted changes. Among other features, the revisions should make it easier for the Trade Mark Office to reject applications during the examination process incidental to examination, rather than through oppositions or in the context of invalidations. It also increases the maximum statutory damages that may be awarded in cases of malicious infringement.

We will be devoting an entire contribution to the amendments of the law and their likely impact on trade mark practice in China in a subsequent issue of this journal.

- **Reorganisation of TMO/TRAB** – as of 1 April 2019, the PRC Trade Mark and Patent Offices are now part of a new, larger umbrella organisation, the China National Intellectual Property Administration (“CNIPA”). For the time being, it appears that the PRC Trade Mark Office (“TMO”) will retain its name and acronym. The Trademark Review and Adjudication Board (“TRAB”), however, which hears

appeals of TMO decisions and is the first-instance body for invalidation actions, has been renamed the Trade Mark Review and Adjudication Department (“TRAD”).

The overall effects of the reorganisation remain to be seen, but it is hoped the reorganisation will lead to improvements in the process, including greater transparency and accelerated review of cases.

- **Improving processing times and numbers** – in relation to timelines for review, there is some good news to report here, too: consistent with plans announced in 2018, the TRAD has also decreased processing times for a range of trade mark prosecution matters. The below list indicates current expected time lines for appeals filed with the TRAD, typically the cases that have taken longest for review decisions to issue:

Cases	Time frame
Decisions by TRAD in appeals of rejected applications	7 to 8 months
Non-use cancellation appeal decisions	9 to 11 months
Decisions by TRAD in invalidations	11 months

Trade mark appeals in China

Not unlike many other jurisdictions, the appeals process in China occasions much uncertainty. Given that, this update will lay out a number of tried-and-true approaches in the appellate sphere that will hopefully minimise risks of refusal.

First, however, a bit of background on the PRC’s trade mark appellate process. In China, if an application for a trade mark has been rejected, the applicant has the option of filing one or more appeals, including to the TRAD as a first step. If the TRAD action fails, an appeal can be sought with the Beijing Intellectual Property Court (“BJIPC”), and then, to the Beijing Higher People’s Court. The court of final recourse is the Supreme People’s Court.

As in Australia and New Zealand, few trade mark cases are heard at the highest level. In that regard, we note that in 2018, the TRAD heard nearly 180,000 appeals of application refusals, 23,000 invalidation appeals, and more than 6000 appeals of non-use cancellations, bringing the total number of cases to nearly 215,000. In that same year, only 8700 First Instance court cases were filed. Supreme People’s Court filings numbered a mere 340.

Much of this is likely due to the costs involved in pursuing court appeals for trade mark decisions. To avoid incurring

those expenses, many brand owners opt to forego them in favour of other remedies, such as refile the application or simply not using the mark. This puts extra pressure on trade mark owners to either refile, in a timely fashion, or put all their resources into defeating prior marks on the registry before it becomes necessary to file a court appeal.

1. Procedure – appealing with the TRAD

The three primary types of TRAD appeals include:

- (1) rejections of applications, normally due to prior marks on the registry;
- (2) reviews of unfavourable non-use cancellation decisions; and
- (3) oppositions, where the mark's applicant has lost.

Note: only the applicant of the opposed mark is allowed to appeal TMO decisions upholding the opposition. In cases where the opposition is rejected, the opposing party is *not* allowed to appeal the TMO's adverse decision, meaning the opposed application automatically moves on to gazettal and eventual registration from there.

In any of the above cases, appeals of these TMO decisions must be lodged with the TRAD within 15 days of issuance of the decision. However, the CNIPA recently implemented an electronic filing system for trade mark applications, where the deadline for appeals of rejected marks is extended to 30 days when the initial trade mark filing was completed electronically. A period of 30 days is also allowed when the refusal relates to an International Registration.

It typically takes around 3-4 months for the TRAD to accept an appeal after it has been filed.

In the case of non-use cancellation appeals, the TRAD first forwards the use evidence (if any) filed by the mark's registrant during the initial proceedings to the party applying to cancel the trade mark ("Cancelling Party"). Note that this use evidence is *not* provided to the Cancelling Party at the TMO stage, meaning filing a TRAD appeal is the only way to examine the registrant's evidence to determine if it might be fraudulent.

At that point, any response filed by the Cancelling Party will be forwarded to the mark's registrant to allow them to file a rebuttal.

Timing of actions against blocking marks

A key additional point to note in relation to trade mark application refusals, and actions taken to clear the path for those marks, such as non-use cancellations or invalidation decisions: The TRAD is generally unwilling to suspend its review of refusal appeals pending the outcome of linked cases against blocking marks. The only exception is where such actions were filed *before* the application date of the refused mark. Given the massive number of appeals each year, it

is suspected that the TRAD's primary motivation here is to keep its docket as clear as possible, where suspensions granted to await outcomes in actions that can, via appeals, drag on for years are inimical to this.

This makes pre-filing clearance searches on the PRC trade mark register to identify potential blocking marks – and the taking of actions against those potentially blocking marks – a key point of consideration. This is as opposed to past practice, where PRC practitioners were more inclined to suggest foregoing pre-clearance searches, particularly where clients were keen to save up-front costs.

Decisions in non-use cancellations, application appeal rejection decisions and invalidation decisions can be appealed to the BJIPC.

2. Evidence in TRAD actions

In the case of TRAD appeals, careful consideration should be given to the nature of the evidence used, the purpose the evidence is intended to serve, and any potential formality and/or language requirements that may drive both the means used to collect the evidence, as well as the form in which it can or should be presented to the TRAD.

Evidence of PRC use or of fame in China

In the case of non-use cancellation applications against a foreign-brand owner's mark, evidence of use in China is obviously key. This is also true where the brand owner must prove the reputation of their mark in China (such as part of an invalidation filed with the TRAD or an opposition filed with the TMO). In either case, such evidence may include any of the following:

- distribution agreements, invoices, sales receipts etc. in relation to sales of the products;
- manufacturing agreements in relation to production and export of the products;
- agreements related to advertising services in relation to the products;
- media reports in relation to the brand;
- materials showing use of the mark at exhibitions or trade fairs;
- materials showing awards and honours received by the company's products;
- registration certificates for marks in China and other jurisdictions; and
- copyright in the logo in and outside of China.

If the owner of the mark in question has not made any real use of the mark in China, evidence showing use in other countries can always be submitted, though it must be noted that such evidence is quite likely to be ignored by the TMO/

TRAD as extraneous. As well, any evidence not in Chinese must also be translated into that language.

To be on the safe side, particularly if there is any chance that a court appeal might eventually ensue, the evidence should also be notarised and legalised. In that case, the translation of the evidence should also be conducted by an entity with translation qualifications acceptable to PRC courts. Since such formalities are burdensome and can add significantly to the overall costs of the action, it is best practice to collect evidence from China-based sources whenever possible.

Even where there is little to no use of a given mark in China by a brand owner itself, evidence of use by third parties, including sales of parallel-import products from third parties based in China, can often be found on China's online shopping platforms such as Alibaba, Taobao, Jingdong Mall, and can potentially be relied upon as proof of either use of the mark and/or as evidence of the mark's notoriety in the PRC.

Finally, materials stored on English-language websites on servers outside of China are deemed "foreign-sourced evidence," even if the pages from the site are printed out from within China, and consideration should be given to handling that evidence through the notarisation/legalisation/translation process mentioned above.

Evidence of bad faith

Where the applicant appears to be a pirate, to bolster the chances of success on appeal or an invalidation action, brand owners should strongly consider arranging on-site investigations into the pirate, its business and use of the mark. As well, if there is any likelihood that the action in which the evidence is used might be the subject of an eventual court appeal, collecting that evidence in the presence of a PRC notary public is crucial.

Co-existence agreements – letters of consent

In the case of trade mark rejection appeals, co-existence agreements or letters of consent should be given strong consideration. Generally speaking, the TRAD's willingness to accept such documents has been and remains inconsistent. That being said, there have been positive improvements in this regard, particularly where the mark in question was not rejected on the basis of an identical or very-nearly-identical prior mark.

In relation to these types of documents, we note that Chinese companies are quite hesitant to issue them, particularly without some form of remuneration. As well, and again, to hedge against the possibility of the TRAD rejecting the letter as sufficient to overcome the conflict, strong consideration should be given to having the letter legalised and notarised (as well as translated if not bilingual, of course).

3. Court appeals

As already noted, appellate review of TRAD decisions on non-use cancellation appeals, trade mark refusals, and oppositions (filed by the registrant of the mark, *not* the opposing party), along with appeals of the TRAD's own decisions on invalidation petitions, are all potential subjects for judicial review.

Timing

Appeals of TRAD decisions must be filed with the BJIPC within 30 days of receipt of the decision. A complete set of formality documents must be filed within 90 days of filing with the BJIPC.

The BJIPC is very strict when it comes to formalities and timelines. Many companies have had their appeals rejected out of hand due to failure to meet the court's tight deadlines or, more commonly, abide by its very formulaic requirements regarding formality documents. These standards appear to be tightening of late, making it progressively harder for foreign companies to develop stable and reliable "best practices" when undertaking appeals of TRAD decisions.

The greatest obstacle is clearly the legalisation/notarisation process already referred to above. That process is intended to ensure that the documents and signatures thereon are authentic and reliable.

Legal formalities

Generally speaking, this process should be straightforward, with non-Government-issued documents (such as Powers of Attorney) first being executed before a local notary public. Those documents, as well as Government-issued documents (such as certificates of incorporation or trade mark registration certificates), are then forwarded to the relevant local Government authority (in the case of Australia, for example, the Department of Foreign Affairs and Trade) for authentication. Finally, the authenticated document is passed onto the local PRC embassy or consulate for review and authentication.

