Intellectual Property Forum

Issue 120

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Co-Editors
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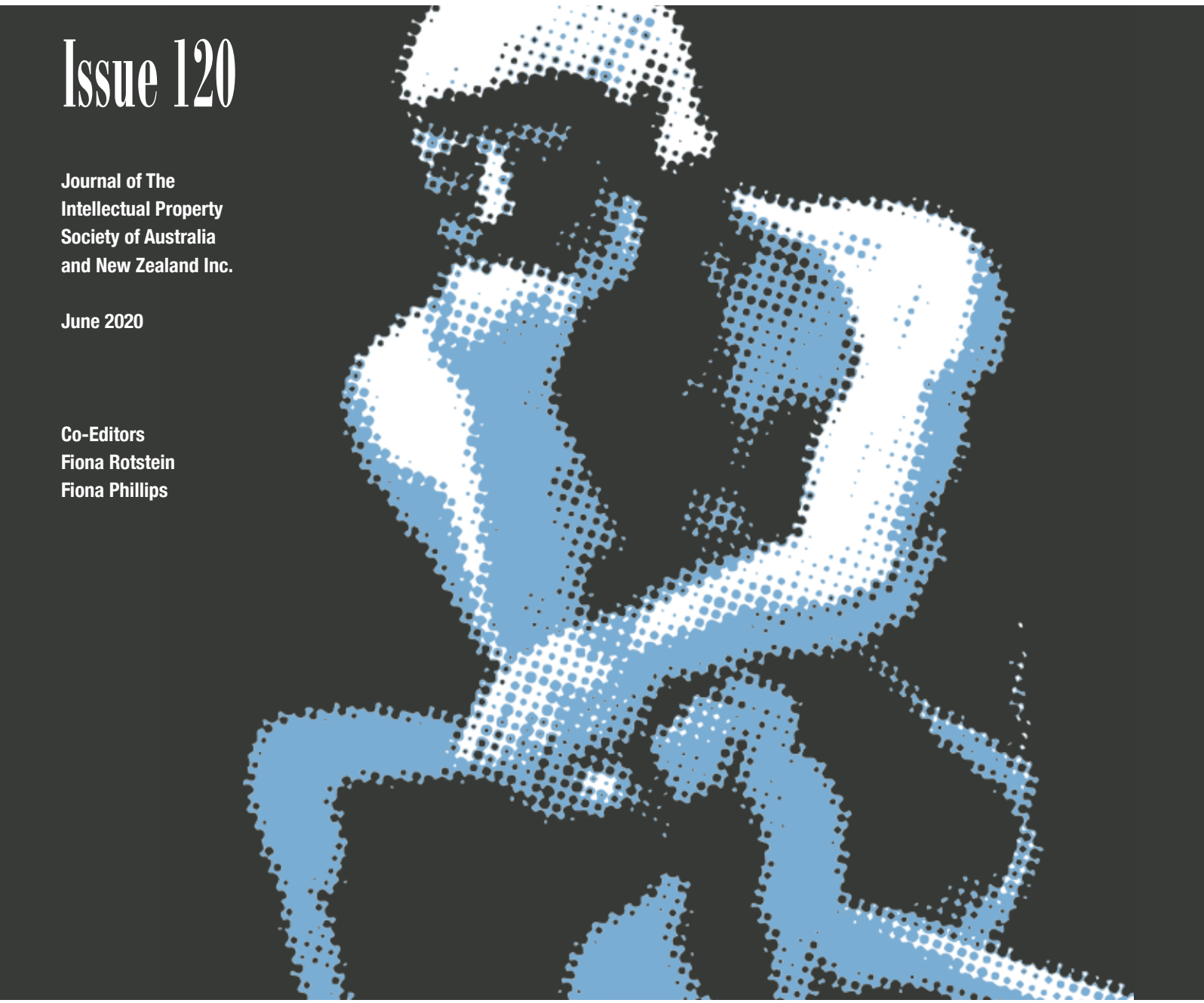

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Contributions to *Intellectual Property Forum* are invited on intellectual property subjects and related issues dealing with commercial law, trade practices, licensing, innovation and technology transfer.

Prospective contributors should write to:

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Journal Issue	Submission Dates
September 2020	before 1 August 2020
December 2020	before 1 November 2020
March 2021	before 1 February 2021
June 2020	before 1 May 2021

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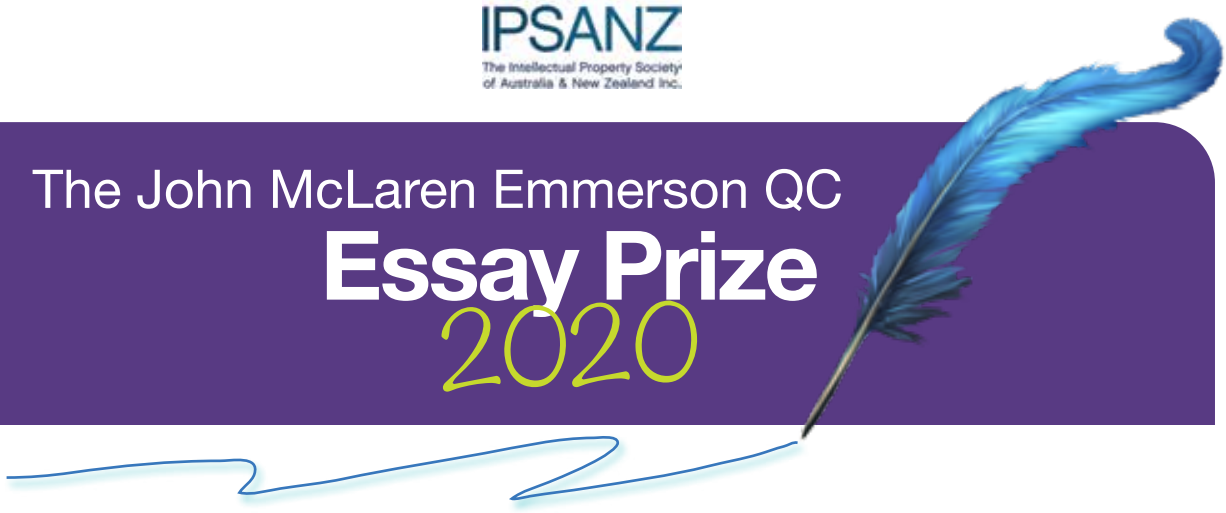
IPSANZ
The Intellectual Property Society of Australia & New Zealand Inc.

The John McLaren Emmerson QC Essay Prize 2020



In light of COVID-19, IPSANZ has made some modifications to The John McLaren Emmerson QC Essay Prize.

The deadline for entries will be extended to 5 June 2020.

Changes have also been made to the prizes themselves. A component of the prizes has traditionally been complimentary attendance at the Conference. As this will not be possible this year, IPSANZ has increased the cash component of the prizes as follows:

1st prize will now be $7,500 (increased from $5,000 to reflect the non-cash component previously offered)

2nd prize will now be $3,500 (increased from $2,000 to reflect the non-cash component previously offered)

3rd prize will now be $2,500 (increased from $1,000 to reflect the non-cash component previously offered)

The Intellectual Property Society of Australia and New Zealand Inc. is pleased to announce its 2020 competition for an essay on a topic of the author's choice regarding intellectual property.

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- Entries must be unpublished essays, which are the original work of the author.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 (including endnotes).
- 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).
- 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.
- Entries should be submitted electronically (in Word format and double spaced), accompanied by a separate page giving the author's name and contact details and a short biography. No identification of the author should appear on the entry itself.
- **Closing date for entries has been extended to 5 June 2020.**
- The winning entry will be published in *Intellectual Property Forum*, the official journal of IPSANZ.

Entries should be sent to:

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Editorial – Fiona Rotstein and Fiona Phillips

Photo by James Grant 2018

Fiona Rotstein
Co-Editor

Photo by Claus Huttenrauch 2018

Fiona Phillips
Co-Editor

Welcome to the 120th issue of *Intellectual Property Forum*, fittingly published in 2020. We pay tribute to our proud past as the official journal of IPSANZ, the leading organisation of intellectual property ("IP") professionals in Australasia. The first issue of *Intellectual Property Forum*, published in December 1984, contained three items by four Trans Tasman authors, including an article by Dr John McLaren Emmerson (as he was then) titled *Copyright, Computers and Chairs*. Thirty six years later, this issue, our 10th as Co-Editors, has 25 items by 44 authors from 13 different countries, as well as an advertisement for the IPSANZ John Emmerson QC Essay Prize, now in its 22nd year. We thank each of the previous Editors, and all of our past and present contributors, without whom, there would be no journal. Surveying our new, COVID-19 world order, this issue examines the current IP landscape in Australia and New Zealand, as well as internationally. It covers a panorama of IP issues, including trade marks, patents, designs, copyright and licensing.

2020. What a year. If humankind somehow possessed 20:20 vision to predict the future, would it have proceeded, knowing what was to come? While New Zealanders were still reeling from the White Island disaster in December 2019, Australians witnessed unprecedented bushfires in January and devastating floods in February. Then in March, the COVID-19 pandemic shook the world to its core. From April to June, there have been, and no doubt will continue to be, severe economic and emotional aftershocks. Unquestionably, the virus has disrupted every aspect of our daily lives, affecting our personal freedoms, health care and the economy, as well as overloading our communications infrastructure as huge numbers work and learn from home. COVID-19 has shut geographical borders but spread infection and economic downturn around the globe. A-once-in-a-100-year-event, uncertainty has crippled stock markets and consumer confidence. As we all know, the legal sector is not immune.

However, like in other times of crises, there will of course be silver linings to the COVID-19 cloud. Humans are remarkably resilient and adaptable creatures. As we have seen, many individuals, businesses and institutions have been agile, moving past the initial peak panic, to adjust

and pivot. Law firms, the legislature, educators and arts organisations have found novel ways to adapt, using new and existing technologies to bring their services to the people, if the people cannot come to them. Musicians, performers and entertainers, unable to tour or play to live audiences while in lockdown, have used the time in self-isolation to pour their creative energies into creating new content. With limited live sport being played, television stations have licensed other programs and events to broadcast to their audiences. Artificial intelligence and machine learning have been used to investigate and understand how COVID-19, as well as other future infectious diseases, can be contained and managed. As the saying goes, necessity is the mother of invention, so in the wake of this disaster it will be interesting to observe what new types of IP emerge.

This issue starts with a profile of Professor Susy Frankel, Professor of Law, Chair in Intellectual Property and International Trade and Director of the New Zealand Centre of International Economic Law at Victoria University of Wellington. She is also, in 2020, a Global Professor at New York University Law School. In a candid conversation with Fiona Rotstein, Professor Frankel reflects on her remarkable career, which includes eight years as Assistant Commissioner of Trade Marks, Patents and Designs and Hearings Officer for the IP Office of New Zealand, and 11 years as Chair and member of the New Zealand Copyright Tribunal. Professor Frankel also offers valuable insights on the protection of mātauranga Māori (traditional knowledge) and regulation, as well as the pertinent foci of international IP law today. With respect to the foreseeable IP issues to come out of COVID-19, Professor Frankel states:

> *Patent law is not the cause of the problem but it's also not enough of a solution. We need much more entrenched and well-funded research institutions that function regardless of patent incentives. There are some but will they be enough? The outcome of COVID-19 will tell us.*

We are also pleased to feature four articles on a range of IP subject matter. Our first article is *Survey Evidence: Wasted Opportunity or Waste of Time?* by Megan Evetts and Ed Heerey QC. Evetts and Heerey analyse the development of Australian case law on survey evidence in trade mark, Australian Consumer Law and passing off cases. The authors also examine some of the obstacles that parties seeking to rely on such evidence have encountered. Further, they compare the Australian position to that of the courts in New Zealand, the United Kingdom and the United States of America ("US"). The authors discuss how these jurisdictions have taken divergent approaches to the use of survey evidence, with Australian courts some of the most reluctant to accept such evidence. The authors consider the developments in overseas jurisdictions when considering whether by adopting such a hesitant position, Australian courts are missing out on potentially useful evidence.

Our second article is *Licensing Lessons – Takeaways From ObjectiVision and Other Recent Cases* by Scott Bouvier. While focusing on the long running case *University of Sydney v ObjectiVision* (2019) 148 IPR 1, Bouvier also explores the lessons learnt from other recent licensing-related cases and developments. He offers key takeaways on a variety of important issues, including commercialisation, condition precedents, consents, damages and exclusion clauses. In addition, Bouvier provides a checklist of key commercial questions to help test whether a licence agreement is clear and comprehensive. Hence, Bouvier's article is valuable in supporting some of the opportunities for innovative businesses, services and products which will surface from the COVID-19 pandemic.

Capturing the attention that COVID-19 has shone on pharmaceuticals, patents and medicines, our third article is *New Thinking for New Science – Biopharmaceutical Patent Disputes in Australia* by Naomi Pearce, Dr Jennifer Enmon and Kadri Elcoat. The authors' focus is on patents for biopharmaceutical products, from small to large molecule-based medicines and cell and gene therapies. Providing sophisticated scientific analysis on this highly technical area, the authors offer their expectations on what biosimilars patent disputes will look like in Australia. The authors also discuss the differing market dynamics between generic and biosimilar products in Australia, in addition to the impact of market dynamics on interim injunctions.

Our final article is *An Australian Text and Data Mining Copyright Exception? How Very European …* by Alan Ford. Ford examines *Directive (EU) 2019/790 of the European Parliament and of the Council of 17 April 2019 on copyright and related rights in the Digital Single Market and amending Directives 96/9/EC and 2001/29/EC* (the "Directive"), with a focus on the exception it creates for text and data mining ("TDM"). Ford's article starts with a brief description of what the Directive does in broad terms. He then considers the benefits and costs of harmonisation, and why the TDM exception was seen as necessary in the European Union ("EU"). Once the pre and post-Directive copyright frameworks of the EU are examined, Ford explores whether Australia needs a TDM exception. In formulating his contention, Ford discusses the existing fair dealing carve out in the *Copyright Act* 1968 (Cth), as well as several cases from the US that consider TDM in relation to its fair use exception.

We also feature three reports in this issue. Our first is *US Appeals Court Decides Led Zeppelin's Stairway to Heaven Does Not Infringe – What of New Zealand and Australian Copyright Infringement Tests?* by Ken Moon. This report considers the long-running US copyright case concerning Led Zeppelin's iconic song *Stairway to Heaven* and includes various comparisons with New Zealand and Australian copyright law and cases. Moon is particularly critical of the more recent New Zealand copyright cases. We also feature

two book reviews. One is by Raymond Hind of *The EU Design Approach*: *A Global Appraisal* edited by Annette Kur, Marianne Levin and Jens Schovsbo. Hind states that designs have been labelled the "poor cousins of the IP family", so we are pleased to feature a book review on this often overshadowed area of the law. This is followed by Luís Bogliolo's review of *Research Handbook on Contemporary Intangible Cultural Heritage* edited by Charlotte Waelde, Catherine Cummings, Mathilde Pavis and Helena Enright. The *Handbook*, according to Bogliolo, examines "how different legal regimes, from human rights, to trade, IP and heritage law clash and interact, prompting us to think about their different rationales".

Lastly, we have 15 updates on current developments in IP across Australia, New Zealand, Asia, Europe, North America and Africa. We are pleased to introduce new contributors from the US and Africa. Our current developments report on a variety of IP issues. They include, among other matters, an important New Zealand case on plant variety rights; the protection in Japan of the genetic resources relating to its world famous wagyu beef; and major changes in French trade mark laws concerning cancellation and revocation actions. During these turbulent times, we are particularly grateful to our regular national and international correspondents and their teams for their reports which enhance the topicality of this journal.

COVID-19 has changed the world irrevocably in ways which were impossible to imagine when our last issue was published. Looking forward, we are hopeful that there will continue to be considerable creativity and innovation in the arts, the sciences and the business world. Reflecting on our own past, we thank everyone who has contributed to each of the 120 issues of *Intellectual Property Forum* and wish all of our readers good health and prosperity. As always, we welcome emails at editors@ipsanz.com.au regarding submissions to the journal and providing feedback on its content. Take care and enjoy the issue.

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In Conversation with Professor Susy Frankel

Fiona Rotstein

Susy Frankel is Professor of Law, Chair in Intellectual Property and International Trade and Director of the New Zealand Centre of International Economic Law at Victoria University of Wellington. She is also, in 2020, a Global Professor at New York University Law School. In March 2020, via Skype from New York, Professor Frankel discussed with Fiona Rotstein her extensive career, the relationship between academia and practice in intellectual property ("IP") law, traditional knowledge, international IP law and much more.

Courtesy of Victoria University of Wellington

Professor Susy Frankel

Q: What led you into the law?

A: I started my law degree like many Australasians after I left school and I didn't really know what I wanted to do because I was 16. So I began to study mathematics along with my law degree. But I found classes were more interesting in law because of the analysis and debate that goes with the law.

Q: What made you want to become an academic?

A: I worked in London for quite a while as a solicitor and I did my Master of Laws in IP at the University of London, which now has a large IP program. It was reasonably big then but it was just starting its international courses. Some of your readers will know Gerald Dworkin and the international copyright class that he used to teach there with Adrian Sterling. There were less than 20 people in the class. Now equivalent classes are much bigger. I was really interested in academia then, but it was pretty hard to find an academic job as it kind of still is.

When I came back to New Zealand, I worked for Russell McVeagh. A while later, a lecturer position was advertised at Victoria University of Wellington and I applied for it. The practice of law can teach you a lot of things, but if you want to get into the depth of some of the theoretical and long-term practical problems of IP, academia is a good proposition.

Q: On a personal level, what is it about IP that particularly fascinates you?

A: To begin with, I worked primarily with domestic IP which in the New Zealand context does involve looking at other jurisdictions, particularly the United Kingdom ("UK") and, from time to time, Australia. But after a while I became more interested in not just what happens locally but the relationship between the local and the international. A lot of my work has been around international IP and its nexus with international trade. The complexities around combining IP with trade aren't just about what trade agreements say and what that means for IP norms. It's about IP functioning as a trade barrier when we are in a system of liberalising trade. Trade "barrier" might to some sounds a bit pejorative but it's not necessarily. IP might amount to an acceptable barrier to a certain limit; excessive IP can be a problematic barrier. It's combining those theoretical and competing constructs that I really enjoy.

Q: You were the Assistant Commissioner of Trade Marks, Patents and Designs and Hearings Officer for the Intellectual Property Office of New Zealand ("IPONZ") from 1998 to 2006. Tell me a little about that experience.

A: Having independent Hearings Officers at IPONZ, modelled on the UK independent Hearings Office, began in 1998. I was a lecturer then and was the first independent Hearings Officer. So that was quite a unique experience. There was nervousness in the profession about how things were going to change but I think the profession quickly got on board as having independent hearings became valuable for the system.

I remember my first hearing very well. It was around a small procedural matter. I took a pragmatic

approach to the effect of saying, "Yes, you can have the extension of time and it starts now." That sort of surprised some people in the profession. But it met the justice requirements in the circumstances. Because there hadn't been independent Hearings Officer decisions, I did a lot of work which is still embodied in the decisions, about gathering together all the relevant case law (mostly I did trade marks hearings), and putting them in decision format appropriate for oppositions. There was a lot of ground work in getting that going as few IPONZ decisions referred to cases of the courts and if they did, they were rather selective.

When I was first appointed, some of the profession were kind of surprised, I assume because I didn't qualify as a patent attorney previously. But I think they warmed to the idea. As things got going, they could see the value of the system. Once I had done that for quite a while, it was good to move back to the academic analysis. It's not that trade mark cases aren't interesting but at that point other than having different sets of facts, what does one do? Of course after the *Trade Marks Act* 2002 (New Zealand) was updated, the system has had to adjust accordingly.

Q: You were Chair and member of the New Zealand Copyright Tribunal from 2008 to 2019. Tell me a bit about the work of the Tribunal and some of the more interesting issues you encountered serving as Chair and member.

A: I am still waiting for my replacement to be appointed. The Tribunal has two jurisdictions. One is analogous to the Australian jurisdiction which is the licensing jurisdiction. It's a bit different in New Zealand because we don't have the statutory licensing regimes that exist in Australia. The second jurisdiction was created for repeated infringing online. After going through a three-notice system, the copyright owner could apply to the Tribunal to have their copyright enforced.

The licensing system has not had many cases. There are some that happen behind the scenes that don't get reported but we had one extensive case that was reported, *Phonographic Performances (NZ) Ltd v Radioworks Ltd & The Radio Network of New Zealand Ltd*.[1] That was around the royalties paid for sound recordings played on the radio. It resulted in several weeks of evidence and submissions before the Tribunal. It was like a specialised court at first instance. That's quite an experience and it does raise questions about the pros and cons of having that kind of specialisation outside of the generalised court system. There were several economists and econometricians who gave evidence and so we adopted, with the parties' consent, the procedure sometimes called "hot tubbing", where all of the economists and econometricians sit together and agree certain things and make the points of disagreement clear. That was very effective. It's adopted, at least in New Zealand, from competition law cases and the QCs who were counsel in that matter were on board with that procedure.

Copyright owners, not just users, did not like the repeated infringing online system. There is plenty written around that. New Zealand's *Copyright Act* 1994 is under review so it will be considered. But it was pretty much a world's first and whilst users and copyright owners will measure it by their own success, or otherwise, another way to look at it is to consider regulatory experimentation. Copyright owners wanted a quicker system whereby they were able to bring claims within a certain sphere. It's not appropriate for me to comment on what they consider the difficulties to have been, but I will say that it's valuable to have that kind of regulatory experimentation. In the world of digital copyright, it's not as if anyone has come up with a very good solution yet.

Q: You were also President of the International Association for the Advancement of Teaching and Research in Intellectual Property ("ATRIP") from 2015 to 2017 and have been a member of the ATRIP Executive Committee since 2011. What are the main objectives of ATRIP and what were some of the highlights of your Presidency?

A: What's important about ATRIP is that it's for academics. One of the reasons we don't involve practitioners is not because we don't like practitioners, rather because there are so many IP events with practitioners or with practitioners and academics. The purpose of ATRIP is to foster the academic discourse, as well as the teaching of IP. What's fantastic about ATRIP is it involves a lot of leading and senior international scholars as well as junior scholars. During my Presidency and the Presidencies before me and after, we have done a lot of work expanding ATRIP to the developing world. That's a challenge because it's not just about understanding resources in foreign languages. It's also about involving marginalised communities and encouraging scholarship. The higher quality that academic institutions are, the higher quality their teaching can become. I'm not talking about rankings here I'm talking about diversity of engagement and understanding of the issues in diverse communities.

It was quite an honour to be President but it's also a lot of work if you want to do it the right way. The highlight of the ATRIP year is a conference where we move around the globe. The President usually hosts

one away and one at home. Hosting the conference in Wellington was a lot of fun. The one I hosted away was in Krakow, Poland, which was a fantastic experience. We now have five or six very active Polish academics within ATRIP. So that achieved one of its goals. Poland is a very interesting country for IP because it has a very different background from New Zealand and Australia but it's a country full of innovative start-ups struggling to find the right IP system as well as being part of Europe. Poland is ripe for development opportunities, but unfortunately having a rocky time with the rule of law.

Q: How do you view the relationship between academia and practice in IP law?

A: There are plenty of academics who listen to practitioners, plenty of practitioners who listen to academics and plenty in both groups who don't connect. To some extent that's a personal choice. One of the things I have always hoped I was reasonably skilled at is communicating the policy issues and international law to non-academic audiences. Because I do a lot of work around trade and IP, a lot of the communication work when I'm in Wellington is with government officials who may not be IP specialists at all. But I also think it's very important that there is good communication between the traditional IP profession and academia. There is a tendency for projects and cases, quite understandably, to turn on their facts, and the profession doesn't necessarily have time or the inclination to look at the systemic effects of IP law on societal issues and innovation incentives. Whereas analysing systemic effects is part the whole joy of academia.

Q: What is your best advice to those currently studying IP law who wish to pursue it as a career?

A: Well it depends on where you are pursuing it as a career. It is a bit different in Australia than it is in New Zealand and that's mostly a question of size and scale. Of course, the Trans Tasman qualification system perhaps brings some of those things closer together. My advice is to choose the area that interests you. People do end up specialising in patents, for example, often because they have science qualifications but there are other reasons to specialise in patents, such as if you have an interest in health care.

Others may head into trade marks. New Zealand and Australian small businesses use trade marks disproportionately to other types of IP. There is a growing understanding that trade marks don't do everything that people think they do. Certainly if people are interested in working with business, trade mark specialisation is often an important area. And copyright is always hard to get a job in. People really love copyright but overall there are fewer jobs in the field.

One of the challenges in some of the firms, outside of the IP speciality firms, is there's almost an expectation that you will know all of IP and that's both good and bad. From my own perspective, the fact that I have worked in patents, copyright, trade marks and some of their associated rights and that I write in all those areas is really useful. Have I read all the cases in all the world on those areas? Of course not. So what's my advice? Choose the area that you are really interested in because you are going to become more of an expert. Of all the things that working in law teaches us, if you are not really interested, it's not going to work out well.

Q: You teach University courses on the protection of mātauranga Māori (traditional knowledge) and regulation. In the opening chapter of your book edited with Peter Drahos, *Indigenous Peoples' Innovation: Intellectual Property Pathways to Development* (ANU Press, 2012), you write:

Perhaps the most important thing for indigenous innovation is to make 'indigenous innovation' rather than traditional knowledge the primary term of art in this field.

Why do you think this is so important?

A: The discourse around the protection of traditional knowledge is still caught up in the notion of "traditional" in the sense of old and "knowledge" in the sense that we are told it is not patentable or the subject of copyright. Consider, for example, the maxim of copyright that you protect expressions not ideas or facts, and that patent law protects applications not discoveries, then "traditional knowledge" immediately takes you outside that IP zone because the phrase implies that it belongs in that old, knowledge category. That's not to say that indigenous peoples' knowledge should be slotted into an IP system, but rather where such knowledge and the IP system overlap. Often where they do overlap an IP claimant has used traditional knowledge to progress innovation. However, that is not just taking the knowledge, that is often taking the systems' type innovation that is embedded in the culture of indigenous peoples and applying it to product innovation that is recognised by the patent system or, indeed, possibly also in the copyright and the design systems.

If you conceive as one being knowledge and the other being innovation, then the innovation side is always going to extract from the knowledge side. But, in fact, there are many examples of indigenous peoples using their knowledge for development and

innovative purposes. The IP system is systemically geared to extract from that type of system innovation. The IP system doesn't recognise the institutions of indigeneity, such as tribal norms and customary law. Rather the IP system encourages borrowing from those sources on the basis that the knowledge is in the public domain and puts it into its own institutions. Once you start to see much traditional knowledge as involving considerable innovation, then you can enter into a discourse about working together and effective interface mechanisms between the two systems.

Q: You also acted as a consultant expert to the Waitangi Tribunal on the Wai 262 flora, fauna and indigenous IP claim (Waitangi Tribunal Report, 2011 Ko Aotearoa Tēnei). What was that experience like?

A: The claim itself was really important and, in terms of international debate, it probably leads the world in pointing to ways to actually balance IP and indigenous peoples' rights. The recommendations in the report have not fully come into law in New Zealand. The Government is looking at it again and planning a detailed response. In the evidence-giving stages of the claim, the Waitangi Tribunal, although it has offices in Wellington, and it can sit in a way that looks a little bit like a court, it also goes out to marae [Māori meeting grounds] and to the areas where the Māori claimants are. As a non-Māori New Zealander, there is plenty of Māori culture that one can seek out and absorb. As part of that claim, I did go to parts of New Zealand, on Māori marae and was hosted by Māori who I would otherwise have never met. That was a different atmosphere.

Māori are the tangata te whenua [people of the land] of New Zealand. Whilst I was hired for that role because I was the first person to have written about Māori IP in an academic context in New Zealand, it was that experience that gave me the depth of understanding that I have of the traditional knowledge-based innovation claims. Partly, the answer to this question is the answer to your previous question. I see the inequality that occurs and that traditional knowledge is in fact full of innovation, albeit framed in different ways from IP, because of that experience. We say things like "we honour the people of the land" but I honour the tangata te whenua of New Zealand for teaching me a lot. By the way, I've recently been appointed as a member of the Waitangi Tribunal.

Q: With respect to the Wai 262 claim itself, how do you see its connexion to the IP legislation?

A: The claim discusses the Trade Mark Advisory Committee in New Zealand and it recommends developments of that. It also recommends other changes to the legislation. Similarly, it looks at issues around the patent system and the plant variety system. Without going into all of the detail, I see that a key question is how the two systems are going to interface. What do I mean by two systems? There is IP and the protection of indigenous peoples' innovation and knowledge (noting that systems may or may not exist to protect it).

While acknowledging that indigenous innovation needs more protection, the most traditional IP aspects ripe for legislative intervention is where and how they interface. Interface means things like trade mark objection systems, disclosure of genetic origin of things used in the research process and eventually the patentor plant variety system. Those interface mechanism doesn't answer all the needs and claims around protecting traditional knowledge or indigenous innovation, IP doesn't answer all of those claims. But where the two systems conflict, the ability to sort out that conflict is the important part – the interface. That's where I see the biggest role of IP legislation. IP needs to reckon with how it will, fairly and in recognition of indigenous rights, interface with those systems. By interface I mean work with, not extract from.

Q: Your research also focuses on international IP law. What is it about exploring IP from an international perspective that attracts you?

A: It's because it combines many theoretical and practical questions to unravel. What are international obligations? I'm the first to say that international IP protection is really important but it has its rational limits. In many areas we have well and truly passed the rational limits and the debate needs to be not so much about "do we have enough international protection or don't we?" but where do we find the middle ground; society's optimal level of IP protection and access? To answer this properly we need quality legal academic research and analysis from other disciplines: international relations and economics included (international trade is of course heavily mired in economic theory and the law derived from that economic theory).

We are also amidst a time where investor state dispute settlement has been used by IP owners and where its framework is highly contested both politically and socially and where the World Trade Organization ("WTO") is struggling to survive as appointments to its Appellate Body are blocked by the United States of America ("US") (blessed be the complexities of the US!). These developments risk IP functioning as a form of protectionism that can get out of control. The multilateral system can temper that one sidedness.

One thing Australia and New Zealand really do agree on is that the international rules-based system is better for smaller economies and we need multilateralism. Why does the international perspective interest me? Because it brings in such a complexity of issues. It's not just about knowledge or about what's going on in the Patent Office, for example, it's about the analysis of how different frameworks for IP protection and other social interests either conflict or could work together.

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

A: I would name two things. One is about legislation – domestic law. Whilst it's fair to say that New Zealand operates the most statutorily recognised protection of indigenous peoples' innovation, in terms of the way we have some of the interface mechanisms to address Maori interests. And acknowledging that the Government intends to respond fully to the Waitangi Tribunal report, the time has come for the IP world to recognise that New Zealand, and Australia even (although the systems are very different and the histories of indigenous peoples are very different), ought to stand very firmly behind recognising the value of protecting indigenous innovation. Both countries do to a certain extent in very different ways, but enough delaying already! Yes, some issues are complicated but there's a lot of work by a lot of people showing how indigenous IP rights can be protected, even if it requires some regulatory experimentation. These countries in very different ways, New Zealand in particular, could lead by considerable example. It's always struck me as very interesting that Australia puts quite a lot of money into the international process at the World Intellectual Property Organization ("WIPO") – far be it for me to comment on Australian politics – but what about the national process? Much work has been done in IP law. There is an enormous body of literature, including by several New Zealanders and Australians, who have shown how to have a balance between competing rights. There are also several people working in the field who have made a contribution working fairly and consultatively with indigenous peoples. The legislature needs to catch up.

Internationally, I could say a similar thing about traditional knowledge and the WIPO process, however I'll chose a different focus. The WTO agreed that international agreements would be interpreted in accordance with the *Vienna Convention*[2] rules on interpretation. But time and time again, domestic legislatures and even the WTO system (although it's getting a little better) ignore the *Vienna Convention*. They pay lip service to it. I've done a lot of work around what is the object and purpose of IP. It's part of the ordinary meaning interpretation exercise under the *Vienna Convention* rules. If the international IP system is to function well, it really needs to get on top of what the object and purpose of international IP is: it's multi-faceted and multi-levelled. Professors Rochelle Dreyfuss and Graeme Dinwoodie have advocated developing an "international acquis" about the purpose of international IP. Instead of it being an economic fight between the haves and have nots, I would like to see a proper international discussion about the role of international IP agreements. I don't think that will happen in a hurry outside of academia. At one stage, Francis Gurry, Director-General of WIPO, suggested having a "blue skies" discussion along those lines, outside of the negotiation process. Perhaps unsurprisingly politics meant that discussion has not happened. But even that comes back to your question around the relationship between academia and practice of IP. Here it's not the practitioners, it's the regulators. They do and need to continue to pay ongoing considerable attention to the expertise in academia.

Q: Generally speaking, where do you think lie the future challenges in IP law?

A: Whilst New Zealand and Australia are experts at doing bilateral or sometimes plurilateral trade deals, both countries recognise that the multilateral is ultimately preferable. That is a challenge, particularly for IP. IP has transformed in the last 20 years. The effect that it has on society is now much more widely understood. It used to be a very niche area and the expansion is good for IP. Some practitioners seem to have thought that they are going to lose their niche, but actually what we've seen happen is an expansion of niche requiring the IP lawyer to have a much broader skill set. Take understanding the traditional knowledge innovation debate, it actually helps you shine a light on the traditional patent debate in a very different way. The challenge internationally is returning to the multilateral where it can have positive effects. That looks extremely challenging at present, but never say never. People thought the TRIPS Agreement[3] would be a never.

[Our conversation, amid a 16 hour time difference between New York and Melbourne ended here, before the extraordinary effects of COVID-19 had spread to North America or the Pacific. However, a week after New Zealand and Australia imposed unprecedented travel restrictions, I emailed Professor Frankel the following question, keen to hear her opinion.]

Q: What do you foresee as the major IP issues to come out of the COVID-19 pandemic?

A: The problem of relying on patent incentives to innovate and the disproportionate power it gives to private interests is now more evident than ever. Of course, there are some patent owners who are working really hard to find a treatment, a vaccine and improved diagnostics around COVID-19, but that doesn't mean the system as whole is functioning as well as it might. There is heavy reliance on those with relevant information choosing to share it rather than sharing information to resolve a pandemic being the starting place and the expected norm. Health systems around the world have been progressively stripped of resources – many of them can demonstrate that by far and away the biggest proportion for their costs is pharmaceuticals. The cost of which patent law has allowed to be disproportionate to any expense on R&D (of course much of that expense is asserted and not publicly available). The combination of pared back public health systems, the cost of pharmaceuticals and diverse incentive structures are being put to the test in COVID-19. Patent law is not the cause of the problem but it's also not enough of a solution. We need much more entrenched and well-funded research institutions that function regardless of patent incentives. There are some but will they be enough? The outcome of COVID-19 will tell us.

1 [2010] NZCOP 1.

2 *Vienna Convention on the Law of Treaties*, opened for signature 23 May 1969, 1155 UNTS 331 (entered into force 27 January 1980).

3 *Marrakesh Agreement establishing the World Trade Organization*, opened for signature 15 April 1994, 1867 UNTS 3 (entered into force 1 January 1995) annex 1C.

Survey Evidence: Wasted Opportunity or Waste of Time?

Megan Evetts[1] and Ed Heerey QC[2]

Abstract

Australian courts have traditionally been loath to accept survey evidence in trade mark, Australian Consumer Law ("ACL") and passing off cases. Numerous evidentiary issues that arise with survey evidence have been identified and discussed by Australian courts. However, it is apparent that even robust survey evidence has often been given little to no weight by Australian courts. This article considers the evolution of Australian case law concerning survey evidence in these types of cases; identifies some of the major roadblocks that parties seeking to rely on such evidence have faced; and compares the Australian position with that of New Zealand, the United Kingdom and the United States of America ("United States"). The inevitable conclusion is that different jurisdictions have taken vastly different approaches to the use of survey evidence, with Australian courts some of the most hesitant to accept such evidence. The authors of this article conclude that there is presently little reason to encourage clients to incur the (often significant) cost of conducting surveys for these types of legal proceedings. They also acknowledge that in some (if not many) instances, the cost and complexity associated with adducing survey evidence is unlikely to be justified. However, in other instances survey evidence, if prepared correctly, may assist the court; and the developments discussed in this article suggest that Australian courts risk being deprived of that assistance.

Uses of survey evidence

In the trade mark, ACL and passing off context, survey evidence has largely been adduced in support of one or more of the following contentions:

(a) that a trade mark is capable of distinguishing the goods or services;

(b) the deceptive similarity of competing trade marks;

(c) that the use of a mark or get-up is likely to deceive or cause confusion; and

(d) that the impugned conduct amounts to passing off.