Documents required

Documents required in a court appeal include, but are not necessarily limited to, the following:

- a signed Power of Attorney ("PoA");
- an (original) executed version of the Certificate of Identity of Legal Representative ("CILR"), a document that represents the company itself speaking, and identifying an individual as its designated "Legal Representative". That title is a term of art in PRC law signifying a statutorily-designated individual named by a company that is authorised to bind it legally, including through the execution of contracts and the issuance of powers of attorney to lawyers; and

- an original or certified copy of the company's Certificate of Good Standing (or an equivalent document).

Ideally, the individual who signs the CILR should hold a higher position within the company than the individual who signs the PoA. The person named as the Legal Representative should not be the same person that signs the CILR (i.e., no “self-designation” as Legal Representative).

While Australian and New Zealand companies enjoy a relatively smooth path to creating/obtaining these documents, companies in a number of jurisdictions, particularly the United States, have been having a much harder time in this regard of late, with courts, and in some cases, authenticating Chinese consulates overseas, becoming quite arbitrary in their review of documents. This has even resulted in PRC consulates rejecting applications for authentication not signed for by the party executing the document, such as the party issuing a letter of consent (“Consenting Party”). This puts the Consenting Party, who, practically speaking, is doing the appealing party a favour by executing the document in the first place, in an uncomfortable situation, where the applicant for consular authentication is required to provide a copy of their passport to support the same. We have had a number of instances where the Consenting Party viewed the provision of their identification documents to the Chinese Government as a “bridge too far”.

Another issue that has arisen is where PRC courts require additional proof that the individual executing the CILR actually has the authority to sign the document. This may require submitting legalised/translated copies of specific pages of state or federal laws governing companies that confirm the statutory authority granted to individuals holding given positions within the executing company, such as “CEO” or corporate secretary. In some cases, additional documentation, such as a fully executed board resolution, articles of association or company by-laws indicating that the individual who signed the CILR is empowered to execute legal documents on behalf of the company may be required. But those additional documents must also be notarised and legalised (and eventually translated, too).

In short, creation of formality documents has become a real minefield.

4. Conclusion summary – best practice in appeals

(a) In application and non-use appeals:

- (i) Search and consider proactively filing to invalidate or cancel potentially conflicting marks for non-use *before* filing trade mark applications to avoid having to appeal, and to increase the odds that the TRAD might suspend its review of the rejection appeal pending the outcome of those actions.

- (ii) Where the applicant appears to be a pirate, arrange for on-site investigations to obtain bad faith evidence and bolster the chances of success on appeal.

- (iii) In the cases of foreign-sourced evidence and onsite investigations against bad-faith pirates, consider having evidence legalised and notarised to give it additional weight and to make it more readily admissible in any eventual court appeals.

- (iv) Consider seeking co-existence agreements or letters of consent from owners of conflicting marks and have those agreements/letters; and legalised/notarised.

(b) In court appeals:

- (i) Build in enough time to meet deadlines and formality requirements, especially in court appeals. Start preparing those documents immediately rather than waiting till the last minute to account for objections, including from Chinese consulates.

- (ii) Provide scanned copies of formality documents to your advisers in China at each stage of authentication before proceeding with the next stage in the process to increase the odds of potential deficiencies being identified and corrected.

JAPAN

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Healthy Upward Trend of Accelerated Patent Examination in Japan

According to the latest Japan Patent Office (“JPO”) Status Report 2019,² the number of accelerated examination requests have reached an all-time high of 21,137 in 2018 (see below Fig. 1).

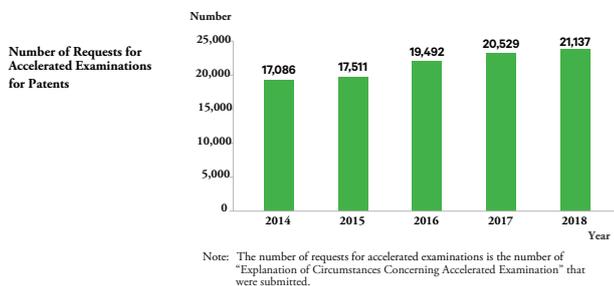


Fig. 1: JPO Accelerated Examination Requests 2014 to 2018

This achievement is a realisation of the ongoing JPO aim to “achieve the world’s fastest and utmost quality patent examinations”. Industry understands the need for speed to market of an innovative product or service and this coupled with commensurate swift patent protection will ensure the innovator’s competitive advantage in the marketplace. This update will discuss the several ways to accelerate patent examination in Japan.

(A) Patent Cooperation Treaty (“PCT”)³-Patent Prosecution Highway (“PPH”) Program

The requirements to request PCT-PPH examination in a Japanese patent application are:

1. the relationship between the application and the corresponding international application satisfies certain requirements;⁴
2. the international work product has to be issued by certain Patent Offices (e.g. the United States Patent and Trademark Office (“USPTO”), the European Patent Office (“EPO”), etc.);
3. all claims in the Japanese patent application must sufficiently correspond to claims which were determined to be patentable (from the aspects of novelty, inventive steps and industrial applicability) in the latest international work products; and
4. the Japanese patent application must not have received a first Official Action from the JPO.

When requesting PCT-PPH examination, the applicant must submit the following documents:

1. copies of the latest international work product which indicated the claims as patentable;
2. copies of all claims determined to be patentable in the latest international work products;
3. copies of all references cited in the latest international work products; and
4. a table explaining how the patentable claims under the latest international work product sufficiently correspond to the claims in the Japanese application.

(B) Patent Prosecution Highway (“PPH”)

The requirements to request PPH examination in a Japanese patent application are:

1. the Japanese patent application and the counterpart foreign patent application(s) must have the same earliest date (which is the priority date or the filing date);
2. all claims in the Japanese patent application must sufficiently correspond to claims which were determined to be patentable in the counterpart foreign application(s); and
3. the Japanese patent application must not have received a first Official Action from the JPO.

Under the current PPH program, a Japanese patent application that validly corresponds to a patent application deemed patentable by at least one of the foreign offices such as the USPTO, EPO, can file for PPH accelerated examination using a similar procedure, regardless of the jurisdiction in which the application was first filed. When requesting PPH examination, the applicant must submit the following documents:

1. copies of all Office Actions issued in the counterpart foreign application(s);
2. copies of all claims determined to be patentable in the counterpart foreign application(s);
3. copies of all references cited by the foreign patent office examiner in the counterpart foreign application(s); and
4. a table explaining how the patentable claims in the foreign counterpart application(s) sufficiently correspond to the claims in the Japanese application.

It is possible to request PPH examination in a Japanese patent application even while the counterpart foreign application is still pending. If certain claims in a pending counterpart foreign application have been deemed patentable by the foreign patent office, PPH examination can be requested in a Japanese patent application which contains only claims corresponding to those patentable claims.

It is important to note that if any of the claims in the Japanese patent application exceed the subject matter of the claims determined to be patentable in the counterpart foreign application(s), those claims must be cancelled (or appropriately limited) before the applicant can request PPH examination.

(C) Standard Accelerated Examination

The requirements for filing a request for Standard Accelerated Examination are:

1. cite the corresponding foreign application number (e.g., USPTO or EPO application serial number) or international application number; and
2. submit comments distinguishing the claims to be examined from the prior art that the applicant believes to be most relevant.

The manner in which the accelerated examination document should be prepared is akin to a response to an Office Action, i.e. it should be clearly delineated which patentable features in the claim(s) are not in the relevant prior art reference.

The entire patent procurement procedure of (A) to (C) will be greatly accelerated by filing a Request for Accelerated Examination. According to the 2019 *JPO Status Report*, the first action pendency from request for accelerated examination was 2.3 months on average for 2018.⁵ An astonishingly fast time period by any given measure.

(D) Super Accelerated Examination

For an application to be eligible for Super Accelerated Examination (“SAE”) the following requirements must be met:

1. the invention must be in use or will be used within two years from the date of filing a request for SAE;
2. a corresponding application has been filed with at least one non-Japanese patent office or the subject application corresponds to a PCT application; and
3. all filings four weeks prior to the filing of the request for SAE and all filings thereafter must be conducted through the JPO online filing system.

In addition to these requirements, the applicant must submit comments on the differences between the prior art and the invention, similar to Standard Accelerated Examination.

The effect of SAE is the same as the above (A)-(C), i.e., the applicant can expect a first communication approximately two months after filing the Request.

Subsequent examination is finished within one month from the submission of the response, thereby reducing the period from the petition to the final decision compared to the conventional accelerated examination system. However,

if a response is not filed within two months for foreign applicants, the application will no longer be subject to SAE. Given the somewhat onerous requirements, the number of SAE requests in 2018 were only 685 but the first action period for SAE was 0.7 months.⁶

Although the SAE pendency period is extremely quick (0.7 months before the first JPO communication) as compared with the relatively swift 2.3 months for the other A to C accelerated examination options, it is up to the applicant’s resources and resolve to opt for the SAE over the other non-super accelerated examination procedures.

Conclusion

All of the accelerated examinations options (A)-(D) do not affect the standard of examination. The JPO will still apply the same law and guidelines as for all other Japanese patent applications. Requesting accelerated examination based on other patent office outcomes, like using the PPH, does not mean that the PPH is a rubber stamp for allowance. A Japanese patent application which undergoes accelerated examination is no more likely to be granted than one which does not and merits examination, in accordance with Japanese patentability criteria. What is clear from is that the applicant will at least get the benefit of receiving the JPO communication, either Office Action or first communication Notice of Allowance (assuming all patentability criteria are satisfied) sooner, rather than later.