However, in some instances, survey evidence has also been led to:

(a) support a case that the mark was used as a trade mark;[3]

(b) establish that the trade mark had not been used in the relevant period (because no one in the industry was familiar with the mark);[4] and

(c) establish that the mark had become a common name.[5]

Australia

Starting position with respect to survey evidence

The starting position is that survey evidence is admissible in Australia and can be effective. Survey evidence was initially rejected as inadmissible hearsay evidence.[6] However, the Full Court of the Federal Court of Australia (the "Full Court") in *Arnotts Ltd v Trade Practices Commission* (1990) 24 FCR 313 ("*Arnotts*") determined that survey evidence is admissible and can be useful. In particular, the Full Court acknowledged that, by 1990, market survey techniques had been refined to the point where, if undertaken by experienced professionals, they were capable of providing answers that were highly likely to be accurate, subject only to a small sampling error.[7] Further, the Full Court held:

> *As the authorities emphasise, where the question is whether use of a particular name or trade mark would constitute misleading conduct or cause confusion, the court must make its own assessment of the situation. The position is similar where the question is whether one product is substitutable for another. But information is preferable to intuition. Where the state of public knowledge of, or attitudes to, some subject is a relevant factor in the court's adjudication of an issue, it is better to admit than to preclude evidence on those matters.*

In coming to this conclusion, the Full Court cited United States authority,[8] and stated:

> *Australian law should follow the American lead in acknowledging that market survey evidence may play a useful role in cases such as the present. In so doing, we do not mean to suggest that survey evidence will always, or even usually, be decisive. It will be merely one element in the overall picture, its importance varying from one case to another … it is also important to follow the American insistence upon proof of the proper conduct and form of the survey.*

Their Honours also cited with approval the criteria listed in the Handbook adopted by the Judicial Conference of the United States entitled *Handbook of Recommended Procedures for Trial of Protracted Cases* (emphasis added):

> *The offeror has the burden of establishing that a proffered poll was conducted in accordance with accepted principles of survey research, ie, that* ***the proper universe was examined****, that a* ***representative sample was drawn from that universe****, and that the* ***mode of questioning the interviewees was correct****. He should be required to show that the* ***persons conducting the survey were recognised experts****; the* ***data gathered was accurately reported****; the* ***sample design, the questionnaire and the interviewing were in accordance with generally accepted standards*** *of objective procedure and statistics in the field of such surveys; the* ***sample design and the interviews were conducted independently*** *of the attorneys; and the* ***interviewers, trained in this field, had no knowledge of the litigation or the purposes for which the survey was to be used****. Normally this showing will be made through the testimony of the persons responsible for the various parts of the survey.*

The Full Court stated that any exercise of discretion to admit survey evidence should depend upon compliance with those criteria.[9]

The potential use of survey evidence has been emphasised in subsequent cases. For example, in *Registrar of Trade Marks v Woolworths Ltd* (1999) 45 IPR 411, in relation to s.44 of the Australian *Trade Marks Act* 1995 (Cth), French J held at [47] (by way of obiter dicta, emphasis added):

> *… There will no doubt be cases in which the requisite state of satisfaction can be reached by consideration of the visual and aural features of the marks in question against the description of the goods and/or services to which they relate. But there will also be cases in which such materials will be of themselves inadequate to support a proper judgment.* ***In some circumstances market or survey evidence might be necessary to form a concluded view.*** *Unless the registrar is to undertake inquiries of that kind going beyond the content of the application and the existing register and prior applications, then the application will have to be accepted and determination of such questions as deceptive similarity left to opposition or expungement proceedings …*

In *Jewellery Group Pty Ltd v Australian Competition and Consumer Commission (ACCC)* [2013] FCAFC 144, Greenwood and Besanko JJ held at [35] (emphasis added):

> *Thirdly, in considering the meaning to be attributed to words or conduct alleged to be misleading or deceptive or likely to mislead or deceive the court may receive evidence from members of the relevant audience and, subject to the requirements of the laws of evidence,* ***that evidence may include survey evidence*** *and evidence of any complaints made about the words or conduct. Such evidence may be persuasive but it is not essential: Taco Co of Australia Inc v Taco Bell Pty Ltd at 202 per Deane and Fitzgerald JJ; Arnotts Ltd v Trade Practices Commission (1990) 24 FCR 313 at [358]–[364] especially at [362].* ***In some cases the behaviour or reaction of a consumer may be generally unknown so that a propounding party may fail in the absence of evidence of consumer behaviour or reactions:*** *WEA International Inc v Hanimex Corporation Ltd (1987) 17 FCR 274 at 280 per Gummow J.*

Further, in some cases, the Federal Court of Australia (the "Federal Court") has emphasised the absence of survey evidence to a party's detriment, see for example:

(a) *Philmac Pty Ltd v Registrar of Trade Marks* (2002) 56 IPR 452 at [74].[10]

(b) *Pierson's Pro-Health Pty Ltd v Silvex Nominees Pty Ltd (No2)* [2010] FMCA 121 at [73]–[74].[11]

(c) *Coca Cola Co v PepsiCo Inc (No 2)* (2014) 109 IPR 429 at [175]–[176] (discussed further below).[12]

Cases that have considered survey evidence

Despite the matters set out above, of 29 Federal Court cases reviewed that have considered survey evidence in the trade mark, ACL and passing off context:

(a) 19[13] ruled the evidence inadmissible or gave the evidence no weight. In at least one of those cases, the party that adduced the survey evidence, whilst ultimately successful, was not reimbursed for the costs related to conducting the survey;[14] and

(b) only 10[15] took the evidence into account (one of which was overturned on appeal).

On the whole, the Australian Trade Mark Office decisions have also given survey evidence no weight.[16]

Of the 10 Federal Court cases that have taken survey evidence into account, many of those cases only used the evidence to support the conclusion that the Judge had otherwise reached.[17]

A review of these cases suggests that, despite the Full Court's decision in *Arnotts*, the bar for what constitutes an adequate survey is generally set at an effectively unreachable height. The major criticisms of the way that survey evidence has been prepared include:

(a) conducting the survey in a context removed from the commercial reality of consumer decision-making;[18]

(b) failing to properly randomise the surveys, address the right demographic, or use sufficient sample sizes;[19]

(c) not adducing evidence that enabled the Court to conclude that the responses represented the views of the relevant class of Australians;[20]

(d) inadequate questions, e.g. ambiguous or leading questions;[21] the lack of an adequate control question;[22] or failing to enquire as to the reason or reasons why participants held a particular view;[23]

(e) not recording verbatim answers to the questions and requiring interviewers to interpret the answers given;[24]

(f) not allowing participants to inspect the relevant goods;[25]

(g) the inexperience of interviewers or failing to identify the interviewers;[26]

(h) using interviewers who knew the identity of the party who had commissioned the survey (there was some evidence to suggest that this had been relayed to survey participants);[27]

(i) telling interviewers and/or survey participants that the survey was being conducted for the purposes of litigation;[28]

(j) conducting surveys after the relevant date;[29]

(k) not disclosing the methodology of the survey;[30] and

(l) not undertaking a pilot survey or not disclosing the methodology and results of that pilot.[31]

Some of the criticisms mentioned above would likely be avoided by strict compliance with the Federal Court Survey Evidence Practice Note GPN-SURV; and cost consequences may arise if the Practice Note is not complied.[32] However, non-compliance with the Practice Note is not necessarily a bar to admissibility.[33]

Any criticisms of survey evidence will likely need to be supported by expert evidence.[34] However, courts have also warned about having extended debate about the viability of surveys.[35]

A significant number of these criticisms were undoubtedly warranted given the quality of survey evidence that was adduced in some of these cases. However, certain criticisms (in particular, the fact that the survey was conducted in a context removed from the commercial reality of consumer decision-making) is likely to apply in most, if not all, cases. This has been a common criticism of survey evidence in many cases.

In particular, in *Interlego AG v Croner Trading Pty Ltd* (1992) 25 IPR 65 ("*Interlego*"), Gummow J (with whom Black CJ and Lockhart J agreed) held at 107 (by way of obiter dicta) that (emphasis added):

> *Survey evidence might be used to establish the habits of consumers in buying toy building bricks in supermarkets. However, that does not readily appear as a substantial purpose for tender of the evidence in this case.* ***The survey evidence would have been admissible if it revealed cases of actual deception of consumers … However, the evidence here was not so confined. Rather, the purpose of the evidence was to show that potential consumers would have been deceived. Evidence to that effect is inadmissible, since that question is the very issue which the court has to determine …*** *[i]n the absence of a specialised market, evidence of consumers or retailers as to their likely reaction should not be admitted on the issue of whether conduct has been, or is likely to be misleading or deceptive.*

In that case, interviewers approached random customers in Sydney supermarkets, handed them a box of Tyco blocks and asked:[36]

> *Q1: Please have a look at this product. Take your time. Who do you think is the manufacturer of this product?*
>
> *Q2. What is it that makes you think that?*
>
> *Q3. (If answer to Q2 is "the packaging" or "the box") What specifically about the packaging makes you think that?*

Gummow J endorsed the conclusion of the primary judge that:[37]

> *… the hypothetical situation which was created was so artificial as to make it a quite dangerous guide to what the reactions of actual shoppers purchasing Lego or Tyco products from the shelf of a supermarket or a toy shop might have been.*

His Honour concluded: [38]

> *As I have indicated, in the absence of a specialised market, evidence of consumers or retailers as to their likely reaction should not be admitted on the issue of whether conduct has been, or is likely to be, misleading or deceptive.*

This reasoning does not appear to have been adopted in more recent survey evidence cases;[39] but is nevertheless a unanimous Full Court decision that could be lethal to the admissibility of certain survey evidence. In many instances, it would likely be practically impossible to conduct a survey of a statistically significant number of consumers in anything other than something akin to the "hypothetical situation"

adopted in *Interlego* (particularly as these types of surveys are increasingly being conducted online).

Surveys not conducted for the purposes of the litigation

In contrast to surveys that have been prepared for the purposes of the litigation, Australian courts do appear to be more readily prepared to accept evidence of surveys that have been conducted in the ordinary course of business.

In *The Kettle Chip Company Pty Limited v Apand Pty Limited* (1993) 46 FCR 152, surveys conducted by the respondent (which established that most consumers thought of Kettle as a brand rather than a style of chip) prior to launching the impugned product were successfully used against the respondent in that case. The usual criticisms made of surveys were held not to be applicable in that context because the respondents' own representatives had selected those surveys as appropriate.[40] This is important to keep in mind in cases against larger organisations, which may have conducted pre-launch market research that could be discoverable.

In *Dr August Wolff GmbH & Co KG Arzneimittel v Combe International Ltd* (2020) 149 IPR 1 ("*Wolff v Combe*") (which is the most recent Australian decision to consider survey evidence), Justice Stewart admitted survey evidence that had been commissioned by a party in its ordinary course of business before and after the priority date. Justice Stewart also accepted that survey evidence and relied upon it to support his Honour's conclusion that the mark enjoyed a reputation in Australia. This case is discussed further below.

Survey evidence in the context of section 41 of the Trade Marks Act 1995 (Cth)

The bar is even higher when dealing with survey evidence in the context of acquired distinctiveness. In all cases but three, Australian courts have held that survey evidence failed to establish that the sign was functioning or had functioned as a trade mark in relation to the relevant product.[41]

In *Mars Australia Pty Ltd (formerly Effem Foods Pty Ltd) v Societé des Produits Nestlé SA* (2010) 86 IPR 581, Bennett J found that the survey supported the contention that the colour purple was capable of distinguishing the goods. However, the registration was not opposed by the opponent or the Registrar, so her Honour's comments are obiter dicta.

In *BP plc v Woolworths Ltd* (2004) 62 IPR 545, Finkelstein J accepted that the survey evidence was evidence that the trade marks must have been used as trade marks before the priority dates to distinguish the goods and services. However, this was overturned by the Full Court on appeal.[42]

In *Blount Inc v Registrar of Trade Marks* (1998) 40 IPR 498, Branson J accepted informal survey evidence in the form of affidavit evidence from consumers, wholesalers and retailers of the applicant's goods. The effect of that evidence was that relevant consumers:

(a) associate the word "Oregon" in relation to relevant equipment with a particular range of chainsaw chains, bars and other chainsaw accessories;

(b) identify "Oregon" as a range of brand of products of a particular supplier; and

(c) consider, in their experience, that general consumers in the relevant industry use the word "Oregon" to refer to a particular range of products.

That evidence was accepted by Branson J in support of her Honour's s.41 findings. Her Honour held it was not necessary as a matter of law for a statistically sound market survey to be undertaken before it can be established that a trade mark does distinguish an applicant's goods from the goods of another:[43]

> *In each case the evidence relied on by the applicant is to be evaluated in the light of any evidence tending to the contrary effect and having regard to the evidence which the applicant might reasonably be expected to be able to obtain in all the circumstances of the case.*

Further, in *Coca Cola Co v PepsiCo Inc (No 2)* (2014) 109 IPR 429, Besanko J gave little weight to the evidence of a behavioural scientist in a case relating to the shape of the contoured bottle mark because, inter alia, it was not supported by survey evidence. Besanko J held at [175]–[176]:

> *… I am satisfied that there are tests, observations, and experiments which would provide empirical evidence with respect to a number of issues addressed by Dr Gibbs. In this particular case, the absence of empirical evidence means that I have a real doubt as to whether many of Dr Gibbs's opinions have any scientific basis. For example, he said that the shape of the Contoured Bottle was a relatively potent visual stimulus and that that opinion was based on his scientific understanding. However, the content of Dr Gibbs's scientific understanding was never identified and, in those circumstances, I place no weight on this opinion of Dr Gibbs.*
>
> *I accept that there can be difficulties with various forms of empirical testing. The problems with survey evidence are well-known: see, for a recent example, Australian Postal Corp at [33]–[49]. I accept that there may well be limitations on the use which can be made of the results of the tests identified by Professor Klein but, at the same time, I accept that these tests are available and can be used to establish, or at least support, the proof or otherwise of a number of propositions advanced by Dr Gibbs. In his cross-examination, Dr Gibbs agreed that it would be possible to conduct a "situation specific study".*

Overwhelmingly, however, the Court's position has been that survey evidence does not assist in determining whether the relevant elements of s.41 have been satisfied because

the surveys failed to demonstrate that the mark itself had become distinctive of the good and services.[44]

New Zealand

The admissibility of survey evidence generally

The courts in New Zealand have made similar criticisms of survey evidence.[45] However, more recently, the New Zealand courts appear to be more accepting of survey evidence, at least in a deceptive similarity and passing off context.

New Zealand courts have adopted the guidelines set out by Whitford J in the United Kingdom decision of *Imperial Group Plc v Phillip Morris* [1984] RPC 293 ("*Imperial Group*"). These were summarised by Lewison LJ in *Interflora v Marks and Spencer* [2012] EWCA civ 1501 as follows:

> *(i) if a survey is to have any validity at all, the way in which the relevant interviewees are selected must be established as being done by a method such that a relevant cross-section of the public is interviewed;*
>
> *(ii) any survey must be of a size which is sufficient to produce some relevant result viewed on a statistical basis;*
>
> *(iii) the party relying on the survey must give the fullest possible disclosure of exactly how many surveys they have carried out, exactly how those surveys were conducted and the totality of the number of persons involved, because otherwise it is impossible to draw any reliable inference from answers given by a few respondents;*
>
> *(iv) the questions asked must not be leading; and must not direct the person answering the question into a field of speculation upon which that person would never have embarked had the question not been put;*
>
> *(v) exact answers and not some sort of abbreviation or digest of the exact answer must be recorded;*
>
> *(vi) the totality of all answers given to all surveys should be disclosed; and*
>
> *(vii) the instructions given to interviewers must also be disclosed.*

Notwithstanding these principles, it has been held that survey evidence must satisfy two essential requirements in order to be admissible. First, the interviewees must be selected so as to represent a cross-section of the relevant public. Secondly, the precise instructions to the interviewers as to how they were to carry out the survey must be disclosed.[46]

In *Tasman Insulation New Zealand v Knauf Insulation Ltd* (2015) 116 IPR 352, the New Zealand Court of Appeal endorsed reliance on survey evidence in support of a conclusion of misleading or deceptive conduct (in that case, that a substantial number of people would erroneously assume that EARTHWOOL® insulation products were manufactured from animal wool, and most probably sheep's wool).

In *Australasian Conference Association Ltd v A Little Bit of Britain Ltd* [2018] NZHC 2501, survey evidence was successfully relied upon as evidence of actual deception or confusion. In that case, evidence that 35 per cent of selected participants mistook Weetabix as a Sanitarium brand was sufficient to give rise to a finding of deception or confusion.[47]

In *Red Bull New Zealand Ltd v Drink Red Ltd* (2016) 123 IPR 527, rather than consumer survey evidence, the New Zealand Court of Appeal was asked to consider retailer survey evidence. This evidence was in the form of two affidavits deposed by New Zealand barristers, who had interviewed employees of businesses known to stock the impugned products. No objection was taken to the admissibility of the evidence in that case, despite its obvious hearsay nature. Australian barristers should note rule 13(c) of the *Legal Profession Uniform Conduct (Barristers) Rules* 2015 (NSW) and its equivalents in other States and Territories; which prohibits a barrister from placing herself or himself at risk of becoming a witness by investigating facts for the purposes of appearing as an advocate or giving legal advice.

The majority of the New Zealand Court of Appeal (French and Collins JJ) relied upon this evidence in support of granting an interim injunction. Their Honours held that the previous authorities on survey evidence were not directly relevant because these were not surveys of consumers, and retailers had better product knowledge than consumers so that confusion on their part was telling.[48]

In contrast, Fogarty J had significant doubts as to the admissibility and reliability of this evidence. His Honour held that the interviewees should have been ordinary consumers, not retailers, and that the barristers retained were not suitably qualified to carry out market research or interpret survey data obtained.[49]

Survey evidence in the context of acquired distinctiveness

There is very limited New Zealand court authority regarding the acceptability of survey evidence (if otherwise satisfactory) in support of acquired distinctiveness.

In *Automobile club De L'Ouest, ACO v South Pacific Tyres New Zealand Limited* [2006] NZHC 269, the New Zealand High Court did consider survey evidence adduced in support of acquired distinctiveness. However, Wild J concluded that the surveys fell well short of establishing acquired distinctiveness in that case because of the manner in which the surveys were conducted.

A similar conclusion was reached in *Waitomo Adventures Ltd v BWR Resources Ltd* [2002] NZHC 1405 (unreported). However, in that case Randerson J suggested that a properly

conducted survey would be taken into account. His Honour held at [109]:

> *Trade mark cases are concerned with the use of such marks in trade. It follows that the Court will be most assisted by evidence from those who are involved in the trade in question as providers, travel agents or tourism promoters and those who have participated in the activity or may well be interested in doing so. Had it been possible to survey persons in these latter categories, a quite different and much more useful result might have been obtained.*

In the New Zealand Trade Mark Office, it has been suggested that survey evidence and declarations from independent traders about acquired distinctiveness will be taken into account (and indeed may be required).[50] However, the Office has also noted that mere association does not necessarily equate with trade mark use and does not amount to recognition of a sign as a trade mark.[51]

In light of the above, it appears that New Zealand courts are more readily prepared to accept survey evidence than Australian courts (although this remains unclear in the acquired distinctiveness context).

United Kingdom

In the United Kingdom, survey evidence will not be admitted in court proceedings unless the court is satisfied that (a) the evidence would be of real value, including whether it was likely to be held to be valid at trial; and (b) the likely utility of the evidence justifies the costs involved.[52] The same does not apply in the case of proceedings before the Office for Harmonisation in the Internal Market for Community Trade Marks.[53]

As to reliability, the guidelines set out by Whitford LJ in *Imperial Group* (set out above) continue to be applied.[54] It has proven difficult, but not impossible, to satisfy these requirements in a confusion context.[55]

In contrast, United Kingdom courts appear to be more likely to accept survey evidence on the issue of acquired distinctiveness. The United Kingdom High Court allowed survey evidence to prove acquired distinctiveness in *Enterprise Holdings Inc v Europcar Group UK Ltd & Anor* [2014] EWHC 2498 (Ch). In that case, Morgan J held at [34]:

> *… In the case of a survey as to confusion, the question whether the survey is likely to be of real value may readily be answered in the negative in a case where the goods or services in question are ordinary consumer goods or services and the judge feels that there will be no real difficulty in the court determining the issue of confusion without a survey. Conversely, in the case of a survey as to acquired distinctiveness, the court may feel that it is not able to determine such a dispute based on its own experience and/or the court may feel the need to guard against an idiosyncratic decision. A further possible distinction between a confusion survey and a distinctiveness survey is that the former may involve a prediction as to the likelihood of something happening whereas a distinctiveness survey addresses the issue of whether something has happened.*

This distinction has been endorsed by subsequent cases.[56] In the United Kingdom Court of Appeal, Lord Justice Lewison (with whom Lord Justices Hughes, Etherton agreed) held:[57]

> *In cases where acquired distinctiveness of a mark is in issue a survey may accurately identify that proportion of the relevant public which recognises the mark as a badge of trade origin. It will then be for the fact finding tribunal, with the aid of such a survey, to decide whether a significant proportion of the relevant public identify goods as originating from a particular undertaking because of the mark: see (Case C-108/97) Windsurfing Chiemsee Produktions-und-Vertriebs GmbH v Boots-und-Segelzubehor [2000] Ch 523 §§52, 53.*

There are, therefore, significant differences between the Australian and United Kingdom position in this regard.

United States

Whilst courts in the United States require survey evidence to satisfy particular "foundational requirements",[58] provided this is done, United States courts have generally adopted a far more liberal approach to the use of survey evidence.

With respect to confusion, in *Stuart Hall Co. v Ampad Corp., 51 F.3d 780*, the United States Court of Appeals for the Eighth Circuit held that:

> *Surveys are an appropriate form in which to produce evidence of actual confusion. Because manifestations of actual confusion serve as strong evidence of a likelihood of confusion, and may, in fact, be the best such evidence, the survey should be given substantial weight unless seriously flawed.*

Some United States courts have described consumer surveys as some of the most direct and persuasive evidence available to establish trade mark infringement.[59] Others have taken a very dim view of cases where no survey evidence has been admitted.[60] On the other hand, an analysis by Bird and Steckel in 2012 suggested that only 16.6 per cent of United States trade mark infringement litigation cases discuss survey evidence, suggesting that in at least some cases it is not required in the United States.[61]

United States courts have taken the same approach with respect to acquired distinctiveness (referred to as acquired secondary meaning). In a not dissimilar way to the Australian approach, in assessing a claim of secondary meaning, United States Courts must determine whether the mark denotes to the consumer "a single thing coming from a single source".[62] Nevertheless, unlike Australian courts, various United

States courts have consistently held that "[t]he authorities are in agreement that survey evidence is the most direct and persuasive way of establishing secondary meaning".[63] Indeed, parties that do not adduce such evidence in support of a finding of secondary meaning have been at considerable disadvantage.[64]

Case study – VAGISIL v VAGISAN (*Wolff v Combe*)

Litigation between Dr August Wolff GMBH & Co KG Arzneimittel ("Wolff") and Combe International Ltd ("Combe") in Australia and the United States provides a useful comparison between the approaches in the two jurisdictions.

Wolff sells inter alia feminine hygiene products (albeit not in Australia presently), marketed and sold under the mark VAGISAN. Combe sells inter alia feminine hygiene products in Australia and internationally, marketed and sold under the mark VAGISIL.

In both jurisdictions, the proceedings concerned Combe's opposition to the registration of Wolff's trademark application for VAGISAN. In the Australian proceedings, Combe asserted inter alia that the VAGISAN mark was deceptively similar to VAGISIL (pursuant to s.44 of the *Trade Marks Act* 1995 (Cth)); and the VAGISIL mark had acquired a reputation in Australia, such that the use of VAGISAN would be likely to deceive or cause confusion (pursuant to s.60 of the *Trade Marks Act* 1995 (Cth)). In the United States proceedings, Combe asserted inter alia that Wolff's use of the VAGISAN mark in United States commerce would create a likelihood of confusion with Combe's VAGISIL mark and should therefore not be registered.

Combe successfully opposed the registration of the VAGISAN mark in the United States, but was unsuccessful in the Australian proceedings. One key distinguishing feature between the two cases was that survey evidence which assessed the likelihood of confusion between the two marks was adduced in the United States, but not in the Australian proceedings.

The United States proceedings

In the United States proceedings, Combe relied on two consumer surveys to prove *first* the reputation of the VAGISIL mark (referred to as the "Fame Survey"); and *secondly* the likelihood of confusion between the VAGISIL and VAGISAN marks (referred to as the "Confusion Survey").

The Fame Survey questioned 300 United States consumers, both women and men, and tested both aided and unaided awareness of the VAGISIL mark in connection with vaginal care products. In the unaided portion of the survey, consumers were asked to list all brands of vaginal care products that they had ever heard of. In the aided portion of the survey, consumers were shown a total of eight brand names, one of which was VAGISIL, as well as a control called VAGIZOX. It was concluded that 38.7 per cent of those surveyed named VAGISIL in the unaided portion of the survey. In the aided portion of the survey 90 per cent of those surveyed recognised VAGISIL, whereas 5 per cent recognised the control VAGIZOX. This led to a conclusion that 85 percent of those surveyed recognised VAGISIL because of the mark's fame and not because of other factors.[65]

US District Court Judge Ellis concluded that the results of the Fame Survey were "persuasive, empirical evidence of the VAGISIL mark's commercial strength". This, along with the sales and marketing data led his Honour to conclude that the VAGISIL mark was a famous mark.[66]

The Confusion Survey utilised the formulation approved *Union Carbide Corp. v Ever-Ready, Inc.,* 531 F.2d 366 (7th Cir. 1976), which is the leading case on confusion survey evidence in the United States. 400 female consumers of vaginal moisturisers, vaginal washes, or vaginal anti-fungal products were surveyed. The first 200 were presented with the VAGISAN mark and asked a series of "standard" questions to measure various forms of confusion between VAGISAN and other brand names.[67] The remaining 200 were presented with a control fictitious mark, VAGIPUR. The Confusion Survey concluded that 37 per cent of those surveyed in the test group named VAGISIL in response to the confusion questions; whereas 18 per cent of those surveyed in the control group named VAGISIL when shown the control mark VAGIPUR and asked the confusion questions. This led to a conclusion that 19 per cent of those surveyed confused VAGISAN with VAGISIL specifically because of the marks' similarity and not because of other factors.[68]

Judge Ellis concluded that the Confusion Survey was "persuasive", "reliable" and "powerful" evidence of actual confusion between the two marks, which weighed heavily in Combe's favour.[69]

Wollf's criticisms of the survey, including an assertion that the controls used were improper, gained no traction. Further, the fact that Wollf did not conduct its own surveys was held against it.[70]

Overall, the survey evidence appears to have heavily influenced the District Court's conclusion that VAGISAN should not be registered due to the likely confusion that would arise.

The Australian proceedings

In the Australian proceedings, no confusion survey evidence was adduced. However, Combe successfully tendered (over objection) several surveys that had been undertaken by specialist research companies on Combe's behalf prior to and after the priority date. None of these surveys were conducted for the purposes of the litigation. Rather, they

were commissioned by Combe in the course of its business to help guide and inform business decisions, such as marketing strategies; and had been held by Combe as part of its records or archives.[71]

His Honour Justice Stewart concluded that the surveys were business records and therefore admissible pursuant to s.69 of the *Evidence Act* 1995 (Cth). Further, despite various criticisms concerning the manner in which the surveys were conducted, the survey evidence was one of a number of factors that his Honour took into account when concluding that Combe had a reputation in the VAGISIL marks at the priority date. Other factors that his Honour took into account included the length of time over which the VAGISIL products were sold, the large number of pharmacies and supermarkets through which the products were sold, the substantial advertising and promotional activity and expenditure in relation to the VAGISIL marks in media and forums accessible to consumers in the relevant market, and the actual sales.[72]

In contrast, however, Justice Stewart held that the marks were not deceptively similar and a significant or substantial number of potential consumers would not be confused or deceived by the VAGISAN mark. As survey evidence was not adduced on this question, it is not possible to determine whether the Court would have found that evidence to be of assistance. However, Justice Stewart did take into account the fact that there was no evidence of actual confusion in other jurisdictions where the VAGISAN products were already being sold.[73]

Discussion

In both the Australian and United States proceedings, survey evidence contributed to a finding that VAGISIL had a reputation in the marketplace. However, in view of the other evidentiary matters that also supported the Courts' conclusions (in particular the evidence of substantial sales and marketing expenditure), it seems likely that this finding would have been made even in the absence of the survey evidence in any event.

In contrast, a different conclusion was reached in the two jurisdictions with respect to confusion. In the United States proceedings, the Court was assisted by survey evidence, which led to a finding that confusion would arise. In the Australian proceedings, no confusion survey evidence was adduced, and the Court concluded that VAGISAN and VAGISIL were not deceptively similar; nor would the use of VAGISAN be likely to deceive or cause confusion despite VAGISIL's reputation.

Importantly, the Confusion Survey was not the only basis for Judge Ellis' conclusion that confusion would arise if VAGISAN was registered. In the United States, actual confusion is one of nine factors[74] that guide the determination of whether a mark is likely to cause confusion with a registered mark. However, significant emphasis is placed on actual confusion (in this instance, evidenced by the Confusion Survey). As Judge Ellis remarked:[75]

> *Like the first factor, the strength of the senior mark, actual confusion is an important factor that weighs heavily in the overall likelihood of confusion analysis. See Sara Lee. 81 F.3d at 467 ('If the strength of the senior mark is the alpha of infringement analysis, then evidence of actual confusion is surely the omega; where the defendant in an infringement case has elected to use a mark similar to that of a competitor's distinctive mark, and, as a result, has actually confused the public, our inquiry ends almost as soon as it begins.')*

Further, in contrast to Justice Stewart, Judge Ellis did find that a direct comparison of VAGISAN and VAGISIL lead to the conclusion that they were confusingly similar.[76] The registered goods for the VAGISAN application in the United States were also much narrower than the equivalent Australian application.

Such differences in the law, facts and approaches taken by the Judges may also account for the different conclusions reached in the Australian and the United States proceedings, irrespective of the absence of confusion survey evidence in the Australian proceedings. However, as no confusion survey evidence was adduced in the Australian proceedings, it is difficult to decipher what (if any) effect that evidence might have had on the outcome of the proceedings. Nevertheless, it is apparent that the Federal Court was armed with less evidence, which may have been of assistance, in the Australian proceedings.

Conclusion

Despite the Full Court's decision in *Arnotts* that Australian law should follow the American lead in acknowledging that market survey evidence may play a useful role in consumer law cases, it is apparent that a significant discrepancy between the United States and Australian approaches has developed over time.

To date, there have been very few cases in which Australian courts have been prepared to accept survey evidence, and in those cases the evidence is usually relied upon to support the view that the court has already reached. This may in part be attributable to the quality of the survey evidence relied upon in many of those cases. However, it also appears to be, at least to some extent, attributable to a trend by Australian courts to give the evidence little weight regardless of its quality. This is particularly the case with respect to proving acquired distinctiveness pursuant to s.41 of the Australian *Trade Marks Act* 1995 (Cth).

The Australian approach is also at odds with the approach taken in both the New Zealand and United Kingdom jurisdictions. Whilst New Zealand has also demonstrated an aversion to survey evidence in the past, it appears that

the New Zealand courts have more recently been willing to accept and rely upon such evidence at least in a confusion context. United Kingdom courts appear to be similarly averse to survey evidence in the confusion context. However, the United Kingdom courts appear to be readily prepared to accept such evidence to support a finding of acquired distinctiveness.

The comparison of the *Wollf v Combe* Australian and United States proceedings raises questions about what effect the absence of survey evidence in Australian proceedings might have on a finding of deceptive similarity or likelihood of deception or confusion. Care must of course be taken in making too close a comparison in view of the differences in the law, judicial approach and factual evidence adduced. However, it nevertheless emphasises the fact that the approach that Australian courts have adopted in relation to survey evidence may be resulting in the omission of relevant evidence that could assist the court.

1 Barrister, Nigel Bowen Chambers, Sydney.

2 Barrister, Nigel Bowen Chambers, Sydney.

3 *Sterling Pharmaceuticals v Johnson & Johnson Australia* (1990) 18 IPR 309; and *Johnson & Johnson Australia Pty Ltd v Sterling Pharmaceuticals Pty Ltd* (1991) 21 IPR 1.

4 *Goldberg v John Brown Hosiery Pty Ltd* (1996) 36 IPR 161 at [615].

5 *Tasman Insulation New Zealand v Knauf Insulation Ltd* (2015) 116 IPR 352. Indeed, *Kerly's Law of Trade Marks and Trade Names* 15th ed, (Sweet & Maxwell, 2011) at [10]–[119] provides that in determining whether a mark has become the common name in the trade for a product or service, "[a] tribunal would expect to see substantial independent evidence relating to the relevant product or service market. The evidence might come from surveys (as in Bjornekulla) or from persons of standing within the trade or from trade organisations and the like, showing the mark in use as the common name in the trade for a relevant product or service".

6 *McDonald's v McWilliam's Wines* (1979) 28 ALR 236 at 252.

7 *Arnotts Ltd v Trade Practices Commission* (1990) 24 FCR 313 at [600].

8 *Zippo Manufacturing Co v Rogers Imports* (1963) 216 F Supp 670 at [683]–[684], in which the United States District Court S.D. New York held that survey evidence was relevant both to establish the secondary meaning for the shape and appearance of the Zippo lighters and the likelihood of confusion between these products and the competing products.

9 *Arnotts Ltd v Trade Practices Commission* (1990) 24 FCR 313 at [603].

10 Mansfield J held that s.41(6) of the *Trade Marks Act* 1995 (Cth) was satisfied "despite the absence of market survey evidence".

11 Federal Magistrate Lucev held that there was insufficient evidence to form any proper view as to the nature of the colloidal silver market due to, inter alia, the absence of any survey evidence in relation to either the market or the buying patterns of consumers within the market.

12 Besanko J held "The problems with survey evidence are well-known (see, for a recent example, *Australian Postal Corporation* at 10-11, [33]-[49]). I accept that there may well be limitations on the use which can be made of the results of the tests identified by Professor Klein but, at the same time, I accept that these tests are available and can be used to establish, or at least support, the proof or otherwise of a number of propositions advanced by Dr Gibbs."

13 *McDonald's System (Aust) Pty Ltd v McWilliam's Wines Pty Ltd (No 2)* (1979) 28 ALR 236; *Chase Manhattan Overseas Corporation v Chase Corporation Ltd* (1985) 6 IPR 59; *Ritz Hotel Ltd v Charles of the Ritz Ltd* (1988) 12 IPR 417; *Arnotts Ltd v Trade Practices Commission* (1990) 24 FCR 313; *TV-AM PLC v Amalgamated Television Services Pty Ltd (ATN Channel 7)* [1988] FCA 270; *Interlego AG v Croner Trading Pty Ltd* (1991) 21 IPR 373; and *Interlego AG v Croner Trading Pty Ltd* (1992) 25 IPR 65; *CA Henschke & Co v Rosemount Estates Pty Ltd* (1999) 47 IPR 63; *Kellogg Co v PB Foods Ltd* [1999] FCA 1610 at [58]-[69] and [103]-[116]; *South Australian Brewing Co Pty Ltd v Carlton & United Breweries Ltd* (2001) 53 IPR 90; *Austereo Pty Ltd v DMG Radio (Australia) Pty Ltd* (2004) 61 IPR 257; *Cadbury Schweppes Pty Ltd v Darrell Lea Chocolate Shops Pty Ltd (No 4)* [2006] FCA 446; *Woolworths Ltd v BP plc (No 2)* (2006) 70 IPR 25; *Hansen Beverage Co v Bickfords (Australia) Pty Ltd* (2008) 75 IPR 505; *Chocolaterie Guylian NV v Registrar of Trade Marks* (2009) 82 IPR 13; *Adidas AG v Pacific Brands Footwear Pty Ltd (No 3)* (2013) 103 IPR 521; *Corporation v Digital Post Australia* (2013) 105 IPR 1; *Apple Inc v Registrar of Trade Marks* (2014) 109 IPR 187; *Samsung Electronics Australia Pty Ltd v LG Electronics Australia Pty Ltd* [2015] FCA 227.

14 *Adidas AG v Pacific Brands Footwear Pty Ltd* (No 4) (2013) 308 ALR 143 at [22]; *Frucor Beverages Ltd* v *Coca-Cola Company* [2018] FCA 993.

15 *Sterling Pharmaceuticals v Johnson & Johnson Australia* (1990) 18 IPR 309 at 323-328; upheld on appeal in *Johnson & Johnson Australia Pty Ltd v Sterling Pharmaceuticals Pty Ltd* (1991) 21 IPR 1; *Shoshana Pty Ltd v 10th Cantanae Pty Ltd (1987) 11 IPR 249; SGIC v GIO (NSW)* (1991) 21 IPR 65; *The Kettle Chip Company Pty Limited v Apand Pty Limited* (1993) 46 FCR 152; *Blount Inc v Registrar of Trade Marks* (1998) 40 IPR 498; *BP plc v*

Woolworths Ltd (2004) 62 IPR 545 at [55]–[62]; cf *Woolworths Ltd v BP plc (No 2)* (2006) 70 IPR 25; *Mars Australia Pty Ltd (formerly Effem Foods Pty Ltd) v Societé des Produits Nestlé SA* (2010) 86 IPR 581 at [27]–[29]; *Optical 88 Ltd v Optical 88 Pty Ltd (No 2)* (2010) 89 IPR 457, in particular at [137] and [190]; *Telstra Corp Ltd v Phone Directories Co Pty Ltd* (2014) 107 IPR 333; *Dr August Wolff GmbH & Co KG Arzneimittel v Combe International Ltd* (2020) 149 IPR 1.

16 See for example *Armor All Products Corporation v CRC Chemicals Australia Pty Ltd* (1992) 25 IPR 315; *Domino's Pizza Inc v Eagle Boys Dial-A-Pizza Australia Pty Ltd* (1995) 31 IPR 592; *Peters Foods Australia Pty Ltd v Tip Top Ice Cream Co Ltd* (1996) 33 IPR 475; *Application by Arnott's Biscuits Ltd, Re* (1998) 42 IPR 218; *Application by Multix Pty Ltd, Re* (2004) 64 IPR 128; *Woolworths Ltd v BP Ltd* (2013) 103 IPR 73; *Accolade Wines Australia Ltd v Delegat's Wine Estate Ltd* (2014) 108 IPR 514; *Apple Inc, Re* (2015) 115 IPR 116; *Coca-Cola Co v Frucor Beverages Ltd* (2016) 121 IPR 52; cf *Kabushiki Kaisha Nakamura Seisakusho v Overseas Corporation (Aust) Ltd* (1989) 14 IPR 613; *Goldberg v John Brown Hosiery Pty Ltd* (1996) 36 IPR 161; *Cadbury Schweppes Pty Ltd v Wal-Mart Stores Inc* (2004) 61 IPR 596; *National SIDS Council of Australia Ltd v Xtreme Sports Importacao Exportacao E Comercio LTDA* (2005) 68 IPR 146; *Citigroup Inc v City Acceptance Corp Pty Ltd* (2013) 102 IPR 125.

17 *State Government Insurance Corporation v Government Insurance Office of NSW* (1991) 21 IPR 65; *Optical 88 Ltd v Optical 88 Pty Ltd (No 2)* (2010) 89 IPR 457.

18 See for example *Interlego AG v Croner Trading Pty Ltd* (1991) 21 IPR 373*; State Government Insurance Corporation v Government Insurance Office of NSW* (1991) 21 IPR 65*; Cadbury Schweppes Pty Ltd v Darrell Lea Chocolate Shops Pty Ltd (No 4)* [2006] FCA 446; *Adidas AG v Pacific Brands Footwear Pty Ltd (No 3)* (2013) 103 IPR 521 (*'Adidas'*). There is a particular difficulty with the criticism made in *Interlego AG v Croner Trading Pty Ltd* (1991) 21 IPR 373 and *Interlego AG v Croner Trading Pty Ltd* (1992) 25 IPR 65 because it would appear to be almost impossible to conduct a survey in circumstances that reflect the commercial reality of consumer decision-making.

19 See for example *Telstra Corp Ltd v Phone Directories Co Pty Ltd* (2014) 107 IPR 333; *TV-AM PLC v Amalgamated Television Services Pty Ltd* [1988] FCA 270; *CA Henschke & Co v Rosemount Estates Pty Ltd* (1999) 47 IPR 63; *Cadbury Schweppes Pty Ltd v Darrell Lea Chocolate Shops Pty Ltd (No 4)* [2006] FCA 446*; Australian Postal Corporation v Digital Post Australia* (2013) 105 IPR 1.

20 See for example *Ritz Hotel Ltd v Charles of the Ritz Ltd* (1988) 12 IPR 417.

21 See for example *State Government Insurance Corporation v Government Insurance Office of NSW* (1991) 21 IPR 65; *Telstra Corp Ltd v Phone Directories Co Pty Ltd* (2014) 107 IPR 333; *Arnotts Ltd v Trade Practices Commission* (1990) 24 FCR 313*; Kellogg Co v PB Foods Ltd* [1999] FCA 1610 (*'Kellogg'*); *Cadbury Schweppes Pty Ltd v Darrell Lea Chocolate Shops Pty Ltd (No 4)* [2006] FCA 446*; Adidas*.