1 Any questions about this update should be e-mailed to John A. Tessensohn at jtessensohn@shupat.gr.jp. This update 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.

2 Japan Patent Office, *JPO Status Report* (2019) 59, last updated 29 March 2019. See <<https://www.jpo.go.jp/e/resources/report/statusreport/2019/index.html>>.

3 *Patent Cooperation Treaty*, signed on 19 June 1970 and came into force on 24 January 1978.

4 The application is a national phase application of the corresponding international application, which the subject application satisfies.

5 Japan Patent Office, *JPO Status Report* (2019) 58, last updated 29 March 2019. See <<https://www.jpo.go.jp/e/resources/report/statusreport/2019/index.html>>.

6 Japan Patent Office, *JPO Status Report* (2019), last updated 29 March 2019. See <<https://www.jpo.go.jp/e/resources/report/statusreport/2019/index.html>>.

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Application of Confidentiality Safeguards in *TWG Tea Company Pte. Ltd. v T2 Singapore Pte Ltd & Tea Too Pty Ltd* [2019] SGIPOS 9

In trade mark opposition proceedings, parties will usually adduce evidence of use of their mark, perhaps to show distinctiveness of the mark or the fact that goodwill has been acquired in the mark. Generally, sales and marketing figures will be furnished, and this information is not always in the public domain. Hence, the information may be commercially sensitive.

There is therefore a desire to maintain the confidentiality of this information. Surprisingly, there is little guidance from Singapore tribunals and courts on this issue.

This is the issue in question in the above interlocutory hearing. In this case, T2 Singapore & Tea Too (the “opponents”) opposed applications by TWG Tea (the “applicant”) to register “SINGAPORE BREAKFAST”, “NEW YORK BREAKFAST”, “LONDON BREAKFAST” and “CARAVAN” for tea and other goods in class 30. The grounds of opposition alleged that the marks were devoid of any distinctive character and/or descriptive. This led the applicant to tender evidence of acquired distinctiveness through use. The nature of the evidence was advertising expenditure and figures (“marketing figures” and “sales figures” respectively), which it asserted was confidential.

The applicant sought safeguards to protect the confidentiality of the information. These safeguards included: confidentiality undertakings to use the information only for the Registry proceeding and to disclose it only to a limited audience, indemnities against any loss or damage resulting from breach and consent to injunctive relief in the event of any threatened or actual breach of the undertakings.

The opponents were not agreeable to the safeguards proposed and the interlocutory dispute proceeded to a hearing.

The Hearing Officer made an astute observation that as a starting point, confidentiality undertakings should not be imposed where the party seeking protection *voluntarily* puts the evidence forward. The other party did not ask for this information in the first place.

Also, the applicant was relying on the marketing figures and sales figures to claim a monopoly over the marks. In that case, the Hearing Officer was of the view that it would be reasonable that these figures should be made available to other traders against whom this monopoly may be asserted – one cannot have its cake and eat it.

However, there are instances where confidentiality safeguards may be appropriate. Some (non-exhaustive) factors to consider in this regard include:

- (a) the importance of the information to the issues in dispute – the more critical the information, the more compelling the case to make it available in the interests of open justice;
- (b) the degree to which the information is confidential;
- (c) how current the information is;
- (d) whether the parties are competitors;
- (e) the extent of prejudice should the confidential information be disclosed to its competitor; and
- (f) the stage of the proceedings – at a more advanced stage, full disclosure becomes more important.

Balancing the competing interests and bearing in mind the principle of open justice, the Hearing Officer allowed the request that the confidential information should not be used for any purposes other than the Intellectual Property Office of Singapore proceedings. There was also restricted disclosure of the applicant’s sales figures to select individuals. The remainder of the requests were not allowed.

This decision will certainly be helpful to parties in deciding what type of evidence to include in their case, and how to preserve confidentiality in trade mark opposition proceedings.

Registration of Geographical Indications

The European Union (the “EU”) supports protection of geographical indications (“GIs”) globally due to the increasing number of violations throughout the world. Pursuant to the *EU-Singapore Free Trade Agreement*, a new Registry of GIs was launched to allow registration of GIs in Singapore from 1 April 2019, providing GI holders with enhanced protection. Dispute resolution procedures relating to GI applications and registrations have also been introduced.

Application process for GIs

The application process for GIs will generally mirror an ordinary trade mark application. It will be examined for registrability. However, there will now be a GI Journal where such marks will be published for opposition. The opposition period is slightly shorter being six weeks, rather than two months.

If the GI proceeds to registration, a certificate of registration will be issued. Once registered, a GI will enjoy 10 years of protection which is renewable every 10 years upon payment of the requisite renewal fees.

Registration criteria for GIs

What qualifies as a GI? Essentially, a GI is defined as an indication used in trade to identify goods as originating from a place that is a qualifying country or a region/locality therein, and a given quality, reputation or other characteristic of the goods is essentially attributable to that place.

It must not however, be the common name of the goods, and examples are “parmesan cheese” and “black forest ham”. In the same vein, it should not contain the name of a plant variety or an animal breed and be likely to mislead the consumer as to the true origin of the product.

The recognised category of goods is as follows:

- (a) wines;
- (b) spirits;
- (c) beers;
- (d) cheeses;
- (e) meat and meat products;
- (f) seafood;
- (g) edible oils;
- (h) non-edible oils;
- (i) fruits;
- (j) vegetables;
- (k) spices and condiments;
- (l) confectionery and baked goods;
- (m) flowers and parts of flowers; and
- (n) natural gum.

A GI must also be protected in its country or territory of origin. Other limitations are that it should not be contrary to public policy or morality,

There is also a safeguard against confusion in the market. In particular, a GI cannot be identical or similar to an existing GI, earlier trade mark or well-known mark, whether registered or not.

Entitlement to apply for GIs

The following persons are entitled to apply for registration of a GI:

- (a) a person who is carrying on an activity as a producer in the geographical area specified in the application with respect to the goods specified in the application;
- (b) an association of persons referred to in (a); or
- (c) a competent authority having responsibility for the GI for which registration is sought.

With the implementation of a new GI Register, we expect increased activity in this sector for protection and enforcement.

Current Developments – Europe

EUROPEAN UNION

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Introduction

Last December, the Technical Board of Appeal (the “TBA”) of the European Patent Office (the “EPO”) held that the recently amended Rule 28(2) of the *Implementing Regulations to the Convention on the Grant of European Patents* (the “Implementing Regulations”) which excludes plants or animals exclusively obtained by means of an essentially biological process would conflict with Article 53(b) of the *Convention on the Grant of European Patents* (the “EPC”) as interpreted by the Enlarged Board of Appeal Decision (the “EBoA”) in the *Broccoli/Tomatoes II* decision.¹ Pursuant to Article 164(2) of the EPC which governs conflicts between the provisions of the EPC with those of the Implementing Regulations, the TBA held that Article 53(b) of the EPC would prevail and would render Rule 28(2) void. This decision is yet another piece in the ongoing saga whether plant products produced by essential biological processes could be protected under the provisions of the EPC. In addition, it highlights the sometimes complicated relationship between two major institutions in European patent law – the EPO and the European Union (the “EU”).

Background

The scope of the subject matter which may be patented in Europe is ex ante quite broad. Article 52(1) of the EPC states that “European patents shall be granted for any inventions, in all fields of technology.” However, subsection 2 of Article 52 of the EPC declares certain subject matter not to be inventions. The excluded subject matter ranges from discoveries, scientific theories, business methods to computer programs. Importantly, this exclusion only applies where the “subject-matter or activities referred to therein only to the extent to which a European patent application or European patent relates to such subject-matter or activities as such”. In addition, Article 53 of the EPC provides for exceptions to patentability and excludes invention which would be contrary to “ordre public” or morality as well as “methods for treatment of the human or animal body by surgery or therapy and diagnostic methods practised on the human or animal body”. Finally, Article 53(b) of the EPC states that patents should not be granted for “plant or animal varieties or essentially biological processes for the production of plants or animals.”

The regulatory framework of the EU has had lesser impact on the law of patents in comparison to other fields of

intellectual property. However, the Biotech Directive (the “Directive”)² has had substantial influence of the laws of EU Member States. The Directive regulates issues such as the patentability, the scope of protection of biotechnological patents as well as excluded subject matter. Its rules were also adopted within the framework of the EPC.³ All EU Member States are also Contracting Member States of the European Patent Organisation. The Directive’s rules were therefore adopted in order to avoid discrepancies between the law of the EPC and that of EU Member States who were obliged to implement these rules. Article 4 of the Directive corresponds to Article 53(b) of the EPC and excludes essentially biological processes for producing plants and animals from patentability. However, products produced by such processes are not explicitly excluded.

The Broccoli/Tomato I and II decisions by the EBoA of the EPO

The scope of the exclusion within Article 53(b) of the EPC has been the subject of two important decisions by the EBoA of the EPO. The consolidated decision *Broccoli II / Tomato I⁴* was based on the referral in T 83/05⁵ which related to a method of obtaining particular broccoli lines and on the referral within T 1242/06⁶ relating to a method of breeding tomato plants which produce tomatoes with reduced fruit water content. The EBoA held that essentially biological processes which would make use of gene markers for selection could not be patented.