22 *Adidas*; cf *SCIO* which said a control was not required.

23 See for example *Telstra Corp Ltd v Phone Directories Co Pty Ltd* (2014) 107 IPR 333*; Cadbury Schweppes Pty Ltd v Darrell Lea Chocolate Shops Pty Ltd (No 4)* [2006] FCA 446.

24 *McDonald's System (Aust) Pty Ltd v McWilliam's Wines Pty Ltd* (No 2) (1979) 28 ALR 236; cf *Electronics Australia Pty Ltd v LG Electronics Australia Pty Ltd* [2015] FCA 227 (*'Samsung'*), which criticised interpreting and coding highly literal responses.

25 See for example *Adidas*; *Telstra Corp Ltd v Phone Directories Co Pty Ltd* (2014) 107 IPR 333.

26 See for example *State Government Insurance Corporation v Government Insurance Office of NSW* (1991) 21 IPR 65; *Telstra Corp Ltd v Phone Directories Co Pty Ltd* (2014) 107 IPR 333; *Arnotts Ltd v Trade Practices Commission* (1990) 24 FCR 313*;* cf *Sterling Pharmaceuticals v Johnson & Johnson Australia* (1990) 18 IPR 309 at 328, which placed very little weight on the survey performed by a solicitor, not because it was conducted by an unqualified person but because the methodology was not explained.

27 See for example *State Government Insurance Corporation v Government Insurance Office of NSW* (1991) 21 IPR 65.

28 See for example *State Government Insurance Corporation v Government Insurance Office of NSW* (1991) 21 IPR 65.

29 See for example *Kellogg*; *South Australian Brewing Co Pty Ltd v Carlton & United Breweries Ltd* (2001) 53 IPR 90; *Hansen Beverage Co v Bickfords (Australia) Pty Ltd (*2008) 75 IPR 505.

30 See for example, *Chase Manhattan Overseas Corporation v Chase Corporation Ltd* (1985) 6 IPR 59; *Australian Postal Corporation*.

31 See for example, *Chase; Hansen Beverage Co v Bickfords (Australia) Pty Ltd (*2008) 75 IPR 505*; Apple Inc v Registrar of Trade Marks* (2014) 109 IPR 187; *Samsung*.

32 *Cadbury Schweppes Pty Ltd v Darrell Lea Chocolate Shops Pty Ltd* [2006] FCA 364.

33 *South Australian Brewing Co Pty Ltd v Carlton & United Breweries Ltd* (2001) 53 IPR 90; *Austereo Pty Ltd v DMG Radio (Australia) Pty Ltd* (2004) 61 IPR 257; *Cadbury Schweppes Pty Ltd v Darrell Lea Chocolate Shops Pty Ltd (No 4)* [2006] FCA 446.

34 *Frucor Beverages Ltd v Coca-Cola Company* (2018) 132 IPR 318 at [91] and [168].

35 *State Government Insurance Corporation v Government Insurance Office of NSW* (1991) 21 IPR 65 at [97], in which French J (as he then was) stated "[a] substantial, and I think excessive, proportion of the trial time was taken up with survey evidence."

36 *Interlego AG v Croner Trading Pty Ltd* (1991) 21 IPR 373 at 409.

37 *Interlego AG v Croner Trading Pty Ltd* (1992) 25 IPR 65 at 102.

38 *Interlego AG v Croner Trading Pty Ltd* (1992) 25 IPR 65 at 102.

39 In particular, see *Adidas AG v Pacific Brands Footwear Pty Ltd* (2011) FCA 1205 at [16]; However, it was endorsed by the *Court of Appeal in James Hardie Industries NV v Australian Securities and Investments Commission* (2010) 274 ALR 85 at [97]-[98] (which did not concern survey evidence).

40 *The Kettle Chip Company Pty Limited v Apand Pty Limited* (1993) 46 FCR 152 at 172.

41 See *Frucor Beverages Ltd v Coca-Cola Company* (2018) 132 IPR 318; *Apple Inc v Registrar of Trade Marks* (2014) 109 IPR 187; *Austereo Pty Ltd v DMG Radio (Australia) Pty Ltd* (2004) 61 IPR 257; *Chocolaterie Guylian NV v Registrar of Trade Marks* (2009) 82 IPR 13.

42 *Woolworths Ltd v BP plc (No 2)* (2006) 70 IPR 25.

43 *Blount Inc v Registrar of Trade Marks* (1998) 40 IPR 498 at 509.

44 See *Chocolaterie Guylian NV v Registrar of Trade Marks* (2009) 82 IPR 13; *Frucor Beverages Ltd v Coca-Cola Company* (2018) 132 IPR 318; *Austereo Pty Ltd v DMG Radio (Australia) Pty Ltd* (2004) 61 IPR 257; *Woolworths Ltd v BP plc (No 2)* (2006) 70 IPR 25; *Apple Inc v Registrar of Trade Marks* (2014) 109 IPR 187.

45 See discussion in *Australasian Conference Association Ltd* at [91]-[94].

46 *Auckland Regional Authority v Mutual Rental Cars (Auckland Airport) Ltd* [1987] 2 NZLR 647; *Levi Strauss & Co v Kimbyr Investments* [1994] 1 NZLR 332 at 364.

47 *Australasian Conference Association Ltd* at [91]–[97].

48 *Red Bull New Zealand Ltd v Drink Red Ltd* (2016) 123 IPR 527 at [32].

49 *Red Bull New Zealand Ltd v Drink Red Ltd* (2016) 123 IPR 527 at [105]–[110].

50 *NYDJ Apparel, LLC.* [2014] NZIPOTM 5 at [24].

51 *Sistema Plastics Limited* [2008] NZIPOTM 23 at [56]; and *Weldwell (NZ) Ltd v ETC Elettrotermochimica Srl* [2001] NZIPOTM 16.

52 *Interflora v Marks and Spencer* [2013] EWCA civ 319.

53 *Enterprise Holdings Inc v Europcar Group UK Ltd & Anor* [2014] EWHC 2498 (Ch) at [22]–[24].

54 See for example *Glaxo Wellcome UK Ltd (trading as Allen & Hanburys) v Sandoz Ltd* [2017] EWHC 3196 (Ch).

55 See for example *Glaxo Wellcome UK Ltd (trading as Allen & Hanburys) v Sandoz Ltd* [2017] EWHC 3196 (Ch).

56 *Glaxo Wellcome*; *West (t/a Eastenders) v Fuller Smith and Turner* Plc [2003] EWCA Civ 48, [2003] EWCA Civ 429; *Marks and Spencer Plc v Interflora Inc. (A Company Incorporated Under the laws of the State of Michigan, USA) and Another* [2012] EWCA Civ 1501, [2013] 2 All ER 663 (*'Marks and Spencer'*).

57 *Marks and Spencer Plc v Interflora Inc. (A Company Incorporated Under the laws of the State of Michigan, USA) and Another* [2012] EWCA Civ 1501, [2013] 2 All ER 663 at [35].

58 The criteria that should be met remain largely the same as they were in the United States *Handbook of Recommended Procedures for Trial of Protracted Cases* cited by the Full Court of the Federal Court of Australia in *Arnotts Ltd v Trade Practices Commission* (1990) 24 FCR 313 and set out in the above text of this article. In *Leelanau Wine Cellars, Ltd. v Black & Red,* Inc., 452 F. Supp. 2d

772, District Court Judge Gordon referred to seven foundational requirements, namely: (a) The "universe" must be properly defined; (b) The appropriate universe should include a fair sampling of those purchasers most likely to partake of the alleged infringer's goods or services; (c) Questions must be framed in a clear, precise and non-leading manner; (d) Sound interview procedures must be followed by competent interviewers who have no knowledge of the litigation or the purpose for which the survey was conducted; (e) The data gathered must be accurately reported; (f) The data must be analysed in accordance with accepted statistical principles; and (g) Objectivity of the process needs to be assured.

59 Robert C Bird and Joel H Steckel, '*The Role of Consumer Surveys in Trademark Infringement: Empirical Evidence from the Federal Courts*' (2012) 14(4) *University of Pennsylvania Journal of Business Law* 1013; see for example: Checkpoint Sys., Inc. v Check Point Software Techs., Inc., 269 F.3d 270, 283 n.10 (3d Cir. 2001) (citing *Charles Jacquin Et Cie, Inc. v Destileria Serralles*, Inc., 921 F.2d 467, 476 (3d Cir. 1990)); *Vision Sports, Inc. v Melville Corp.*, 888 F.2d 609, 615 (9th Cir. 1989) ("An expert survey of purchasers can provide the most persuasive evidence of secondary meaning.") (citing *Levi Strauss & Co. v Blue Bell, Inc.*, 778 F.2d 1352, 1358 (9th Cir., 1985))); *McNeil Nutritionals, L.L.C. v Heartland Sweeteners L.L.C.,* 566 F. Supp. 2d 378, 392 (E.D. Pa. 2008) ("[C]onsumer surveys are useful, and indeed the most direct method of demonstrating secondary meaning and likelihood of confusion ...") (quoting *Charles Jacquin Et Cie*, 921 F.2d at 476)).

60 Robert C Bird and Joel H Steckel, '*The Role of Consumer Surveys in Trademark Infringement: Empirical Evidence from the Federal Courts*' (2012) 14(4) *University of Pennsylvania Journal of Business Law* 1013; see for example: Checkpoint Sys., Inc. v Check Point Software Techs., Inc., 269 F.3d 270, 283 n.10 (3d Cir. 2001) (citing *Charles Jacquin Et Cie, Inc. v Destileria Serralles*, Inc., 921 F.2d 467, 476 (3d Cir. 1990)); *Vision Sports, Inc. v Melville Corp.*, 888 F.2d 609, 615 (9th Cir. 1989) ("An expert survey of purchasers can provide the most persuasive evidence of secondary meaning.") (citing *Levi Strauss & Co. v Blue Bell, Inc.*, 778 F.2d 1352, 1358 (9th Cir., 1985)); *McNeil Nutritionals, L.L.C. v Heartland Sweeteners L.L.C.,* 566 F. Supp. 2d 378, 392 (E.D. Pa. 2008) ("[C]onsumer surveys are useful, and indeed the most direct method of demonstrating secondary meaning and likelihood of confusion ...") (quoting *Charles Jacquin Et Cie*, 921 F.2d at 476)).

61 Robert C Bird and Joel H Steckel, '*The Role of Consumer Surveys in Trademark Infringement: Empirical Evidence from the Federal Courts*' (2012) 14(4) *University of Pennsylvania Journal of Business Law* 1013 ; see for example: Checkpoint Sys., Inc. v Check Point Software Techs., Inc., 269 F.3d 270, 283 n.10 (3d Cir. 2001) (citing *Charles Jacquin Et Cie, Inc. v Destileria Serralles*, Inc., 921 F.2d 467, 476 (3d Cir. 1990)); *Vision Sports, Inc. v Melville Corp.*, 888 F.2d 609, 615 (9th Cir. 1989) ("An expert survey of purchasers can provide the most persuasive evidence of secondary meaning.") (citing *Levi Strauss & Co. v Blue Bell, Inc.*, 778 F.2d 1352, 1358 (9th Cir., 1985)); *McNeil Nutritionals, L.L.C. v Heartland Sweeteners L.L.C.,* 566 F. Supp. 2d 378, 392 (E.D. Pa. 2008) ("[C]onsumer surveys are useful, and indeed the most direct method of demonstrating secondary meaning and likelihood of confusion ...") (quoting *Charles Jacquin Et Cie*, 921 F.2d at 476)).

62 *Zatarains, Inc v Oak Grove Smokehouse, Inc.* 698 F.2d 786 (5th Circuit. 1983).

63 See for example: *Zatarains; Nola Spice Designs, L.L.C., et al v Haydel Enterp,* No. 13-30918 (5th Cir. 2015); *Provident Precious Metals LLC v Northwest Territorial Mint LLC* (N.D. Tex. 2015).

64 *Nola Spice* and *Precious Metals*.

65 *Combe Inc. v August Wolff GMBH & Co. KG Arzneimittel* 382 F. Supp. 3d 429 (E.D. Va. 2017) at 451.

66 *Combe Inc. v August Wolff GMBH & Co. KG Arzneimittel* 382 F. Supp. 3d 429 (E.D. Va. 2017) at 451.

67 For example, respondents were asked (i) what company or brand they think puts out the products they were just shown, (ii) whether they think the company that makes the products they were just shown makes any other products that they know of (and what the names of those other products are), and (iii) whether they think the products they were just shown are affiliated with, sponsored by, or approved by any other company or brand they know of (and what the names of those other companies or brands are): *Combe Inc. v August Wolff GMBH & Co. KG Arzneimittel* 382 F. Supp. 3d 429 (E.D. Va. 2017), footnote 30 at 461.

68 *Combe Inc. v August Wolff GMBH & Co. KG Arzneimittel* 382 F. Supp. 3d 429 (E.D. Va. 2017) at 461–462.

69 *Combe Inc. v August Wolff GMBH & Co. KG Arzneimittel* 382 F. Supp. 3d 429 (E.D. Va. 2017) at 462–463.

70 *Combe Inc. v August Wolff GMBH & Co. KG Arzneimittel* 382 F. Supp. 3d 429 (E.D. Va. 2017) at 455; 463–465.

71 *Dr August Wolff GmbH & Co KG Arzneimittel v Combe International Ltd* (2020) 149 IPR 1 at [112]–[122].

72 *Dr August Wolff GmbH & Co KG Arzneimittel v Combe International Ltd* (2020) 149 IPR 1 at [167].

73 *Dr August Wolff GmbH & Co KG Arzneimittel v Combe International Ltd* (2020) 149 IPR 1 at [172].

74 The nine factors which guide the determination of whether an applied-for mark is likely to cause confusion with a registered mark under United States law are (1) the strength or distinctiveness of the senior mark as actually used in the marketplace; (2) the similarity of the two marks to consumers; (3) the similarity of the goods or services that the marks identify; (4) the similarity of the facilities used by the markholders; (5) the similarity of advertising used by the markholders; (6) the defendant's intent; (7) actual confusion; (8) the quality of the defendant's product; and (9) the sophistication of the consuming public: *Combe Inc. v August Wolff GMBH & Co. KG Arzneimittel 382 F. Supp. 3d 429 (E.D. Va. 2017) at 444,* citing *Swatch AG v Beehive Wholesale, LLC, 739 F.3d 150, 155 (4th Cir. 2014) (*citing *15 U.S.C. § 1071(b)(1)).*

75 *Combe Inc. v August Wolff GMBH & Co. KG Arzneimittel* 382 F. Supp. 3d 429 (E.D. Va. 2017) at 460–461 and 465.

76 *Combe Inc. v August Wolff GMBH & Co. KG Arzneimittel* 382 F. Supp. 3d 429 (E.D. Va. 2017) at 456; cf *Dr August Wolff GmbH & Co KG Arzneimittel v Combe International Ltd* (2020) 149 IPR 1 at [41]–[75] and [170]–[173].

Licensing Lessons – Takeaways From *ObjectiVision* and Other Recent Cases

Scott Bouvier[1]

Australia has traditionally been rated highly on science and technology outputs by global innovation surveys but much lower on broader innovation and commercialisation of those outputs.[2]

Despite more emphasis on innovation since Malcolm Turnbull's first *National Innovation and Science Agenda* in 2015,[3] and more recently the *Australia 2030: Prosperity through Innovation* strategy,[4] little has changed over the last five years. Our current Australia 2030 strategy includes the key strategic policy imperative of improving research and development ("R&D") effectiveness by increasing translation and commercialisation of research.

After advising on intellectual property ("IP") commercialisations for more than 25 years, it is clear to me that Australia's innovation performance would be improved if commercialisation advisers and lawyers improved their commercialisation skills. Core to those skills should be drafting clear effective IP licences which are efficiently negotiated. Unfortunately, many IP licences and negotiations do not have those characteristics. My presentations over the last few years to the Intellectual Property Society of Australia and New Zealand ("IPSANZ") and the Licensing Executives Society Australia & New Zealand ("LESANZ") members have been, and this article is, designed to share the lessons learnt from IP licences "gone wrong" and hopefully contribute to the goal of clear effective IP licences which are efficiently negotiated.

This article focuses on *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1 ("*ObjectiVision*")[5] on which I have advised The University of Sydney (the "University") for more than 10 years, as well as a selection of other cases. While the cases highlight the need for having a detailed understanding of the underlying IP and technology, they equally emphasise the need for strong contract drafting and interpretation skills. Those skills are often misdirected into the warranty, indemnity and liability debates which too often distract lawyers. Those skills should instead focus first on properly recording the key commercial terms of the licence being provided, the management of performance, the licence fees payable, the evolution of IP rights and the management of business transitions. At the end of this article, these matters are expanded on with a key commercial questions checklist to help test whether a licence agreement is clear and comprehensive.

This article unapologetically simplifies many of the cases so that it can focus on the lessons learnt. Hopefully those lessons will be useful in supporting some of the amazing opportunities for innovative businesses, services and products which will emerge from this time of the COVID-19 pandemic and the fast-forwarding of many mega-trends. Australia will need to be at the forefront of those opportunities to preserve our comparative wealth and IP and commercialisation advisers will need to be at the top of their games!

ObjectiVision

The *ObjectiVision* dispute extended over 12 years and involved a large range of contract issues relating to licensee performance, estoppel, consents not to be unreasonably withheld, conditions precedent, liability limitations and shareholder obligations. The dispute also involved important issues relating to allegations of copyright infringement of computer source code but they are beyond the scope of this article. This article first explains the facts and the result before going through some key takeaways and the particular issues.

The basic facts and result

In the late 1990s Associate Professor Alexander Klistorner, an electrophysiologist, and Professor Stuart Graham, an ophthalmologist, developed improvements to a form of visual electrophysiology, using multi-focal visually evoked potential ("mfVEP"). This technology can be used to detect partial and complete blind spots associated with glaucoma and other diseases of the eye or the brain.

In 2000 ObjectiVision was formed with a Shareholders' Agreement between the founders, the University and Medcorp. The University granted ObjectiVision an exclusive licence for the commercialisation of a product, ultimately called AccuMap, which utilised patented technology. AccuMap was run on computer software called OPERA.

In 2005, after about 19 sales, AccuMap 1 was abandoned, Arthur Cheng was appointed the CEO and redevelopment commenced on AccuMap 2 and revised OPERA software. There were no further sales and the redevelopment was never completed. In 2008 ObjectiVision did not meet minimum performance criteria based on AccuMap sales and ran out of funding. The University issued breach notices and ultimately the licence was rendered non-exclusive. Work then commenced by Klistorner with a software programmer, Vadim Alkhimov, to create TERRA software to perform the same functions as OPERA. At this stage, the University's shareholding diluted to less than 1 per cent

and Cheng controlled ObjectiVision. After 18 months, there was a mediation at which a heads of agreement was agreed ("Heads of Agreement"). ObjectiVision's exclusivity was restored for 12 months to enable ObjectiVision to find third-party funding to continue the commercialisation of the technology.

After about 10 months ObjectiVision sought consent to a proposed investment by Hamisa. After many rounds of correspondence about that proposed investment (more on this later), in January 2011 the University notified ObjectiVision that the licence was terminated. That position was challenged by ObjectiVision and was the central issue in the dispute. Shortly afterward, a new company Visionsearch was formed and they commenced developing the technology and ultimately commercialised the technology as part of clinical trial for Biogen. In 2013/2014 there were preliminary discovery proceedings by ObjectiVision against the University and Visionsearch and ultimately source code was ordered to be discovered and tested. In 2014, the University commenced proceedings for a declaration that the Licensing Agreement had been validly terminated and for the recovery of patent management fees of AU$19,219.74. ObjectiVision cross claimed against the University and Visionsearch with more than 70 allegations of breach and copyright infringement, with damages claimed at over AU$50,000,000 in lost profits or reliance damages at over AU$25,000,000.