This decision was followed by the *Broccoli/Tomatoes II* decision on 25 March 2015. Again, the EBoA decided to elaborate on the points of law within one consolidated decision. It provided a lengthy discussion on the rules of interpretation with respect to Article 53(b) of the EPC stating that while “there is no general notion of an obligatorily restrictive construction of exceptions to patentability,”⁷ it held that the exclusion of Article 53(b) of the EPC would need to be interpreted narrowly. Consequently, the EBoA held that “the process exclusion of Article 53(b) of the EPC does not extend directly to a product claim or a product-by-process claim directed to plants or plant material such as a fruit, or to plant parts other than a plant variety.”⁸

The Commission’s Notice

In the aftermath of the *Broccoli/Tomatoes II* decision, the European Parliament asked the European Commission (the “Commission”) to review the patentability of products derived from essentially biological processes. The Commission issued a Notice⁹ which outlined its view on the law on this issue. It referred to Articles 4 and 2 of the Directive and noted that the Directive was silent as to whether plants or plant material (e.g. fruits or seeds), or animals/animal material obtained

through essentially biological processes, could be subject to patent protection.

As to the impact of the decision by the EBoA on its analysis of the issue at hand, the Commission provided the following interesting statement:

While these decisions of March 2015 are in line with the intentions of the drafters of the EPC, it is questionable whether the same result would have been reached in the EU context. Directive 98/44/EC does not distinguish between different layers of provisions, and its provisions should be interpreted together in their entirety. When trying to assess the intentions of the EU legislator when adopting the Directive, the relevant preparatory work to be taken into consideration is not the work which preceded the signature of the EPC in 1973, but that which relates to the adoption of the Directive.¹⁰

After a lengthy deliberation on the negotiation history and of the provisions of the Directive, the Commission found that the Directive would foresee that plants and animals derived from essentially biological processes should not be considered patentable. It stated “that the EU legislator’s intention when adopting Directive 98/44/EC was to exclude from patentability products (plants/animals and plant/animal parts) that are obtained by means of essentially biological processes.”¹¹ This finding consequently conflicts with the views of the EBoA in *Broccoli/Tomatoes II*.

Amendments to the Implementing Regulations

Following the Commission’s Notice, the Administrative Council of the European Patent Organisation (the “Administrative Council”), which acts as the supervisory body of the EPO, amended Rule 28 of the Implementing Regulations in summer 2017.¹² It added the following subsection to Rule 28:

(2) Under Article 53(b), European patents shall not be granted in respect of plants or animals exclusively obtained by means of an essentially biological process.

Decision T 1063/18

The TBA was called to decide on the appeal against the decision of the Examining Division to refuse Syngenta’s patent application. The invention in suit related to European patent application No. 12 756 468.0 called “New pepper plants and fruits with improved nutritional value”. Claim 1 was directed to a “cultivated blocky fruit type pepper plant, bearing extreme dark green color at immature harvestable stage”. The Examining Division, however, concluded that claims 1 and 2 would fall within the exception to patentability Article 53(b) of the EPC and Rule 28(2) of the EPC and consequently refused the application.

Syngenta appealed against the decision of the Examining Division and based its appeal on the fact “that Rule 28(2) EPC was in contradiction to Article 53(b) EPC as interpreted by the Enlarged Board of Appeal in its decisions G 2/12 and G 2/13.”¹³ The TBA agreed since it could not “deduce from

decisions G 2/12 and G 2/13 any other interpretation of Article 53(b) EPC than that plants are not excluded from patentability, even if they can only be obtained by an essentially biological process.”¹⁴ Pursuant to Article 164(2) of the EPC,¹⁵ which regulates conflicting interpretations, this would mean that text of the EPC would prevail over that of the Implementing Regulations which would make the newly amended Rule void. The TBA found that the Administrative Council would not have the legal power to amend the text of the EPC through the Implementing Rules:

the Administrative Council is not, in the light of Articles 33(1)(b) and 35(3) EPC, competent to amend the Convention, here Article 53(b) EPC, by amendment of the Implementing Regulations, here Rule 28(2) EPC.¹⁶

Furthermore, the interpretation given by the EBoA of the EPC would be de facto binding on the TBA.¹⁷ Where a Board of Appeal would consider it necessary to deviate from the EBoA’s interpretation provided in an earlier decision, it should refer the question to the EBoA pursuant to Article 21 of the *Rules of Procedure of the Boards of Appeal*. Indeed, Article 112(1)(a) of the EPC permits this where there is doubt on “a point of law of fundamental importance” or where there is need to ensure the uniform application of the law. With regards to the Commission’s Notice, the Board noted that it would have no legal authority. Within the EU framework a binding interpretation on provisions of EU law such as the Directive would have to be decided in the last instance by the Court of Justice of the European Union (the “CJEU”).¹⁸

Referral to the EBoA

In its 159th meeting in March 2019, the Administrative Council decided that decision T 1063/18 should be referred to the EBoA in order to end the uncertainty raised. This should be conducted by means of a referral by the EPO President pursuant to Article 112(1)(b) of the EPC.

A press release issued by the EPO stated:

The Contracting States expressed their concerns with regard to the legal uncertainty caused by decision T 1063/18. The President of the EPO expressed his view that a President’s referral of the case to the Enlarged Board of Appeal is justified and necessary. The aim is to obtain an opinion from the Enlarged Board of Appeal on the patentability of plants exclusively obtained by essentially biological processes, hereby considering recent legal developments (interpretations and statements of the European Commission, the EU Council, European Parliament and EPO’s Administrative Council on the interpretation of the European Patent Convention and the EU Bio-Directive, all of them concluding that there should be no patentability in these cases).¹⁹

On 5 April 2019, the President of the EPO, António Campinos, submitted questions to the EBoA aiming to clarify the situation in relation to the patentability of plants exclusively obtained by essentially biological processes.²⁰

Comment

The decision highlights the tricky relationship between the two major institutional players in European patent law. In addition, the stakes are high for the industry in this field of technology on whether patent protection may be available or not. It remains to be seen whether the EBoA will actually permit the EPO President's question pursuant to Article 112(1)(b) of the EPC. This is only possible where "two Boards of Appeal have given different decisions on that question." It needs to be borne in mind that the *Broccoli/Tomatoes II* decision which held that Article 53(b) of the EPC should not prevent claims in relation to plants or plant products produced by essentially biological processes was handed down by the EBoA. A decision by the CJEU would provide more legal certainty as the Commission's Notice was not deemed to be legally binding – an issue referred to in the Notice itself.²¹

- 1 *State of Israel/Tomatoes II*, G 2/12 [2016] OJ EPO A27 and *Plant Bioscience/Broccoli II*, G 2/13 [2016] OJ EPO A28.
- 2 *Directive 98/44/EC of the European Parliament and of the Council of 6 July 1998 on the legal protection of biotechnological inventions* [1998] OJ L213/13.
- 3 *Administrative Council Decision*, OJ EPO 7/1999, 437–440.
- 4 *Plant Bioscience/Broccoli*, G 2/07 [2012] OJ EPO, 130 and *State of Israel/Tomatoes*, G 1/08 [2012] OJ EPO, 20.
- 5 *Plant Bioscience/Broccoli*, T 83/05 [2007] OJ EPO 644.
- 6 *State of Israel/Tomatoes*, T 1242/06 [2008] OJ EPO 523.
- 7 *State of Israel/Tomatoes II*, G 2/12 [2016] OJ EPO A27, 37.
- 8 *State of Israel/Tomatoes II*, G 2/12 [2016] OJ EPO A27, 49.
- 9 *Commission Notice on certain articles of Directive 98/44/EC of the European Parliament and of the Council on the legal protection of biotechnological inventions* (2016) OJ C411/3 (8 November 2016).
- 10 *Commission Notice on certain articles of Directive 98/44/EC of the European Parliament and of the Council on the legal protection of biotechnological inventions* (2016) OJ C411/3 (8 November 2016) 5.
- 11 *Commission Notice on certain articles of Directive 98/44/EC of the European Parliament and of the Council on the legal protection of biotechnological inventions* (2016) OJ C411/3 (8 November 2016) 7.
- 12 *Decision of the Administrative Council of 29 June 2017 amending Rules 27 and 28 of the Implementing Regulations to the European Patent Convention* (CA/D 6/17), Official Journal EPO, 2017, A56 <<https://www.epo.org/law-practice/legal-texts/official-journal/2017/07/a56.html>>.
- 13 T 1063/18 (5 December 2018), 1.
- 14 T 1063/18 (5 December 2018), 19.
- 15 Article 164 EPC:
Implementing Regulations and Protocols
(1) *The Implementing Regulations, the Protocol on Recognition, the Protocol on Privileges and Immunities, the Protocol on Centralisation, the Protocol on the Interpretation of Article 69 and the Protocol on Staff Complement shall be integral parts of this Convention.*
(2) *In case of conflict between the provisions of this Convention and those of the Implementing Regulations, the provisions of this Convention shall prevail.*
- 16 T 1063/18 (5 December 2018), 22.
- 17 T 1063/18 (5 December 2018), 20.
- 18 T 1063/18 (5 December 2018), 21.
- 19 <<https://www.epo.org/news-issues/news/2019/20190329.html>>
- 20 <<https://www.epo.org/news-issues/news/2019/20190405.html>>
- 21 *Commission Notice on certain articles of Directive 98/44/EC of the European Parliament and of the Council on the legal protection of biotechnological inventions* (2016) OJ C411/3 (8 November 2016) 5.

FRANCE

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Consequences of the PACTE Act in terms of IP

The *Action Plan for the Growth and Transformation of Enterprises Act* (the "PACTE Act") adopted on 11 April 2019 – but not yet promulgated – brings important changes regarding intellectual property ("IP"):

- It amends the statute of limitations applicable to industrial property rights litigation, to the benefit of right holders as follows:
 - the new wording of the limitation period for infringement actions will prevent the limitation period from starting to run when the claimant was unaware of the infringement and seems to allow compensation to be obtained over the entire duration of the infringement; and
 - the reform provides that the invalidity action of the various industrial property rights is not subject to any limitation period.
- It also aims at strengthening French patents by:
 - extending the term of protection granted by utility certificates and possible conversion into a patent;
 - establishing a complete examination of the validity of French patent applications; and
 - creating an opposition right to French patents.

Modification of the limitation period for infringement actions

Article 121 of the PACTE Act amends the statute of limitations for industrial property rights infringement actions by providing that "civil proceedings for infringement shall be barred after five years from the day on which the holder of a right knew or should have known the last fact enabling him to exercise it".

The limitation period is not modified (Act No. 2014-315 of 11 March 2014 increased the limitation period from three to five years) but the starting point and the limitation mechanism are modified; it should be recalled that the previous text made the limitation period run "from the facts that caused it".

The reform has two consequences that will certainly have to be interpreted by case law.

The first consequence of the reform is to avoid the limitation period for infringement proceedings initiated more than five years after the acts of infringement, when the plaintiff was

not aware of the existence of these acts of infringement and could not be aware of them. This is often the case in patent infringement actions concerning a product or process used in the secrecy of a factory, or when the infringement is of a small extent or is carried out in circles or places that the rights holder cannot monitor.

Indeed, with the new text, the limitation period does not begin to run until the right holder does not know or may not know the existence of the infringement.

The second consequence seems to be that an action initiated within the time limit could allow compensation to be obtained over the entire period of the infringement, with no time limit. This consequence is due to the presence of the expression “the last fact” in the sentence “from the day on which the holder of a right knew or should have known the last fact enabling him to exercise it”. This wording seems to be based on Article 72 of the *Unified Patent Court Agreement*.

The literal construction of the new Act allows one to argue that as soon as the infringement action has been brought within five years from the day on which the right holder knew or should have known the last fact enabling him to exercise it, the action and in particular the claims for compensation may concern all acts of infringement regardless of the date on which they were committed.

This wording seems to have been retained by the legislator in full awareness of its consequences since many associations had drawn the legislator’s attention to the meaning of the reform.

The provisions of the *Commercial Code* relating to the limitation period for actions in breach of trade secrets are also amended in the same way.

In the absence of transitional provisions, it should be understood that the new text will apply immediately from the day after the promulgation of the Act. However, pursuant to Article 2228 of the *Civil Code*, this text does not allow actions to be brought again concerning facts that were time-barred on the date of entry into force.

Modification of the limitation period for invalidity actions

Article 121 of the PACTE Act specifies that invalidity actions for industrial property rights (patents, trade marks, designs, plant breeders’ rights and topography of semiconductor products) are not subject to any limitation period.

It should be recalled that since the 17 June 2008 Act on the reform of limitation periods in civil matters, which reduced the common law limitation period applicable to personal and real actions to five years, case law has applied this limitation period to invalidity actions, despite considerable hesitation as to the starting point of this limitation period (date of

publication of the application, date of grant, assessment *in concreto* of the date on which the ground of invalidity was discovered). This case law did not prevent the defendant in an infringement proceedings from invoking the invalidity of the right as a defence, but could lead to the inadmissibility of certain actions or counterclaims for invalidity.

The reform provided for by the new PACTE Act puts an end to this French oddity and harmonises French law with the law concerning European Union trade marks and the *Unified Patent Court Agreement*, which do not provide for a limitation period for invalidity actions as a principal or counterclaim.

Point III of Article 121 provides that this reform applies to rights in force on the day of publication of the new law but has no effect on decisions that have the force of *res judicata*.

Amendments concerning the utility certificate

Article 118 of the PACTE Act modifies the duration of the certificate of utility from six to 10 years (Article L. 611-2 of the *Intellectual Property Code* (the “CPI”)).

For the record, the utility certificate confers protection identical to that of a patent but for a shorter period of time and does not require the establishment of a search report, which must nevertheless be drawn up if an infringement action is brought on the basis of the utility certificate.

This Article 118 introduces the possibility of converting an application for a utility certificate into a patent (Article L. 612-15 CPI) under conditions to be specified by the Regulations. Previously, it was only provided that a patent application could be converted into a utility certificate, particularly when the applicant did not wish to establish a search report.

Utility certificates are widely used in Germany and it remains to be seen whether, as a result of the extension of the duration of protection, French companies will take a greater interest in this right, which they have, until now, largely ignored.

Creation of an opposition right to French patents

Article 121 of the PACTE Act creates a right of opposition against patents granted by the French National Institute of Intellectual Property (the “INPI”). It was previously not possible to file such an administrative action to challenge a newly granted French patent; only a judicial action for the invalidity of the patent could be filed before the *tribunal de grande instance de Paris*. Now a French patent may be the subject of an opposition before the INPI, which will not prevent the initiation of a legal action for invalidity.

The new Act does not provide for the modalities for exercising this right of opposition (time limits, appeal, format, possibility of stay of proceedings in parallel judicial proceedings, costs, etc.); it is up to the Government to

take, by means of an order, the legal measures necessary to implement this opposition right, within nine months of the promulgation of the Act. A ratification Bill must then be submitted to Parliament within six months of the publication of the order.

Implementing Regulations will then have to be enacted, so that the opposition right will not be effective until many months or even a few years later.

Creation of a real examination of the validity of French patent applications

Article 122 of the PACTE Act provides for a full examination of the patentability of French patent applications.

Until now, the INPI could only reject a patent application in limited cases provided for in Article L. 612-12 CPI, in particular if the subject matter of the application could not “obviously” be considered as a patentable invention or if the invention was not new. The INPI did not carry out any assessment of the inventive step.

Article 122 amends Article L. 612-12 CPI, which now provides that a patent application shall be rejected, among other essentially formal unchanged conditions, if it does not cover a patentable invention (the adverb “obviously” is deleted) or if it is lacking novelty, inventive step or industrial application.

The new Act states that this reform will come into force one year after its promulgation.

The enhanced examination of patent applications involves the recruitment and training by the INPI of new examiners.

This reform aims to strengthen the French patent, which is considered accessible, inexpensive and granted quickly, but whose validity is sometimes considered too weak. It remains to be seen whether applicants will find the French patent, thus strengthened, more attractive.

Entry into force

The PACTE Act has not yet been promulgated because an appeal has been made before the *Conseil Constitutionnel* (Constitutional Court) to verify the conformity of the law with the French Constitution.

1 This contribution reflects the personal views of the authors and should not be attributed to the authors’ firm or to any of its present and future clients.

GERMANY

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Courts clarify Art. 16 of EC Regulation No 110/2008 on the definition, description, presentation, labelling and the protection of geographical indications of spirit drinks

Scotch Whisky Association v Michael Klotz: European Court of Justice, decision dated 7 June 2018, C-44/17; Regional Court Hamburg, decision dated 7 February 2019, 327 O 127/16.

The Regional Court of Hamburg (“RC”) recently rendered its decision in a long-running dispute regarding violation of Art. 16 of Regulation (EC) No 110/2008 of the European Parliament and of the Council of 15 January 2015 on the definition, description, presentation, labelling and the protection of geographical indications of spirit drinks (“EC Regulation No 110/2008”). The RC had referred three questions to the European Court of Justice (“CJEU”) concerning the interpretation of Art. 16 of EC Regulation No. 110/2008.

EC Regulation No. 110/2008 regulates, inter alia, the protection of geographical indications of spirit drinks. In the European Union (“EU”), certain labels exist that aim at protecting and supporting traditional, regional food products. Besides geographical indications, labels protecting designations of origin and labels guaranteeing traditional specialities also exist.

In the present case, the Scotch Whisky Association (“SWA”) filed a suit against a German whisky producer who marketed a whisky produced by the Waldhorn distillery in Berglen, located in the Buchenbach valley in Germany, under the designation “Glen Buchenbach”. The SWA argued that use of the designation “Glen Buchenbach” violated Art. 16 of EC Regulation No 110/2008 regarding the protected geographical indication “Scotch Whisky”. As a consequence of the protected geographical indication, a whisky named “Scotch Whisky” has to be produced in Scotland.

It was now disputed whether whisky with the name “Glen” also violates the protected geographical indication “Scotch Whisky”.

Background

A protected geographic indication documents a connection between a regional food product and its origin. The idea is that food products with a protected geographical indication label contain a specific characteristic or reputation as the consumer connects a certain quality with products from that region.

Spirit drinks that are produced in a certain region of the EU can be registered geographical indications and are protected by EC Regulation No 110/2008. Besides “Scotch Whisky”, “Champagne” for example is a protected geographical indication for sparkling wine that originates from the French province Champagne.

Art. 16 of EC Regulation No 110/2008 states that geographical indications registered in Annex III therein shall be protected against:

- (a) *any direct or indirect commercial use in respect of products not covered by the registration in so far as those products are comparable to the spirit drink registered under that geographical indication or insofar as such use exploits the reputation of the registered geographical indication;*
- (b) *any misuse, imitation or evocation, even if the true origin of the product is indicated or the geographical indication is used in translation or accompanied by an expression such as ‘like’, ‘type’, ‘style’, ‘made’, ‘flavour’ or any other similar term;*
- (c) *any other false or misleading indication as to the provenance, origin, nature or essential qualities on the description, presentation or labelling of the product, liable to convey a false impression as to its origin; (...).*

Annex III to the EC Regulation No 110/2008, titled “Geographical indications”, states that “Scotch Whisky” has been registered as a geographical indication in relation to “Whisky/Whiskey”, with the “United Kingdom (Scotland)” listed as the country of origin.