After a six-week hearing in 2018, on 2 October 2019 Burley J of the Federal Court of Australia found that:

- the Licensing Agreement terminated on 19 January 2011;
- had the Licensing Agreement not terminated on 19 January 2011, then it was validly terminated for breach on 20 January 2011 and again on 10 October 2014;
- the University was entitled to judgment in the amount of AU$19,219.74 plus interest for failure on the part of ObjectiVision to pay outstanding patent costs; and
- ObjectiVision's cross-claim failed and must be dismissed.

Transition lessons

This section reviews some lessons on condition precedents, consultation and consents related to the proposed transition of control to Hamisa. These are the key clauses from the Heads of Agreement:

> *1.6 (1) ObjectiVision undertakes to consult with the University regarding any approach to or progress in negotiation with Third Parties including providing details of the Third Parties. (2) ObjectiVision will obtain written consent from the University prior to entering into an agreement to allow a Third Party to acquire a majority shareholding in ObjectiVision or grant a sub-licence. (3) The University will provide its consent in circumstances where the Third Party has the resources required to commercialise the AccuMap 2 product and will not withhold its consent unreasonably. (4) The University will provide ObjectiVision with its response to a request for consent within 3 working days of ObjectiVision providing details of the relevant Third Party and proposed transaction in accordance with this clause 1.6.*
>
> *1.7 The parties agree that unless ObjectiVision enters into a binding agreement providing for the acquisition of the majority of the shares in ObjectiVision or an exclusive sublicense with a Third Party in accordance with clause 1.6 and within the Exclusivity Period, the License Agreement will terminate and neither party will have any further obligations to the other under the License Agreement.*
>
> *1.9 ObjectiVision agrees that a condition of the University granting consent under clause 1.6 will be that ObjectiVision first assigns the "Stimulus Method" and "Flexible electrodes" patents currently filed in ObjectiVision's name to the University.*

The following is a chronology of the events relevant to the proposed transition to Hamisa:

- 26 November 2010 – ObjectiVision asked the University to provide its consent to ObjectiVision's entry into an agreement with Hamisa to acquire three tranches of shares to a total of 50.1 per cent. The agreement included various conditions precedent and milestones related to development of the AccuMap 2.
- 30 November 2010 – The University raised concerns and requested more information; then multiple rounds of correspondence between King & Wood Mallesons and Gilbert & Tobin followed.
- 22 December 2010 – Unknown to the University, ObjectiVision and Hamisa entered into the First Subscription Deed, by which it was issued with 15 per cent of the shares in ObjectiVision.
- 13 January 2011 – ObjectiVision confirmed it would assign the "Stimulus Method" and "Flexible electrodes" patents to the University upon the University providing its consent under clause 1.6.
- 14 January 2011 – The University stated that if an agreement was provided for the acquisition by Hamisa of a majority of the shares in ObjectiVision by 19 January 2011, then the University would refuse consent because "at this stage" ObjectiVision had not demonstrated that Hamisa had the resources required to commercialise AccuMap 2.
- 18 January 2011 – Gilbert & Tobin notified the University that ObjectiVision had entered into a

Share Subscription Deed which for the acquisition of 35.1 per cent of the shares in ObjectiVision, which would make Hamisa the majority shareholder. ObjectiVision did not seek prior consent to enter into this agreement.

- 20 January 2011 – The University wrote to ObjectiVision:

  We note that the Licence Agreement … has now terminated in accordance with clause 1.7 of the HOA. In case an election is required to terminate the Licence Agreement pursuant to clause 1.7 of the HOA (and the University does not accept that is the case), this letter constitutes notice to you that the University so elects.

Following condition precedents

The University successfully contended that absent any actual assignment of the patents under clause 1.9, it was not obliged to provide any consent under clause 1.6. Clause 1.9 was unequivocal in its terms. Burley J agreed that clause 1.9 imposed a condition that must be fulfilled before the University was required to give its consent pursuant to clause 1.6. The use of the words "first assigns" contemplates that regardless of the issues between the parties about consent and the application of clause 1.6, ObjectiVision would first assign the patents.[6]

ObjectiVision argued that assignment of the patents would have been futile, as the University had indicated that it was not going to provide its consent. So, if clause 1.9 was properly interpreted as a condition precedent to the University's failure to perform under clause 1.6, ObjectiVision would still be entitled to damages for the failure to perform clause 1.6 (citing Kitto J in *Peter Turnbull & Co Pty Ltd v Mundus Trading Co (Australasia) Pty Ltd* [1954] HCA 25; 90 CLR 235 at 250 and *Park v Brothers* [2005] HCA 73; 80 ALJR 317 at [42]).[7] This argument was not successful as Burley J found that the University had not refused to perform under clause 1.6 prior to 19 January 2011:

> *the language of the 14 January 2011 letter does not, in my view, amount to an absolute refusal on the part of the University to carry out the HOA. Notably, the letter states that at this stage ObjectiVision has not demonstrated that Hamisa has the resources to commercialise the AccuMap 2 product.*[8]

The key takeaway from this part of the case is to follow conditions precedent carefully. A specifically described bargain had been struck at the mediation with the Heads of Agreement but ObjectiVision did not follow it precisely. Equally, if you are the beneficiary of a condition precedent as the University was, you need to continue to perform your side of the agreement and be ready, willing and able to perform.

Was there consultation?

Under clause 1.6, ObjectiVision was required to consult with the University regarding Hamisa, including providing details about Hamisa. The University argued that there had not been adequate consultation.

Burley J considered that to "consult" means to "seek counsel from" or "refer to for information". Taken in context, the evident intention was to enable a dialogue between the University and ObjectiVision to take place during the course of negotiations with a potential investor so that the University was informed of relevant developments and was in a position to provide the consent required within the relatively short notice required in clause 1.6(4).[9] However, while there had not been consultation before the first ObjectiVision letter seeking consent, over the seven weeks that followed there was then a "measure of consultation (albeit of an adversarial and strained variety) in the correspondence between King & Wood Mallesons and Gilbert & Tobin.[10]

The key takeaway is that consultation is not a very high standard. With transition scenarios like this, if a licensor wants specific information and process about a proposed assignee, sub-licensee or new controller, then that information and process should be spelled out.

Was consent withheld unreasonably?

ObjectiVision argued that the University had withheld its consent unreasonably as Hamisa was an investor with the resources required to commercialise the AccuMap 2 product.

There is a surprising amount of law associated with analysing consent that is not to be unreasonably withheld. Importantly, where an obligation arises for consent not unreasonably to be withheld, the reason for withholding consent must be something affecting the subject matter of the contract and not something extraneous and dissociated from that subject matter. In analysing the motives, the objective and subjective positions are considered – were there collateral, improper or extraneous motives?

Burley J considered that if the University had reasonable doubts as to whether Hamisa had the resources required to commercialise the AccuMap 2, withholding consent to Hamisa would not be unreasonable.[11] Further, ObjectiVision did not demonstrate that the relevant decision-maker Dr Hallgren was subjectively unreasonable in refusing consent on behalf of the University. Nor was it established that it was objectively unreasonable for that consent to be refused.[12]

The key takeaway is that "not unreasonable" consents need to be considered carefully and the reasons supporting any withholding of consent related to the subject matter and purpose of the contract.

Minimum performance criteria and estoppel

The licence obliged ObjectiVision to take all reasonable actions to achieve at least minimum sales and/or performance criteria which, after a ramp-up period, exceeded 80 units per year. Those criteria were formally varied and extended at different times but were not considered or varied when ObjectiVision decided to stop sales of AccuMap and redevelop the hardware and software. After no sales for over three years, in clear breach of the minimum criteria, the University exercised its right to convert ObjectiVision's licence to a non-exclusive licence.

ObjectiVision disputed that decision. It contended that by reason of the University's nominee to ObjectiVision's board approving the switch in focus from AccuMap 1 sales to the redesign and redevelopment of AccuMap 2, the University was estopped from relying on the failure to meet those minimum criteria.[13] This contention failed on the basis that there was no actual representation by the University that the minimum criteria were no longer applicable,[14] and even if there were such a representation by the nominee director, his knowledge and actions could not be imputed to the University.[15]

In an important finding about nominee directors, Burley J confirmed that the nominee director, Mr Fernance, was not acting as an agent of the University, but rather as an officer of ObjectiVision. As a director, he was obliged to ignore the interests of the University and his knowledge would not be imputed to the University. A director installed on the board of another company by his or her employer is in general presumed not to be subject to the employer's direction when performing functions as a director, so that no vicarious liability attaches to the employer for the employee's conduct in that capacity. In general, the duty of a director is personal, and he or she will be presumed to perform that duty irrespective of the reason for appointment.[16]

One key takeaway from this decision is that it emphasises the value of separating your licensing and research teams from the nominee director. Mr Fernance was from the investment group within the University and was not part of the licensing or research teams. There was no question as to what "hat" he was wearing at any time. This is often not the case when the nominee director is involved in the research or the licence relationship and the "hat" they are wearing when representations are made is very unclear.

The situation also emphasises the importance of not putting the agreement in the "bottom drawer" and managing changes through written variations. There may have been variation of the minimum criteria if this was requested by ObjectiVision and the revised targets would have formed part of their future business planning.

It is very difficult to terminate agreements based on breaching "best" and "reasonable" endeavours[17], and this was not attempted in the ObjectiVision case. In my view, it is very important that all licences include specific minimum performance standards and activities which are considered easily achievable but which have termination consequences if they are not met. In addition, licences can have general endeavours obligations and higher targets based on business plans where the failure to achieve those obligations or targets leads to engagement, revision and monitoring and then different consequences like loss of exclusivity or narrower markets or fields.

Applying this two-tiered approach to the ObjectiVision case, the 80 units per year target could have been the business plan target and the termination level could have been five units per year. Most likely, this termination level target would have been easily agreed at the start of the licence as being considered highly unlikely. A termination level target like this would avoid a dispute about whether selling no units for six years was still reasonable endeavours to commercialise!

Liability exclusions

Liability and damages were heard together. During the hearing the loss of opportunity damages claim of over AU$50,000,000 was not pursued by ObjectiVision as the key conclusion of the expert from the United States of America ("US") was inadmissible. The matter proceeded on a claim for costs wasted as a result of the University's "unreasonable refusal". The damages claimed were over AU$25,000,000, of which AU$12,172,000 was expenditure on the development of the AccuMap 1 and AccuMap 2 and the balance being pre-judgment interest.[18]

The claim for wasted expenditure was based on law best described in *Commonwealth v Amann Aviation Pty Ltd* (1991) 174 CLR 64:

> *If the performance of a contract would have resulted in a plaintiff, while not making a profit, nevertheless recovering costs incurred in the course of performing contractual obligations, then that plaintiff is entitled to recover damages in an amount equal to those costs …, as those costs would have been recovered had the contract been fully performed. Similarly, where it is not possible for a plaintiff to demonstrate whether or to what extent the performance of a contract would have resulted in a profit for the plaintiff, it will be open to a plaintiff to seek to recoup expenses incurred, damages in such a case being described as reliance damages or damages for wasted expenditure.*[19]

Despite finding for the University on liability, Burley J reviewed the damages claim in detail. Burley J determined as a factual finding that ObjectiVision would not have recovered its costs to support a wasted expenditure claim. ObjectiVision would not have had access to sufficient funds in order to proceed with the project of completing the prototype and getting it to market, either from its own resources or with the assistance of a third-party funder.[20]

Burley J also considered the liability exclusion in the Licensing Agreement:

> *Clause 17.1 – The University, its servants and agents shall not be liable to the Licensee and the Licensee hereby releases and agrees to keep released the University its servants and agents for any loss, damages, costs, or expenses arising directly or indirectly from or in relation to this Agreement except to the extent that such loss, damages, costs or expenses arise out of negligent or unlawful acts or omissions by the University, its servants and agents.* [emphasis added]

ObjectiVision argued that the damages resulted from breach of the Heads of Agreement, so were not covered by this exclusion.[21] ObjectiVision did not argue that the University had acted negligently or unlawfully. The University argued that the Heads of Agreement was a variation of the Licensing Agreement or that damages arose indirectly from the Licensing Agreement.[22]

Burley J found that the Heads of Agreement was not a variation of the Licensing Agreement.[23] However, all of the damages sought by ObjectiVision pursuant to the abandoned loss of opportunity claim, and for the wasted expenditure damages claim, arose from the performance of the Licensing Agreement.[24] Accordingly, any claim for damages under the Heads of Agreement would still indirectly relate to the Licensing Agreement, because the ultimate aim of the Heads of Agreement was to enable the continuation of the Licensing Agreement.[25] As a result, the exclusion under clause 17.1 applied to the whole of the contract cross-claim for damages and excluded the claim.[26]

The decision emphasises the value of liability limitation and exclusion clauses. Those clauses are interpreted like any other clauses, by "construing the clause according to its natural and ordinary meaning, read in the light of the contract as a whole, thereby giving due weight to the context in which the clause appears, including the nature and object of the contract, and, where appropriate, construing the clause contra proferentem in the case of ambiguity".[27] In my view, in recognition of their not-for-profit status, the research sector should seek sensible liability limits and commercial parties should seek to manage the risks and conduct appropriate due diligence.

The construction of obligations on shareholders

ObjectiVision contended that by the University failing to disclose an opportunity to supply mfVEP machines to Biogen, and by taking steps itself to investigate the development of an alternative mfVEP device to Biogen, the University had breached the Shareholders' Agreement.[28]

Each Shareholder had agreed: "(a) to co-operate and use its best endeavours to ensure that the Company successfully carries on the Business;" and "(e) to be just and faithful in the Shareholder's activities and dealings with [ObjectiVision], the Business and the other Shareholders."[29]

Burley J rejected ObjectiVision's contention that there was a requirement on the part of the University to notify ObjectiVision of opportunities to sell AccuMap to a third party and to cede to ObjectiVision all opportunities in relation to that technology.[30] ObjectiVision were in effect arguing for exclusive dealing and first rights in the technology field, which went beyond their exclusive licence rights. Given the risk of such restrictions interfering with the freedoms of University research and commercialisation, such restrictions cannot easily be implied and would need to be express.

Further, the Shareholders' Agreement was directed towards the obligations that the shareholders have between themselves as shareholders. This is in contradistinction to the University and ObjectiVision's obligations to each other as the owner and licensee of the technology the subject of the operations of ObjectiVision, which are governed by the Licensing Agreement.[31] The obligations under the Shareholders' Agreement are not at large. They are confined to behaviour of the parties between each other as shareholders and may concern matters such as governance, sale of shares and the like.[32]

This is an important finding. In negotiations, I have always sought to delete general clauses which require a shareholder to co-operate and use their "best endeavours to ensure that the Company successfully carries on the Business", as they were uncertain and unbounded. However, they are very commonly agreed. This finding gives some comfort about their boundaries but there is a risk that it can be distinguished. Unusually each of the Shareholders' Agreement and Licensing Agreement had clauses which stated in effect that each agreement were separate and distinct agreements relating to separate and distinct subject matters, and this was part of the circumstances considered by Burley J.[33]

In my view, shareholders in similar positions to the University with multiple relationships should still carefully consider agreeing to vague general commitment clauses. If they do agree them, they should ensure that the obligations are limited to their obligations as shareholders and use drafting which emphasises the "separate and distinct" obligations.

Shareholders should also consider adding time limits and/or minimum shareholding requirements on shareholder obligations. Applying any obligations on the University as a shareholder in 2010/2011 seems particularly uncommercial given that their shareholding was less than 1 per cent, it was 10 years after company formation and the controlling shareholders had not even acceded to the Shareholders' Agreement.

Last words on *ObjectiVision*

The University's position was supported by the Shareholders' Agreement and Licensing Agreement agreed in 2000. Twenty years later there are some key lessons in managing performance, transition and shareholders commitments which, if applied then, may have avoided the dispute at a much earlier stage. The case has many other lessons relating to managing terminations, IP management clauses, copyright assignments and licences and managing clean-room new IP development, and is important reading for all commercialisation and technology lawyers.

Other key lessons

In this section, I briefly review a range of recent cases and draw out lessons on due diligence on prior licences, the meaning and importance of exclusive licences for licensees, getting your royalties right, more on transition and the importance of definitions and managing downstream IP.

Respecting prior licences

When entering into a new licence agreement, it is obviously important to do due diligence on the IP and any prior licences. In *Sealed Air Australia Pty Ltd v Aus-Lid Enterprises Pty Ltd* (2020) 375 ALR 324,[34] Visy Packaging Pty Ltd ("Visy") was caught out by a prior licence.

Sealed Air Australia Pty Ltd ("Sealed Air") was the sub-licensee of a patent for a lid which integrated a spoon. Aus-Lid Enterprises Pty Ltd ("Aus-Lid Enterprises") owned the patent and sub-licensed it to AusLid Operations Pty Ltd ("Auslid Operations") (and together, "Aus-Lid"). In 2011 Sealed Air entered into an agreement with both Aus-Lid entities under which Auslid Operations granted Sealed Air an exclusive and irrevocable sub-licence for use of the patent in Australia New Zealand for manufacturing and supplying containers for pre-packaged dairy products and Sealed Air then provided Chobani with lids using the patent. In 2014 Visy began providing Chobani with proposals for lids. Visy was provided assurances by Auslid Operations that they could use the patent. In mid-2014 Sealed Air became aware of Visy's use of the patent and notified both Aus-Lid entities, Visy and Chobani of its exclusive patent licence rights.

Aus-Lid assured Visy they had the right to provide a licence to Visy and that Visy could continue using the patent. After being provided details of the exclusive sub-licence agreement by Sealed Air's lawyers and further legal correspondence, Visy continued to pay royalties to Aus-Lid and then entered into an Intellectual Property Agreement with Aus-Lid.

Visy was sued by Sealed Air for tortious inducement of breach of the Sealed-Air contract with Auslid Operations. To be successful, Sealed Air had to show that there was a contract between Sealed Air and Aus-Lid; if Aus-Lid did a particular act Aus-Lid would breach the contract; Visy knew these matters; Visy intended to and in fact did induce Aus-Lid to breach the contract; and the breach of contract caused Sealed Air damages.

Kenny J of the Federal Court of Australia found that all these elements had been established. When Visy gained knowledge of the Sealed Air licence in September 2014, Visy continued to induce or procure Aus-Lid to breach this contract by the continued payment of royalties for the manufacture and supply of its patented spoon-in-lid. Visy's execution of the December 2014 documents constituted a further actionable interference with Aus-Lid's contractual obligations to Sealed Air. Visy had actual knowledge of Aus-Lid's contract and of its relevant terms, and Visy was wilfully blind (or recklessly indifferent) to the fact that Aus-Lid's grant to Visy of the right to manufacture and supply Chobani with Aus-Lid's patented spoon-in-lid meant that Aus-Lid was in breach of its contract. Visy was ordered to pay damages of AU$1,600,000, being the profit made from the lids between September 2014 and the end of the Sealed Air licence in September 2017.

This case demonstrates that a licensee may have licence rights and assurances from the patentee but still be at risk of challenge from earlier licensees. When entering into a new licence, a licensee may need to go beyond warranties, assurances and indemnities and obtain documentary proof that earlier licences have been terminated to avoid the knowledge element of this tort.

Exclusive means exclusive

There have been a series of cases[35] in Australia over the last seven years exploring the meaning of exclusive licensee under section 120 of the *Patents Act* 1990 (Cth).[36] Only the patentee and exclusive licensees have standing to commence infringement proceedings. If a licensee is not an exclusive licensee then they need to rely on the patentee commencing proceedings to protect the licensee's position. This involves considering the ability of the licensee to require that action under the licence agreement and the risks of not being able to specifically enforce those rights. Further, while action by the patentee may lead to injunctions and an account of profits which can be shared with the licensee, it cannot lead to the recovery of damages by the non-exclusive licensee to protect its market losses.

This issue was first highlighted in *Bristol-Myers Squibb Company v Apotex Pty Ltd* (2013) 104 IPR 23. Otsuka was the owner of a patent claiming an improved form of antipsychotic drug used in treating schizophrenia. Otsuka granted an exclusive worldwide licence to Bristol-Myers Squibb Company ("BMS") to develop, commercialise, advertise, market, promote, sell and distribute the drug in its various forms, and engage in related activities. However, Otsuka reserved to itself the worldwide right to manufacture the drug in its various forms.

BMS commenced infringement proceedings against Apotex, a manufacturer of generic pharmaceuticals containing the drug. Yates J of the Federal Court of Australia found that BMS did not have standing to sue. BMS was not an "exclusive licensee" of the drug because of Otsuka's reservations with respect to the invention's exploitation.

The issue was also recently analysed in a costs decision by Greenwood J of the Federal Court of Australia in *Vald Performance Pty Ltd v Kangatech Pty Ltd* [2019] FCA 1880. Vald was an "exclusive" sub-licensee under an exclusive licensing agreement between patentee Queensland University of Technology ("QUT") and QUTbluebox Pty Ltd, with reservations of certain research rights to QUT.

Vald sued Kangatech for patent infringement and subsequently arranged an assignment of the patent from QUT and sought leave to replead as the patent owner. As part of the costs argument related to the repleading, Kangatech argued that Vald clearly did not have standing under s.120(1) of the *Patents Act* 1990 (Cth) to sue for infringement of the patent, as it was not an exclusive licensee for the purposes of the Act.

Greenwood J agreed and ordered costs on an indemnity basis, finding that an exclusive licensee of an exclusive licensee is not within the scope of the term "exclusive licensee" for the purposes of the Act. Further, having regard to the terms of the licences, the R&D reservations to QUT were inconsistent with exclusivity.

It is now very clear in Australia, and in most countries like the US and United Kingdom ("UK"), that to provide a licensee with standing (and the ability to recover damages and protect itself) the licence must be 100 per cent exclusive, without reservation. The cases over the last seven years have highlighted how to draft for 100 per cent exclusivity. If a licensor wants to reserve rights for R&D or in certain fields then licensees should seek to structure these rights as a licence back to the licensor.

Royalty drafting

Often a royalty negotiation will focus on a percentage rate and not focus enough on the base that the royalty is derived from. For example, at what level in the distribution chain is net revenue calculated? The sales by the licensee or its distributors? What products are covered and does net revenue extend to related services? How are royalties calculated when the invention is only part of the end product?

In the UK case, *Oxonica Energy Limited v Neuftec Limited* [2009] EWCA Civ 668, the England and Wales Court of Appeal (Civil Division) was asked to consider the definition of Licensed Products to determine whether any royalties were payable. "Licensed Products" was defined as "any product, process or use falling within the scope of claims in the Licensed Application or Licensed Patent"[emphasis added]. If Licensed Products was limited to patent claims which were successfully granted, then the product sold by the licensee did not fall within those claims, and no royalties were payable. However, the product was within the scope of the claims in the *Patent Cooperation Treaty* ("PCT")[37] application forming part of the licence agreement. So, the Court had to determine whether the reference to "Application" was to the legal state of affairs that is constituted when a person requests the competent authority to grant him a patent and that request is still outstanding or the content of the document which that person filed with a view to initiating the grant of a patent. In this case the licensor won and the Court determined that the Licensed Products referred to the PCT application and royalties were payable.

When drafting a licence agreement, the parties need to separately think through the definitions which support the grant of the licence (as a licensee, do I have the rights that I expect and for both parties what happens with new rights and improvements?) and the definitions which support the calculation of royalties (as a licensor, will I receive the royalties that represent a fair return on my invention?). The royalty clause will often rely on the same definitions as the licence grant but they should be considered more broadly and they may just refer to the actual products likely to be sold.

More on transition – trade secrets

ObjectiVision is one example of many disputes about licence agreement transitions, which often arise with new investors, new owners or new licensees. In addition to some general issues highlighted in *ObjectiVision*, there are particular issues which arise when the licence involves trade secrets as highlighted by these two cases.

In *Painaway Australia v JAKL Group* (2011) 249 FLR 1 ("*Painaway*"), Painaway was granted an exclusive, perpetual and non-revocable licence by JALK to use the secret Painaway formulas and trade marks to manufacture, market and distribute arthritis and sports creams and sprays. After a few years, Painaway went into receivership and administration. There was then a complicated JV/shareholder fight in which the IP owner (also a shareholder) tried to stop the administrator from transferring the IP licence. The administrator was relying on the express right granted to Painaway to "assign or otherwise deal with this agreement or any right under the agreement without their prior written consent provided that any such dealing does not materially "effect" the integrity of the Intellectual Property or Painaway Formulas". Despite these clear contractual rights, the IP owner argued that as a matter of law that the trade secrets were not transferable.

Ward J of the New South Wales ("NSW") Supreme Court confirmed the long-standing Australian law that trade secrets are not a form of property. A characteristic of property was its ability to be enforced against the world without the need to

establish a pre-existing relationship between the rights owner and the defendant. Trade secrets are protected by obligations of confidence either under a contract or under equity i.e. they generally depend on a pre-existing relationship. Therefore, because trade secrets are not property, they are not capable of being assigned.

Even though the trade secrets were not themselves assignable, Ward J decided that the licensee could still assign the contractual rights it had under the IP licence which obliged the IP owner to keep the secret formulas confidential. As the secret formulas were only held by the IP owner and licensee, then those rights had value and an assignee of the licence would have the right to enforce them against the licensor.

There was a different result in *Neobev P/L v Bacchus Distillery P/L (Administrators Appointed) (No 3)* (2014) 104 IPR 249. Bacchus operated a small distillery in Victoria and produced cream liqueurs. Scott licensed product recipes and manufacturing and testing procedures to Bacchus through his company, Neobev. Those recipes and procedures were contained in 77 documents which were confidential in nature. Bacchus went into administration and the administrators then tried to sell the Bacchus business with that confidential information.

Neobev successfully challenged the administrator's ability to sell the confidential information. Besanko J of the Federal Court of Australia held that a right or licence to use confidential information was not capable of assignment, where the proposed assignor is the person who owes the duty of confidence. Here, the person who owes (rather than is owed) the obligation of confidence is seeking to assign the confidential information. However, contractual burdens or obligations are not assignable. Novation of the licence was only possible where there was an express provision permitting novation like the *Painaway* case.

When licensing trade secrets, a licensee should seek the ability to novate the licensee as part of a business transition. On the other hand, a licensor should seek to restrict that right by requiring prior consent, placing procedures around the transition process and specifying attributes of incoming party.

Considering future IP (get the definitions right!)

Many IP licence disputes turn on IP definitions. Those definitions are often difficult to draft when you are considering future IP.

In *Apple and Pear Australia Ltd v Pink Lady America LLC* (2016) 343 ALR 112, the fact that future IP was not covered in drafting a simple definition of Trade Marks resulted in a very complicated judgment at first instance in favour of Pink Lady America LLC being completely reversed.

After a trade mark opposition in Chile, Apple and Pear Australia Ltd ("APAL") and Pink Lady America LLC ("PLA") entered into an Option Deed. In that deed PLA transferred specific PINK LADY trade marks in Chile to APAL in exchange for APAL granting an exclusive licence of those trade marks to PLA in respect of exports from Chile to the United States, Mexico and Canada. The facts are complicated but the key issue was whether the licence extended to a new version of the Pink Lady trade mark which was being used internationally. In the Option Deed the trade marks licensed simply referred a specific list of trade marks in a schedule and did not include the new version.

Croft J of the Victorian Supreme Court held at first instance that the licence granted to PLA under the Option Deed extended to the "refreshed" PINK LADY trade mark. The Victorian Supreme Court of Appeal allowed the appeal in relation to all issues, holding that properly construed, the licence contained in the Option Deed was limited to the trade marks listed in the schedule, and did not extend to the refreshed trade mark. The VSCA decided that in the absence of absurdity or futility, it is not for the Court to rewrite the Option Deed to render it a more commercially advantageous agreement for either party. Here, PLA was able to use the three specified marks until the refreshed mark was developed and there was no relevant ambiguity.

While the result in the context of the full facts may seem inconsistent with the spirit of the Option Deed, interpreting contracts is about the express terms and not the vibe. Definitions should be developed carefully and close consideration given to scope and evolution on the licensed IP. The licensee should seek broader definitions and try to cover related items of IP and future IP where appropriate.

In *Fermiscan Pty Ltd v James* (2009) 261 ALR 408, the result turned on the definition of "Improvement". When used in IP licences, "Improvement" is not a statutory term defined by law. It is entirely a contractual creation and its meaning depends on the way it is drafted and then used in the agreement. In this dispute, "improvement" was defined to mean:

> *any invention, discovery, modification, adaptation or improvement, whether patentable or not, which can be used to reduce manufacturing or assembly costs of the products of the exercise of the Invention or improve the performance of any product or process, increase the service or shelf life of any product, broaden the applicability of any process employed in or toward the Invention or range of uses of any product thereof or create a wholly new product or component or process which replaces or is an enhancement of the subject matter of the Invention, devised by or for the Assignor and/ or the Inventor.* [emphasis added]

Dr James developed a process using x-ray diffraction of human hair samples to screen for breast cancer which was patented. The patent together with all improvements was assigned to Fermiscan. Dr James continued her work and subsequently

filed a patent application covering a diagnostic process using x-ray diffraction of human skin and nail. Fermiscan argued that the second process was "an invention … which can be used to … create a wholly new … process which replaces… the subject matter of the invention". Fermiscan argued that the word "replace" covers the giving of an alternative process for the detection of pathological conditions.

The NSW Court of Appeal found that the second process was not an improvement. They determined that "replaces" meant to "take the place of the claims" of the first invention, stating that a new process with one or more further integers in addition to the claims of the first invention would replace the first process. Since the second process did not involve either the addition or removal of an integer to the first process, it was not an improvement as defined.

The role of "Improvements" in IP licences is often the subject of significant negotiation and disputes. Improvements needs to be defined but there are many different "improvements" definitions. There are narrow options limited to technology which would infringe the initial patent or broader definitions which literally encompass any future developments of the initial technology. The drafting and negotiation needs to fit the commercial deal and the technology, and have regard to who invents and/or who funds the improvement. Importantly, research institutions need to carefully limit any ongoing technology transfer which interferes with their academic and research freedoms.

Key commercial questions

ObjectiVision and other cases discussed above provide a range of examples of licence agreement disputes and what has worked or what could work better. In addition to the various micro lessons, drafters of licence agreements should always consider broader commercial questions and be confident that their drafting clearly answers those questions. This may especially be the case when you start with a precedent licence agreement.

In conclusion, here are my suggestions for those commercial questions for you to consider. Hopefully the case studies in this article and these questions will help you draft and negotiate better licence agreements, as we all try to innovate and commercialise more effectively.

What is the scope of the licence? Exclusive, sole or non-exclusive? What are the territories, fields and term?

How is licensee performance managed? Is the licensee obliged to perform and how is that measured? What are the consequences for not meeting targets? Are there interim specific targets which broaden or narrow the licence scope?

How are royalties calculated? The base is often more important that the rate, so is the base clear? When are royalties payable? What information is provided with the royalty payment, are there records requirements and can they be audited? How are taxes managed?

How is change managed? What are the restrictions on change of control, assignment, novation and sub-licensing? Is the transition process clear?

How is the IP managed? Are there clear lines of responsibility, process and costs for prosecution, maintenance and enforcement of the IP?

How are future developments managed? What happens to improvements by the licensee or licensor? How are they defined? Are they assigned and licensed back? How do royalties apply to improvements?

How are risks managed? What warranties are provided? How is liability limited? Who bears the product liability risks and what insurance supports those risks? How is force majeure defined and managed? What are the termination rights and process?

1 Partner, King & Wood Mallesons, Sydney. This article is based on my presentations in March 2020 to IPSANZ and LESANZ members, with some case studies revived from earlier years. Thank you to IPSANZ and LESANZ for supporting those presentations over the last four years.

2 For example, see Soumitra Dutta, Bruno Lanvin and Sacha Wunsch-Vincent, *Global Innovation Index 2019: Creating Healthy Lives – The Future Of Medical Innovation* (Report, 2019).

3 Commonwealth of Australia, Department of the Prime Minister and Cabinet, *National Science and Innovation Agenda* (Report, 2015).

4 Australian Government, Innovation and Science Australia, *Australia 2030: Prosperity through Innovation* (Report, 2017).

5 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1.

6 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 52 [237].

7 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 53 [242].

8 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 55 [248].

9 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 56 [255].

10 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 57 [257].

11 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 63 [277].

12 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 66 [293].

13 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 86-88 [386]–[396].

14 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 88 [394].

15 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 89 [399].

16 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 89 [399].

17 ObjectiVision was obliged to "take all reasonable actions to introduce the Product into the commercial market as soon as is practicable, consistent with sound and reasonable business practice including promotion and advertising to market the Product".

18 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 90 [404].

19 *Commonwealth v Amann Aviation Pty Ltd* (1991) 174 CLR 64 at 81 and 87; 104 ALR 1 at 10 and 15 (Mason CJ and Dawson J), as summarised by McMurdo JA (Philippides JA and Bond J agreeing) in *Zahedpur v Idameneo (No 123) Pty Ltd* [2016] QCA 134 [74], cited in *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 90 [405].

20 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 99 [444].

21 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 93 [423].

22 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 92 [419].

23 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 92–93 [421].

24 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 93 [424].

25 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 93 [425].

26 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 94 [427].

27 *Darlington Futures Ltd v Delco Australia Pty Ltd* (1986) 161 CLR 500 at 510; 68 ALR 385 at 391, cited in *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 93 [422].

28 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 76 [342].

29 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 81 [360].

30 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 81 [362]–[363].

31 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 81 [364].

32 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 81 [365].

33 *University of Sydney v ObjectiVision Pty Ltd* (2019) 148 IPR 1, 81 [364].

34 *Sealed Air Australia Pty Ltd (ACN 004 207 532) v Aus-Lid Enterprises Pty Ltd (ACN 082 053 316) and Others* 375 ALR 324.

35 See, eg, *Bristol-Myers Squibb Company v Apotex Pty Ltd* (2013) 104 IPR 23; *Actavis Pty Ltd v Orion Corporation* [2016] FCAFC 121; *Oxford Nanopore Technologies & Anor v Pacific Biosciences* [2017] EWHC 3190; *H. Lundbeck A/S v Sandoz Pty Ltd* (2018) 137 IPR 408; *Encompass Corporation Pty Ltd v InfoTrack Pty Ltd* (2018) 130 IPR 387; *Vald Performance Pty Ltd v Kangatech Pty Ltd* [2019] FCA 1880.

36 *Patents Act* 1990 (Cth) s.120, "(1) … infringement proceedings may be started … by the patentee or an exclusive licensee"; Schedule 1:""exclusive licensee" means a licensee under a licence granted by the patentee and conferring on the licensee, or on the licensee and persons authorised by the licensee, the right to exploit the patented invention throughout the patent area to the exclusion of the patentee and all other persons".

37 *Patent Cooperation Treaty*, opened for signature 19 June 1970, 1160 UNTS 231 (entered into force 24 January 1978).

New Thinking for New Science – Biopharmaceutical Patent Disputes in Australia

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Abstract

As we consider the future of pharmaceuticals ("pharma"), we sharpen our focus on biologics in our near vision, and then through biologics to the cell and gene therapies on the horizon. The biosimilars boom is upon us, and for at least the foreseeable future, patent litigation will focus on disputes between originator and biosimilar entrants battling for post-monopoly market share of these life-changing medicines. Given the dearth of biopharmaceutical ("biopharma") disputes to date, we must extrapolate from small molecule litigations into the world of large molecules to determine whether the significant differences in patent landscapes and market dynamics will result in gaps forming between the treatment of biopharma and pharma products by the courts. We say those gaps could be quite significant in Australia.

Patent landscape: an explosion of patents on the biopharma horizon

To understand the magnitude of the patent landscape for a biopharma product, it is useful to consider the difference between a small and large molecule-based product. The designation of "large" and "small" molecule products is meant to distinguish the active ingredient on the basis of size. However, these designations fail to truly convey the substantial difference in size of the active ingredients, particularly with respect to an antibody-based product where the moniker "gargantuan molecule" appears more apt.

Roughly speaking, a large molecule biopharma product (e.g. an IgG antibody) may have a molecule weight around 150,000 daltons or more than 160 times larger than a small molecule, which is generally understood as having a molecule weight below 900 daltons. The complexity of the biopharma product is enhanced by the differences in manufacturing processes for the products. Whereas a small molecule is generally produced by a series of controlled synthetic steps, a large molecule biopharma active is usually produced as the product of a cellular process. Unlike a small molecule, a large molecule active, as a product of a cellular process, will generally not have a single structure. Rather, a biopharma active is generally a mixture of different structures, each of which must ultimately be characterised prior to regulatory approval. In the case of an antibody-based biopharma product, the cellular manufacturing processes may change the structures and/or identity of amino acids to produce different forms of a biopharma active. An example of this type of modification includes so called N- or C-terminal modifications. Another common modification of an antibody is glycosylation, which is the addition of complex sugars (known as glycans) to an antibody by the cellular machinery. The glycans added will be a mixture, adding to the complexity of forms in the biopharma active. All of these differences contribute to the massive patent landscape encompassing any biopharma "large molecule product".

To put it simply, there are very significant differences between the patent landscapes for large molecules (e.g. antibodies) and small molecules. Mostly, these differences are in scale and complexity.

Part of the scale difference can be attributed to what we call the "blockbuster effect": the more successful a product is (large or small molecule), the greater the originator's interest in (and budget for) patents. Because most of today's "blockbusters" are biologics (10 of the top 15 products globally are biologics),[4] these products are very heavily patented. Some portion of the complexity difference is attributed to what we call the "gold rush effect": because of the relative immaturity of biopharma industries we often see multiple interested parties scrambling for monopoly space, often resulting in overlapping and nested patents with multiple interested patentees. These effects are compounded by the complexity of the large molecule itself that directly impacts the complexity of the processes of making and purifying it, which dwarfs the complexity of processes involved in the manufacture of even the most complex small molecule.

For a small molecule medicine, the originator will typically seek to protect its product with claims directed to (consecutively):

- the active pharmaceutical ingredient ("API");
- formulation comprising the API;
- processes of producing the API;
- methods of treatment ("MOT");
- second medical uses; and

- various molecular forms of the API (such as different polymorphic forms).

In addition to (and subsequent to) originator patents in these categories, third parties (including generic companies) routinely seek coverage for, e.g. alternative processes of producing the API, alternative formulations, and alternative molecular forms.

While this landscape is by no means small, each of these categories of claims is substantially expanded for a biopharma product where many multiples of relevant patents are identified in freedom to operate ("FTO") searches.