The label of the disputed whisky “Glen Buchenbach” included, in addition to a stylised image of a hunting horn (“Waldhorn” in German), the following information (English translation in brackets added):

“Waldhornbrennerei” (Waldhorn distillery)

“Glen Buchenbach”

“Swabian Single Malt Whisky”

“500 ml”

“40% vol”

“Deutsches Erzeugnis” (German product)

“Hergestellt in den Bergen” (produced in the Bergen)

Even though only the geographical indication “Scotch Whisky” is protected, the plaintiff argued that the use of the term “Glen” violates Art. 16 EC Regulation No 110/2008. It argued that the geographical indication is protected against any use even if the geographic origin is only hinted at. The term “Glen” allegedly indicates that the whisky originates from Scotland. To prove this point, the SWA, inter alia, argued

that the vast majority of Scotch Whisky contain the term “Glen” and that the term “Glen” is a synonym for “Scotch” or “Scottish”.

The RC considered whether the use of the term “Glen Buchenbach” constitutes, in the sense of Art. 16 of EC Regulation No 110/2008, either an “indirect commercial use”, a “revocation” or “any other false or misleading indication” of the protected geographical indication “Scotch Whisky”. As this interpretation concerned EU law which was not yet settled by the CJEU and the RC held that the interpretation was decisive for the case at hand, it decided to stay the proceedings and to refer to the CJEU the following three questions for a preliminary ruling:

- (1) *Does “indirect commercial use” of a registered geographical indication of a spirit drink in accordance with Article 16(a) of [Regulation No 110/2008] require that the registered geographical indication be used in identical or phonetically and/or visually similar form, or is it sufficient that the disputed element evokes in the relevant public some kind of association with the registered geographical indication or the geographical area?*

If the latter is sufficient: When determining whether there is any “indirect commercial use”, does the context in which the disputed element is embedded then also play a role, or can that context not counteract indirect commercial use of the registered geographical indication, even if the disputed element is accompanied by an indication of the true origin of the product?

- (2) *Does an “evocation” of a registered geographical indication in accordance with Article 16(b) of [Regulation No 110/2008] require that there be a phonetic and/or visual similarity between the registered geographical indication and the disputed element, or is it sufficient that the disputed element evokes in the relevant public some kind of association with the registered geographical indication or the geographical area?*

If the latter is sufficient: When determining whether there is any “evocation”, does the context in which the disputed element is embedded also play a role, or can that context not counteract any unlawful evocation of the registered geographical indication, even if the disputed element is accompanied by an indication of the true origin of the product?

- (3) *When determining whether there is any “other false or misleading indication” in accordance with Article 16(c) of [Regulation No 110/2008], does the context in which the disputed element is embedded play a role, or can that context not counteract any misleading indication, even if the disputed element is accompanied by an indication of the true origin of the product?*

Decision of the CJEU

First question

The first question dealt with the issue of how broad the term “indirect commercial use” in Art. 16(a) of EC Regulation No 110/2008 should be interpreted. Up until now it had not been decided by the CJEU whether the use of a term notionally similar to the registered indication that only evokes some kind of association with the protected geographic indication or the geographic area violates Art. 16(a). The CJEU decided:

for the purpose of establishing that there is ‘indirect commercial use’ of a registered geographical indication, the disputed element must be used in a form that is either identical to that indication or phonetically and/or visually similar to it. Accordingly, it is not sufficient that that element is liable to evoke in the relevant public some kind of association with the indication concerned or the geographical area relating thereto.

The CJEU emphasised that Art. 16(a) of EC Regulation No 110/2008 has to be distinguished from the other provisions of Art. 16, especially Art. 16(b). With a broad interpretation of Art. 16(a), including terms that only evoke some kind of association with the registered geographical indication, Art. 16(b) would lose its meaning.

Furthermore, the CJEU clarified another aspect of the interpretation of the term “indirect commercial use”. It was disputed whether “indirect use” requires that the registered geographical indication is used in supplementary marketing or information sources or whether the disputed element has to refer to the registered geographical indication. For example, “Glen Buchenbach has the taste of Scotch Whisky” would be “indirect commercial use” according to this view. The CJEU now clarified that “indirect use”:

requires the indication to feature in supplementary marketing or information sources, such as an advertisement for that product or documents relating to it.

As the CJEU answered the first part of question one in the negative, the second part did not need to be answered.

Second question

Similar to the first question, the second question concerned essentially how broad the term “evocation” within the meaning of Art. 16(b) of EC Regulation No 110/2008 is to be interpreted. It was not yet settled whether “evocation” of a registered geographical indication in accordance with Art. 16(b) requires that there be a phonetic and/or visual similarity between the registered geographical indication and the disputed element. Again, the broadest interpretation would be that for there to be “evocation”, it is sufficient that the disputed element evokes in the relevant public some kind of association with the registered geographical indication or the geographical area.

The second part of the question concerned the potential influence of the context of the disputed element on the determination of a violation of Art. 16(b).

First, the CJEU clarified that:

The partial incorporation of a protected geographical indication in the sign at issue is not an essential condition.

Furthermore,

identifying phonetic and visual similarity between the disputed designation and the protected geographical indication

is likewise not an essential condition.

The CJEU emphasised that:

“the decisive criterion is whether, when the consumer is confronted with a disputed designation, the image triggered directly in his mind is that of the product whose geographical indication is protected (...).

However, the criterion that the disputed element of the sign at issue should evoke in the relevant public “some kind of association” with the protected geographical indication or the geographical area relating thereto:

cannot be used, as it does not establish a sufficiently clear and direct link between that element and the indication concerned.

As in the first question, such a broad question would be in conflict with the provisions of Art. 16(c) and Art. 16(d). In addition, the CJEU was concerned with the issue of legal certainty and stated:

(...) [T]he EU legislature has sought to ‘ensure a more systematic approach in the legislation governing spirit drinks’, by setting out ‘clearly defined criteria’ for, inter alia, ‘the protection of geographical indication’. Allowing a criterion as vague and far-reaching as that put forward by the referring court in its second question would not be consistent with that objective.

Thus, the CJEU concluded that Art. 16(b) of EC Regulation No 110/2008 must be interpreted as meaning that, for the purpose of establishing that there is an “evocation” of a registered geographical indication, the referring court:

is required to determine whether, when the average European consumer who is reasonably well informed and reasonably observant and circumspect is confronted with the disputed designation, the image triggered directly in his mind is that of the product whose geographical indication is protected. In making that determination, the referring court, in the absence of (i) any phonetic and/or visual similarity between the disputed designation and the protected geographical indication and (ii) any partial incorporation of that indication in that designation, must take account of the

conceptual proximity, if any, between the designation and the indication.

Regarding the second part of question two, the CJEU took a narrow approach. Consistent with the clear wording of Art. 16(b), the CJEU held that:

account is not to be taken either of the surroundings of the disputed element, or, in particular, of the fact that that element is accompanied by an indication of the true origin of the product concerned.

Third question

With its third question, the RC asked, essentially, whether Art. 16(c) must be interpreted as meaning that, for the purpose of establishing that there is a “false or misleading indication”, as prohibited by that provision, account must be taken of the context in which the disputed element is used, in particular where that element is accompanied by an indication of the true origin of the product concerned. In answering the third question, the CJEU again stressed that the purpose of EC Regulation No 110/2008 and, in particular, of Art. 16 thereof, is to protect registered geographical indications.

On the one hand, registered geographical indications protect:

the interests of consumers who should not be misled by inappropriate indications.

On the other hand, registered geographical indications support:

the interests of economic operators which bear higher costs in order to guarantee the quality of products that lawfully bear protected geographical indications. Those operators must be protected against acts of unfair competition.

Thus,

if a false or misleading indication could nonetheless be permitted because it is accompanied by additional information relating, in particular, to the true origin of the product concerned, that provision would be deprived of practical effect.

It follows from this that for the purpose of establishing that there is a “false or misleading indication”, as prohibited by Art. 16(c) of Regulation No 110/2008, account is not to be taken of the context in which the disputed element is used.

Decision of the RC

The RC now applied the specifications of the CJEU.

As the term “Glen” and “Scotch Whisky” are neither identical, nor phonetically and/or visually similar, a violation of Art. 16(a) of EC Regulation No 110/2008 was denied.

Accordingly, regarding Art. 16(b) of EC Regulation No 110/2008, the RC denied a violation as “some kind of association” is not enough. The RC held that for the assumption of “evocation”, the association must be due to one of the criteria set out by the CJEU which is not the case here.

However, a violation of Art. 16(c) EC Regulation No 110/2008 was found. The RC held that the term “Glen” evokes, from the average European customer’s point of view, the impression that the said whisky is a Scotch Whisky. This is, inter alia, due to the fact that almost all whiskys that contain the term “Glen” are Scotch Whiskys. Accordingly, in European supermarkets, almost all whiskys sold with the term “Glen” are Scotch Whiskys.

Concerning the additional information on the label, indicating that the whisky is produced in Germany, the RC held that this information is irrelevant as stipulated by the CJEU.

Why this decision is interesting

In its decision, the CJEU clarified the interpretation of Art. 16 of Regulation No 110/2008. This is welcoming as the EC Regulation No 110/2008 affects a whole range of products and disputes regarding infringement of protected geographical indications are common.

Additionally, the decision is interesting as it is not only relevant for the EC Regulation No 110/2008 but also for other EU Regulations concerning the use of protected geographical indications. The CJEU has held in a former decision (decision dated 20 December 2017 – C-393/16 – *CIVIC v ALDI* [Champagner Sorbet]) that the different EU Regulations regarding protected geographical indications are to be interpreted in the same way.

Thus, the decision is also relevant for the interpretation of these EC Regulations, namely Regulation (EC) No 1308/2013 of the European Parliament and of the Council of 17 December 2013 establishing a common organisation of the markets in agricultural products regarding certain wine products; Regulation (EC) No 251/2014 of the European Parliament and of the Council of 26 February 2014 on the definition, description, presentation, labelling and the protection of geographical indications of aromatised wine products; and Regulation (EC) No 1151/2012 of the European Parliament and of the Council of 21 November 2013 on quality schemes for agricultural products and foodstuffs.

In this context, another referral to the CJEU by a German court should be considered which could lead to more clarity in the interpretation of said EU Regulations. In the decision “*Deutscher Balsamico*” (order dated 12 April 2018, I ZR 23/16 [Deutscher Balsamico]), the German Federal Supreme

Court referred to the CJEU the question whether the protection of the term “Aceto Balsamico di Modena” extends also to non-geographical terms (such as “Aceto”, “Balsamico” and “Aceto Balsamico”). This question is significant as the disputed element “Deutscher Balsamico” contains the term “Balsamico”, a term that is commonly used at least in Germany when referring to vinegar. The CJEU has not yet decided how to answer this question.

Conclusion

The CJEU ruled that only “some kind of association” is neither an applicable criterion when determining whether there is “indirect commercial use” within the meaning of Art. 16 (a) of EC Regulation No 110/2008, nor relevant when deciding if the use of a term constitutes an “evocation” according to Art. 16 (b) of EC Regulation No 110/2008.

Furthermore, it was decided that the context in which a disputed element is used in order to establish a “false or misleading indication as to the provenance, origin, nature or essential qualities of the product” is irrelevant for the assessment of a violation of Art. 16(c) of EC Regulation No 110/2008.

This strict, consumer friendly approach of the CJEU is convincing in principle. Consumers rely on geographical indications and thus producers are tempted to use the image of a certain region to advertise their product, even it does not origin from that region. Furthermore, the strict approach provides legal certainty which is positive as legal disputes regarding protected geographic indications are common.

However, it is questionable how far the protection should be extended. The decision of the RC clearly demonstrates that protection of geographical indications can constitute a heavy burden on the “creative” naming of products.

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Assessment of obviousness of dosage regime patents in the United Kingdom: Supreme Court judgment in the tadalafil case

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Introduction

On 23 March 2019, the Supreme Court of the United Kingdom (the “Supreme Court”) handed down its decision in *Actavis Group PTC EHF and others v ICOS Corporation and another* [2019] UKSC 15 concerning the issue of the inventive step of a pharmaceutical dosage regimen patent. The case not only involved a range of generic defendants (including Actavis, Teva and Generics United Kingdom (“UK”) (trading as Mylan)), it also attracted a slew of interveners from both the pharmaceutical and generic industries (namely Medicines for Europe, the British Generic Manufacturers Association, the UK BioIndustry Association and the IP Federation).

Despite the extensive interest from all sides, the final decision itself was quite limited in scope. The two issues that proved determinative before the Supreme Court were how obviousness should apply to dosage regime patents, and whether the England and Wales Court of Appeal was entitled to reverse the judgment of the first instance court in this case. The Supreme Court, comprising Lady Hale and Lords Kerr, Sumption, Hodge and Briggs, was unanimous in its decision, with Lord Hodge providing the only judgment.

Background

The patent in suit related to the use of a given dosage of tadalafil (1 to 5 mg), up to a maximum dose of 5 mg per day, for use in the treatment of sexual dysfunction. The claims were in both *European Patent Convention* (“EPC”) 2000 format (purpose-limited product claims) and in Swiss-form (purpose-limited process claims). Tadalafil is the generic name of the drug known as Cialis® (used for the treatment of erectile dysfunction and benign prostatic hyperplasia) and Adcirca® (used for the treatment of pulmonary arterial hypertension).

The patent disclosed improvements over the first in class drug, sildenafil (Viagra®). First, the invention had fewer side effects than sildenafil due to increased potency. This meant that lower doses than the known 25, 50 and 100 mg of sildenafil were no longer necessary in order to treat patients (although it was acknowledged that there was some evidence that lower doses of sildenafil had also been investigated and proved efficacious). It was therefore accepted that there was

a clear motivation to try tadalafil as it was a similar cyclic nucleotide phosphodiesterase (“PDE”) 5 inhibitor that acts in the same way as sildenafil, but without such a significant inhibition of PDE6 as was seen with sildenafil, resulting in a reduction in side effects. Secondly, tadalafil could be administered chronically (i.e. daily) rather than “on demand” due to increased half-life.

Issues before the Supreme Court

Actavis and the other generics companies initially sought to revoke the patent based on allegations comprising added matter, lack of novelty, obviousness and insufficiency. Entitlement to priority was also challenged. However, the Supreme Court only considered the arguments based on obviousness.

The key piece of prior art was a patent referred to by the parties as “Daugan”, a Glaxo patent which was ultimately transferred to ICOS. Daugan disclosed tadalafil and noted that its potency against PDE5 was 2nM, but did not propose a specific dosage regime. Instead Daugan generally proposed 0.5 to 800 mg daily, or a 50 mg dose based on a specific example. The parties agreed that it would have been routine to take tadalafil forward into pre-clinical / clinical trial programmes based on Daugan.

The parties' arguments

Actavis suggested that it would have been costly and time consuming, but ultimately routine for the skilled team given Daugan to take tadalafil forward into routine pre-clinical and clinical programmes for erectile dysfunction. In doing so, Actavis argued that the programme would establish that tadalafil was safe, tolerable and effective, and that a 5 mg dose would have been identified as that would have been the lowest dose of the drug that was effective based on standard dose finding studies.

For its part, ICOS contended that such research was expensive and unpredictable, and that there was no reason to think at the outset of the research programme that a 5 mg dose would have been safe and effective with minimal side effects. It suggested that obviousness of the dose should be assessed at the outset of the research programme, and not at some later date following some initial studies. This submission was based on the statutory question in section 3 of the UK *Patents Act 1977*, which asks whether the invention was obvious at the priority date.

The Supreme Court's decision on obviousness

In reaching its decision, the Supreme Court highlighted the importance of the general principle that a patent monopoly should correspond to and be justified by the actual technical contribution to the art. It also noted that the statutory provisions on obviousness mandate that the court assess obviousness having regard to the state of the art at the priority date of the invention. That said, it went on to note

that uninventive steps which the skilled team would take after the priority date to implement the Daugan patent are not excluded from consideration in assessing the obviousness of the alleged invention at the priority date.

The Court reviewed both the European Patent Office's “problem-and-solution” and the UK's *Windsurfing/Pozzoli* (*Pozzoli SPA v BDMO SA & Anor* [2007] EWCA Civ 588) structured approaches to obviousness, noting that both are glosses on the statutory test for obviousness which should not be applied in a mechanistic way. Instead, Lord Hodge endorsed the fact-specific approach in *Generics (UK) Ltd v H Lundbeck* [2007] RPC 32, and identified that the following factors were relevant considerations in the present case:

- (i) Whether something was “obvious to try”. The Court acknowledged that the results of some experiments can be obvious even if there is no expectation of success;
- (ii) Whether the research was routine in nature and whether it was an established practice to follow research through to a particular point. The Court noted that this had no primacy and certainly no paramount status as a consideration;
- (iii) The burden and cost of the research programme (although it acknowledged that the weight attached to this factor would vary with the circumstances). The Court noted here that the need to facilitate expensive pharmaceutical research is an important policy consideration;
- (iv) The need to make and the nature of value judgments made during a research programme;
- (v) The existence of alternative or multiple paths of research. The Court noted that multiple paths will often, although not necessarily, be an indicator of non-obviousness;
- (vi) The motive of the skilled person to undertake certain technical trials (i.e. not whether they could undertake a particular trial, but whether they would be motivated to do so);
- (vii) Whether the results of the research were unexpected. The Court noted that this may point to an inventive step (at least insofar as a test was not obvious to try);
- (viii) The need to avoid hindsight. The Court noted that the “obvious danger of a step by step analysis is that the combination of steps by which the inventor arrived at his invention is ascertained by hindsight knowledge of a successful invention”, but went on to say that there may be cases in which “the steps which the notional skilled person would take can readily be ascertained without the taint of hindsight”;

- (ix) Whether the feature of the claimed invention is an added benefit in which the claimed innovation is obvious for another purpose. The Court referred here to the well-known UK authority in *Hallen & Co v Brabantia (UK) Ltd* [1991] RPC 195 where it was held that a patent to a polytetrafluoroethylene (“PTFE”) coated corkscrew was obvious because (i) it was obvious that the PTFE coating would achieve better penetration of the corkscrew into the cork and (ii) while there was an unexpected benefit that the PTFE coating in fact improved the pulling of the cork, this unexpected benefit could not support a valid patent; and
- (x) In relation to dosage regimen patents, the Court reiterated that there is no blanket prohibition on such patents but that there has been no relaxation of the rules relevant to the assessment of inventive step for these patents. In other words, they are considered in the same way as the other patents.

Taking those factors into account, the Supreme Court held that the patent was obvious. The starting point of the assessment was implementing Daugan, which the skilled person would do by finding the appropriate dosage regime via routine and familiar pre-clinical and clinical procedures that would have regard to safety, tolerability and effectiveness. The skilled person would clearly have had the motivation to conduct such studies, and in doing so, would have identified a surprising therapeutic plateau between 25 to 100 mg. It would then have been “very likely” (described by one of the experts in the case as a “no brainer”) that they would have conducted further testing at lower doses, including 5 mg. The Supreme Court was of the view that little weight should have been attached to the following facts:

- that 5 mg was a much lower dose than the marketed doses of sildenafil;
- that there was only a low expectation of efficacy at 5 mg;
- that the skilled person would have been surprised that a 5 mg dose was efficacious; and
- that a significant value judgment had to be made once the therapeutic plateau was identified. The reason for this was the lower court’s finding of fact based on the evidence of experts and not tainted by hindsight that the skilled team would have pursued further dosing tests following the identification of the therapeutic plateau.

The Supreme Court also considered whether chronic / daily dosing was obvious. It noted that, despite the patentee seeking to rely on this apparent improvement over sildenafil, the claims were not limited to daily dosing, but instead to a maximum daily dose (which did not need to be chronically

administered). In any event it came to the conclusion that chronic dosing was obvious, and in doing so, it relied on the finding of fact that the half-life of tadalafil would have been an inevitable discovery in routine Phase I tests.

Finally, Lord Hodge expressly noted that it was not necessary for the skilled team to identify the specific dose which is the subject of the claim in advance of Phase IIb tests. His Lordship concluded that the requirement was met if the “step by step approach, without the benefit of hindsight, demonstrates that the skilled team would be very likely to pursue the tests to the point at which they would ascertain the product or process falling within the claims”.

The Supreme Court’s decision on the role of the appellate court

Traditionally, UK appellate courts demonstrate some reluctance in granting permission to appeal decisions on the obviousness of patents and to overturn the findings of the trial judge. It is generally considered that such questions are highly fact sensitive, and that the trial judge, having had the benefit of hearing the experts first-hand, is best placed to determine them. Of course, this does not and has never prevented an appellate court from considering questions of obviousness insofar as the questions relate to errors of law.

The Supreme Court reaffirmed the limitations on the appellate court’s power to overturn a first instance judge, noting that whether it is appropriate for an appeal court to intervene will depend on the circumstances of the case, and in particular, the nature of the evaluation, the standing and experience of the first instance court and the extent to which the tribunal had to assess oral evidence. Lord Hodge then drew a fine distinction between reversing a lower court’s evaluation of the facts where the application of the legal standard involved a question of principle (which is allowable) as opposed to a matter of degree on which judges can legitimately differ or a finding of fact (which is not). He made clear that questions of principle are not limited to errors as to the law, but can include errors in the application of a legal standard to the facts in an evaluation of those facts.

Lord Hodge acknowledged that the assessment of obviousness necessarily involves carrying out an evaluation of many relevant factors which must be balanced to reach a conclusion – there is often not a single decisive factor. In such cases, caution should be exercised by the appellate court where there is no question of principle as to the application of the legal standard, but instead merely a question of degree – an appeal court ought not to intervene unless it is satisfied that the judge’s conclusion is outside the bounds within which reasonable disagreement is possible.

In this case the Supreme Court found that the Court of Appeal was correct to overturn the first instance finding of non-obviousness, on the basis that the first instance judge had failed to appreciate the logical consequences of his findings of fact. This was an error of principle which allowed the Court of Appeal to carry out its own evaluation.

In coming to a contrary decision, the Court of Appeal did not reverse any finding of facts. It instead simply appreciated the logical consequences of the first instance court's findings, namely that the skilled team would have implemented the teaching of Daugan by establishing the appropriate dosage regime of tadalafil based on routine testing. The result is that they would have identified that a 5 mg dose was efficacious.

The impact of judgments from courts outside the UK

During proceedings the parties made submissions relating to several proceedings from non-UK courts relating to equivalent patents in the other countries. Lord Hodge noted that there were not particularly helpful. He noted the desirability of consistency between EPC signatories, but also acknowledged that there are differences in evidence and the manner in which that evidence is tested as between jurisdictions. As such, it may be possible to derive support from the approach of other national courts, but their decisions should not be uncritically relied upon.

The points of general applicability raised by the interveners

The interventions in this case largely advocated a fact specific analysis of obviousness on a case by case basis, and sought clarity on the relevance of the reasonable expectations of success and the problem-and-solution approach to the assessment of obviousness. They also sought to clarify that the Court of Appeal decision should not be construed to support that the result of routine investigations can never lead to a valid patent claim.

By and large, the Supreme Court agreed with the interveners' points. Of particular note, Lord Hodge commented that there is no "general proposition that the product of well-established or routine enquiries cannot be inventive", rather, that "efficacious drugs discovered by research involving standard pre-clinical and clinical tests should be rewarded with a patent if they meet the statutory tests". His Lordship also noted that "this judgment does not militate against selection patents or improvements patents".

Implications

The decision arguably does not reflect any major changes in the approach to obviousness in patent cases. It confirms that the test for obviousness is a statutory one. It also confirms (as had previously been understood) that products of well-established or routine enquiries can be inventive, if they satisfy the usual statutory test of obviousness. The judgment provides some more detailed and useful guidance on what factors are relevant to the consideration of dosage regime patents specifically, and comprises some useful commentary on obviousness generally. Perhaps most interestingly, it expressly confirms that uninventive steps which the skilled team would take after the priority date to implement the prior art are not excluded from the assessment of obviousness of the alleged invention at the priority date.

Practically speaking, it seems that the bar for patentability of dosage regimes may be quite high. In assessing such inventions, one should consider how the dosage was settled upon, whether any value judgements or unusual steps were required along the way, and whether there are any unexpected benefits associated with the regime that may be included in the specification. It is rarely decisive, but it certainly helps to have a good story to tell the court about the surprising nature of the invention and the benefits that the invention has brought to patents and those entrusted with their care. So much the better if this technical advance is recited in the patent and supported with compelling data.

It is also important to note that many of the factors that Lord Hodge highlighted as being important in any analysis are really quite subjective. For example, what would the skilled person have been motivated to do at each stage? This suggests that it may be difficult to ascertain at an early stage (at least before experts are engaged) whether a given patent may be exposed to an obviousness attack. One may therefore expect that dosage regime patents will continue to be the subject of litigation in the future.

The subjective nature of the assessment also highlights the importance of expert selection in cases such as this. A case could be won or lost on whose expert the court finds more compelling.

The decision potentially also opens the door to more diverse decisions across jurisdictions. The court explicitly noted that the evidence before the various courts and their approach to the assessment of that evidence differs somewhat. In cases such as this, which turn on highly subjective, expert-driven questions, it seems more likely that there will be a greater risk of divergence.

We also believe that any analysis that involves considering what the skilled person would have done following the results of routine tests, i.e. what further tests would have been conducted and what the parameters of those further tests would have been, opens experts to allegations of hindsight. For that reason, the relatively recently adopted approach to instructing experts in a stepwise manner in the UK (i.e. providing the prior art and seeking an expert's view on their next steps prior to showing them the patented invention) could be usefully employed in such cases.

Finally, whilst it seemingly does not reflect a change in the law, it remains to be seen whether the Supreme Court's clarification on what may be considered to be a "question of principle" will affect the appetite of litigants and their advisors to seek permission to appeal decisions on obviousness. We do not consider the Supreme Court's commentary to broaden the scope of the appellate court's jurisdiction, being clearly limited to those instances in which it is satisfied that the lower court's judge's conclusion is outside the bounds within which reasonable disagreement is possible.

Current Developments – North America

CANADA

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Everything You Need to Know to Prepare for 17 June 2019 - The In-Force Date of Canada's New Trade Mark Regime

On 17 June 2019, the long-awaited changes to Canada's trade mark regime will take effect. The key changes were highlighted in Issue 115 (March 2019) of *Intellectual Property Forum*. In light of these changes, we would encourage owners of Canadian trade marks and those who have an interest in protecting their marks in Canada to do the following.

1. Review

Brand audits should be performed now to assess whether additional applications should be filed in light of the changes to:

- (a) assess whether additional Canadian trade mark applications should be filed now to allow for international trade mark applications to be filed through the Madrid Protocol to provide trade mark protection in any of the more than 120 Madrid Protocol countries; and
- (b) determine whether additional applications should be filed to take advantage of protection that will be available for non-traditional trade marks.

2. File

File declarations of use and pay registration fees now for allowed applications if possible. Registrations issued before 17 June 2019 will have 15-year terms rather than the reduced term of 10 years after 17 June 2019.

File multi-class trade mark applications now to avoid higher per-class Government filing fees after 17 June 2019. Currently the Government filing fee is CA\$250 regardless of the number of classes. After 17 June 2019 the Government filing fee will be CA\$330 plus CA\$125 for each additional class.

3. Renew

Renew now to avoid higher renewal fees, defer Nice Classification amendments and, for eligible registrations, obtain a 15-year renewal term rather than the new 10-year term. Per-class renewal fees will result in higher renewal fees after 17 June 2019 for multi-class registrations. Currently, the renewal fee is CA\$350. After 17 June 2019 it will be CA\$400 plus CA\$125 for each additional class.

Before 17 June 2019 registrations can be renewed regardless of their renewal date. After the coming into force date, registrations will be capable of renewal only within six months of the renewal date.

4. Watch

As the changes are expected to result in the filing of more trade mark applications in Canada, it will be more important than ever to monitor new filings through review of published applications and subscription to a watch service.

Current watch service subscriptions should be modified to provide alerts to filed applications in addition to published applications as there will be a new third-party notification procedure that allows trade mark owners to notify the Registrar of prior rights in trade mark applications and registrations and this may help to avoid more costly opposition proceedings.

5. Instruct

Provide instructions or arrange to pay registration fees for allowed applications on or soon after 17 June 2019 to enable allowed applications to proceed to registration as declaration of use will no longer be required in order to allow trade mark applications filed on the basis of proposed use to proceed to registration.

The changes to the Canadian trade mark regime which will come into force on 17 June 2019 present both challenges and opportunities for existing and potential new trade mark owners in Canada. A well thought out strategy, executed both before and after the effective date, could provide an excellent opportunity for trade mark owners to enhance the value of their intellectual property portfolio.

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