Biopharma patent landscapes dwarf those of small molecules. For biopharma products, the types of relevant patents are the same as small molecules, however the size and complexity of the patent landscape for a large molecule differs considerably from a small molecule, and is compounded by the blockbuster effect, the gold rush effect, and the process complexity. For example, a general keyword search, which would be considered a rather narrow search, for the terms "anti-VEGF" and "antibody" in claims identifies in the order of 840 patent families.[5] Searching a particular anti-VEGF antibody, for example "bevacizumab", identifies in the order of 2,700 patent families.[6] The same type of key word search for a small molecule API, for example "esomeprazole", identifies approximately 620 patent families.[7]

API claims to the active in the biopharma product (e.g. an antibody) may be devoid of any structural limitations and rather define an interaction with a biological target, which is usually the case for newly discovered biological targets. Such functional patent claims encompass *any* later discovered biologic directed at the same target, and block both independently developed biologics as well as any potential later biosimilars.[8] Broad functional-based API patents are usually followed by patents with claims directed to a specific biologic, which in the case of an antibody may relate to small pieces (sequences) of the antibody structure. The later sequence-based patents may also include claims describing the binding site of the biologic on the biological target. These binding-site defined claims are a second class of functional claims with the potential to encompass not only a later biosimilar but any contemporaneous or later "originator" biologic binding the same region of the biological target. In view of both sequence-based and function-based claiming, a biosimilar developer may face more than one "originator" patent directed to the active biologic.

The methods of producing a biopharma product are also an exceptionally fertile ground of patent protection. As producing a biopharma product requires harnessing a living cell and growing the cells, process patents are directed at the numerous molecular biology techniques relating to the cells that produce the biologic, the methods and tools developed to instruct the cell to make the biologic as well as the methods and media required to grow the cells. While process patents specific to an originator biologic are likely to exist, it is a certainty that there are numerous third-party process patents with broad general applicability. Indeed, even the manufacturing equipment and its integration into the production process are subject matter that is sought to be protected. Thus, both originator and biosimilar developers face a plethora of patents directed to the production of a biopharma product.

The production of the biologic is, however, only the beginning of the process since the biologic must still be purified to a level acceptable for a human therapeutic. The purification of a biologic may involve identifying/characterising an impurity, removing impurities derived from the cellular production process and frequently impurities that may accumulate from a purification process itself. All of these aspects are potentially subject to patent protection. For example, an antibody purification may comprise three to five or more platform steps, each step of which is likely to be the subject of patent protection. The same is likely to be true for the specific impurities that may be part of the biopharma product. Patent protection frequently surrounds the analytical techniques to characterise each impurity. Therefore, a search of each purification platform step is likely to identify hundreds to thousands of patent family "hits" depending on the breadth of the search. Thus, clearing a purification process may require sorting through well over 20,000 patent families, which may be identified in a broad search.

The ultimately obtained biologic must then be characterised. Again, the complexity of the product is reflected in the complexity of the patent landscape here. A biologic may have multiple different forms (for example charged forms, modified amino acids, and/or glycosylated forms) as a result of the cell-based production and/or purification steps. Each such modification is potentially subject to scrutiny by regulatory authorities and consequently each such modification is potentially the subject of patent protection directed at, for example, controlling the incidence of each of such modified forms, removing a modified form, as well as analytical techniques to quantitate each of the modified forms. Again, depending on the modification and the breadth of a search, hundreds to thousands of additional patent families may be identified. For example, each search of "humanisation" or "glycosylation" is likely to identify in the order of 10,000 patent families.

Finally, as with the formulation of a small molecule product, the formulation of a biopharma product is ripe for patenting. A biopharma originator will generally try to protect the marketed product formulation and third parties may work to surround the active biologic with a number of different "improved" formulations. Thus, while a biosimilar developer is not required to have the same formulation as the originator, developing an alternative formulation is

certain to make the FTO clearance process more arduous. For example, a simple search of claim terms "antibody" and "formulation" identifies more than 10,000 patent families.[9]

In view of this crowded and complex patent landscape, it seems obvious that the path to market for a biosimilar requires a significant investment on reviewing and considering the patent rights alone; an investment that is most wisely made early in the product development. The biopharma originator is, not, however, free of this burden as the general applicability of function-based biologic claims and the wide range of processes and formulations that are the subject of patent protection means that they too will have to carefully consider their development and equally assess the patent landscape.

What can we expect in biosimilars disputes in Australia

The first pathway supporting the approval of biosimilars was introduced in Europe in 2005, followed closely by Japan and Australia in 2008, Canada in 2009, the United States of America ("US") in 2010 and India in 2011. Given the recency of the pathway, and given the typical development timeline for a biopharma product is approximately eight to 10 years (as compared to three to five years for a small molecule),[10] it is no surprise that there are limited biosimilars approved in key regions to date. In Australia 32 biosimilars have been approved to date, as set out in Table 1 below.

Table 1: Approved biosimilars in Australia

BIOMOLECULE	ORIGINATOR PRODUCT(S)	AU APPROVED BIOSIMILARS
Adalimumab	Humira®	(3) Amgevita® Hadlima® Hyrimoz®
Bevacizumab	Avastin®	(1) Zirabev®
Etanercept	Enbrel®	(2) Brenzys® Erelzi®
Filgrastim	Neupogen®	(3) Nivestim® Tevagrastim® Zarzio®
Infliximab	Remicade® Jaximab®	(5) Inflectra® Remsima® Emisima® Flixceli® Renflexis®
Pegfilgrastim	Neulasta® Ristempa® Tezmota®	(4) Fulphila® Pelgraz® Neutropeg® Ziextenzo®
Rituximab	MabThera® Ristova®	(7) Riximyo® Ritemvia® Truxima® Rixonfya® Rixvyda® Rituzena® Tuxella®
Trastuzumab	Herceptin® Kadcyla® Herclon®	(7) Simabtra® Hertuzu® Ogivri® Ontruzant® Trazimera® Kanjinti® Herzuma®

To date, there have only been a handful of biosimilars disputes in Australia, and none of these have proceeded to substantive decision. The cases are well known to those following the development of patent law in relation to biopharma products in Australia. Two disputes to date have settled before trial: litigation between F. Hoffman-La Roche and Sandoz concerning rituximab (sold by Roche in Australia as Mabthera®),[11] and litigation between Hospira and Amgen relating to pegfilgrastim (Amgen's product Neulasta®).[12] The third biosimilars dispute commenced to date in Australia is between Pfizer and Samsung Bioepis relating to Pfizer's drug etanercept (Enbrel®) is ongoing but has not been heard on the merits.[13] Because of the lack of jurisprudence in Australia, there is almost no guidance from the courts on how the difference between small molecules and large will impact patent litigation in Australia. We provide here our expectations on what biosimilars patent disputes will look like in Australia, which are informed by our experience in working on biosimilars since before the industry formed.

First, the dense biopharma patent landscape will mean that patent disputes for large molecules will involve many more patents that those for small molecules. In the US, the limited disputes between originators and biosimilar companies to date under the *Biologics Price Competition Innovation Act* 2009 ("BPCIA") have demonstrated the potential impact of the density of the patent landscape. In an August 2016 complaint against Amgen, AbbVie alleged infringement of 61 patents related to its blockbuster product Humira®.[14] In the following year, AbbVie filed a similar complaint against Boehringer Ingelheim, alleging infringement of 74 patents again relating to Humira®.[15] While in both cases the number of patents actually contested was restricted by the BCPIA to 10 and eight respectively, these cases highlight the volume of infringement claims that may be brought by originator companies. As biosimilars disputes start to hit the courts in Australia, we anticipate judges may be required to adjudicate in disputes involving more than 10 to 20 patents. The earlier in the patent lifecycle the litigation commences, the greater this number will be.

Secondly, based purely on development timelines alone (irrespective of data exclusivity), it is logical that biosimilars will enter the market later in the patent lifecycle than small molecules. This means that the disputes for large molecules will commonly relate to patents in the later end of the patent lifecycle than small molecules. Bearing in mind the typical pattern of consecutive patenting set out above (first API, followed by formulation, process, MOT, second medical uses, alternative molecular forms), small molecule disputes may often centre around formulation patents, whereas large molecule disputes will be more likely to be focused on process and MOT patents. In our view, biopharma disputes in Australia are likely to resolve some of the ripe issues relating to infringement of MOT patents (in particular with a "skinny label" or carve out of the patented indication), pursuant to our contributory infringement provision, section 117 of the *Patents Act* 1990 (Cth). This approach is consistent with the *Pharmaceutical Patents Review Report* published in 2013, where the authors propose an amendment to the contributory infringement provision in order to provide for (inter alia) "skinny labelling":

> *Section 117 of the Patents Act should be amended to provide that the supply of a pharmaceutical product subject to a patent which is used for a non-patented indication will not amount to infringement where reasonable steps have been taken to ensure that the product will only be used in a non-infringing manner. It may be presumed that "reasonable steps" have been taken where the product has been labelled with indications which do not include any infringing indications.*[16]

Thirdly, for patent litigators, possibly the most marked contrast between biologic and small molecule patents arises from the differences in the current market dynamics for large and small molecules. We discuss below some of the flow-on effects of the operation of the market dynamics for small molecules and biologics on claims for patent damages, in particular in the context of interim injunctive relief.

Differing market dynamics between generics and biosimilars

Patent focused lawyers and attorneys will be familiar with the impact of the launch of generic small molecules ("generic") and biosimilar products in Australia. For both large and small molecule medicines, changes in product prices are largely regulated by the *National Health Act* 1953 (Cth) Div. 3A,[17] the most critical of which is the mandatory 25 per cent price drop triggered by the entry of a generic/biosimilar product into the therapeutic class.[18] After this, a further 5 per cent price drop occurs after the product has been listed for five years.[19] Additionally, statutory price disclosures force all competitors to follow with price reductions. Originator companies may still charge more than their generic/biosimilar competitors, with the patient paying a brand premium, however, competition drives the price of the originator product down through (generally) duopoly and (subsequently) oligopoly market dynamics.

The differences between small molecule and large molecule market dynamics stem from the following:

- the higher cost of goods for biosimilars (driven by higher development costs) means that biosimilar competitors have less margin to play with when competing on price; and
- reduced number of competitors for large molecules as the considerable development cost as a "barrier to entry" for all but the very highly resourced companies.

Because generic companies are able to adopt a business model which does not require a clinical program, the lower

research and development cost (perhaps combined with more efficient processes) means that generics compete heavily on price.

For the company that is the first generic to enter the market, its "first mover advantage" is pronounced. Because the generic market is highly competitive it is rare in Australia for the first generic to have more than a few months in a duopoly. Typically, within the first six months after generic entry, the vast majority of the Australian market shifts away from originator product to the generic, providing the "first mover" or "early movers" clear advantages. Generic developers that get in first (or quickly thereafter) are able to "ride the wave" of dwindling price premium as the market quickly transitions from monopoly to duopoly and then oligopoly. Typically, product price quickly crashes to just above the generic's cost of goods, typically within a year of first generic entry. The subsequent entry of additional generics results in additional competition between generics, further eroding the market share of the originator product and the market price. Information from generic market dynamics in the US may be helpful here – typically in the US, after numerous generics have entered the market, medicine prices are reduced by as much as 85 to 95 per cent.[20] In our experience, a comparable competitive effect is seen typically within six to 12 months of generic market entry with multiple competitors (which is the norm).

However, this is not the case (yet) for large molecules. The development for a biologic is orders of magnitude greater than a small molecule. The greatest contributor to this cost is the cost of phase III clinical trials necessary for the approval of a biosimilar product but not for a generic. Further, the work required to obtain an appropriate cell line to produce the target biologic and process optimisation to maximise production in a living system is not easily comparable to the work required to design and optimise a traditional small molecule synthetic process. Development costs for biosimilars may reach up to US$100-200 million, dwarfing the development costs for a small molecule which varies between US$1-5 million for a typical small molecule.[21]

To date, we have not yet seen anything like the numbers of competitors for biologics which we have observed with small molecules. This is largely due to cost of entry of biosimilars driven by the cost of phase III clinical trials currently required to support the regulatory approval of biosimilars. This cost acts as a barrier to entry for all but the largest and most resourced companies, and results in a current market dynamic for biosimilars which differs considerably from that of small molecules.

Beyond the effect of the mandatory 25 per cent price drop triggered by the Pharmaceutical Benefits Scheme ("PBS") listing of a biosimilar product, the entry of biosimilar on the Australian market has a much more retarded effect on price. The cost of goods sold ("COGS") for biosimilars are relatively high, leaving biosimilar companies less room to compete on price. As a result, (and based on data from the European experience) we can predict that launch prices for biosimilars are between 10 and 30 per cent below the price of the originator molecule, and the competitive "race to the bottom" that we see for small molecules does not yet exist in Australia for large molecules.[22]

In Australia (as elsewhere) unlike market dynamics following generic market entry, for biosimilars we see a very slow decrease in market price, and a very gradual market penetration of biosimilars. In Australia, the impact of the launch of two recent "A-flagged" biosimilars,[23] demonstrates that less than 10 per cent of the market shifted away from the originator molecule in the first two years following biosimilar launch:

- Infliximab (Remicade®, Janssen): in December 2015, Pfizer's A-flagged biosimilar Inflectra® was PBS listed, followed in August 2017 by the listing of MSD's A-flagged biosimilar Renflexis®.[24] By the end of 2018, three years after the first listing of a biosimilar in competition with Remicade, scripts for the two biosimilars represented only 11.7 per cent of the market.[25]
- Etanercept (Enbrel®, Pfizer): in April 2017, MSD's A-flagged biosimilar Brenzys® was PBS listed. By end 2018, Brenzys was 7.5 per cent of "subsequent continuing" treatment.[26]

Resulting from this gradual decrease in market price, and gradual market penetration for biosimilars, the prize of "first mover advantage" for biosimilar products is less important than it is for generics. Atterbery et al. recently made the following observations relating to the US and European markets, which is comparable to the Australian experience:

> *Long-term projections of the price reductions and savings biosimilars will generate are not favorable: for the subset of biologics ultimately facing biosimilar competition, prices may decline on average by 20 to 30 percent, and US ten-year projected savings (2017-2026) total only $54 billion. In Europe, over a longer experience beginning in 2006, there are many products that still have no biosimilar competition. Among those that do, price declines have averaged around 30 percent, a savings that evolves on average at 3.5 percent per year following biosimilar entry.*[27]

To date it appears that there has been some reluctance on the part of physicians to switching from an originator biopharma product to a biosimilar. The reasons for this may be a lack of information about the biosimilars' quality, safety and efficacy, as well as the key question for physicians of whether the biosimilar is truly substitutable or interchangeable for the biopharma product in relation to the particular disease state in question, notwithstanding what the regulatory

bodies may have determined.[28] For those of us who have been around long enough to remember the re-birth of the generics industries in the 1980s, these concerns will sound familiar. Even by 1990, reports from Europe revealed that only about 30 per cent of the potential generics market were actually served by generics (the remaining 70 per cent were occupied by originator drugs).[29] Like generics, we believe concerns about substitutability and interchangeability of biosimilars will recede into redundancy as physicians and patients become increasingly familiar and comfortable with biosimilars.

In turn, we also expect regulatory bodies to become increasingly comfortable with biosimilars, and as analytical tools continue to sharpen, may relax (in part or entirely) the current requirements for clinical trials for biosimilars. Once this occurs, we believe the market dynamics for biosimilars will mimic the dynamics for generics.

In the meantime, the courts must deal with very different patent landscapes and very different market dynamics in patent disputes relating to biosimilars as compared to generics. The impact of the market dynamics will be most markedly felt when considering interlocutory injunctions, and the election between damages and account of profits.

The impact of market dynamics on interim injunctions

The two key enquires made by the court in determining whether to grant an interim injunction are: whether the applicant has made out a prima facie case, and whether the balance of convenience favours the grant of the interim injunction.[30]

In relation to the prima facie case enquiry, the applicant must show a sufficient likelihood of success to justify the preservation of the status quo pending trial.[31] It is expected that the answer to this enquiry will be indifferent to whether the product in question is a generic or a biosimilar.

The question of balance of convenience however is likely to be a critical point of divergence between generic and biosimilar cases. The test is well known: the applicant must demonstrate that, if no injunction is granted, it will suffer irreparable injury for which damages will not be adequate compensation.[32]

In small molecule infringement scenarios, the patentee almost routinely argues that damages will never be an adequate remedy because of the fact that in the generic market, the vast majority of the innovator's market share will be lost to generic competitors in the first six to 12 months after entry, and the reduction in price cannot be restored to the original price pre-generic market entry.

As is demonstrated above, this is not the case for biosimilars in Australia, where market penetration and price reduction is gradual. In this significantly different competitive dynamic, it is strongly arguable that damages will be an adequate remedy. By way of example, consider the hypothetical where litigation is commenced immediately prior to entry of a biosimilar onto the market. In this case the originator habitually seeks an interim injunction to prevent the biosimilar from coming on to the market and engaging in competition prior to resolution of the litigation. In the generic market, the originator will point to the extreme loss to profit and market share it will likely suffer prior to trial. The fact of this change almost routinely works in the originator's favour in Australia – the harm to the originator of allowing a generic competitor onto the market is marked, and courts have traditionally been sympathetic to the argument that damages are not an adequate remedy for this type of loss. This argument is greatly deflated in the case of a biosimilar entering the market. With only a gradual decrease in price over the therapeutic class (excepting the 25 per cent mandatory price drop), the biologic originator's market share and pricing power will not suffer a change comparable to that which we see in the generic market.

We expect that a respondent would be able to forcefully argue that in the case of biosimilar competition, the court should not follow the "damages are not adequate" approach traditionally used in generics litigation as the biologic originator's loss in profit and market share will not be so great that damages could not be an adequate remedy.

In addition, as biosimilars are only likely to enter the market once the biologic molecule itself is off patent (due to the development timelines as explained above), the patent landscape for potential infringement is likely to be dominated by method of treatment and process patents. In relation to these types of patents, we are of the view that it is more open to the biosimilar competitor to argue that if damages are payable, they should be calculated by way of a reasonable royalty.

In small molecule generic patent litigation, it is most common for the patentee to seek damages for infringement rather than opting for an account of the respondent's profits. This is because the "race to the bottom" for generic products means that the damage to the patentee will almost always be considerably more than the generic's profits. Because of the gradual decrease in price following biosimilar launch, and because the COGS for biosimilars is expected to be less than that for the originator, we expect there will be situations where the profits of the biosimilar company will exceed the damage to the originator, which could result in an election of account of profits over damages.

Although at interim injunction stage the patentee would still be likely to make the argument that damages are not an appropriate remedy, this might be countered with a degree of force by the biosimilar manufacturer. The argument might be put that, in fact, an account of profits would be as adequate a remedy as damages. As an account of profits is calculable, the

court may be more reluctant to grant an interim injunction. While we would not expect such an argument to carry the day, if put as part of a series of submissions it may assist the overall thrust of the argument that damages would be an appropriate remedy. Of course, either way, sophisticated economic evidence (involving counterfactuals) has been and will continue to be necessary.

Conclusion

We expect that as the biopharma industries mature, and as physicians, patients, the government, and the courts get more and more comfortable with biosimilars (and their patent landscapes), the market dynamics for biosimilars will become increasingly generic-like. Until then, the courts will be forced to reconsider the approach to interlocutory injunctions in Australia in these different market dynamics. Typically, for biosimilars this will occur in disputes relating to many more patents and later in the patent life cycle than is typical for generics.

Challenges to launching biosimilars in Australia are not insurmountable. Though the patent landscapes are dense and complex, and the market dynamics differ considerably to small molecules, the commercial opportunities for the well-resourced biosimilar developer are significant. In Australia, we forecast interesting disputes relating to biosimilar products magnifying issues regarding method of treatment patents and interlocutory injunctions in the short to medium term.

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6 Informal searching carried out on <lens.org> searching all claims the term "bevacizumab" using the "Group by Simple Families" option.

7 Informal searching carried out on <lens.org> searching all claims the term "esomeprazole" using the "Group by Simple Families" option.

8 *Merck Sharp & Dohme Ltd v Ono Pharmaceutical Co Ltd* [2016] RPC 10, [1], [3]. While Merck and the exclusive licensee of the Ono patent had each developed an antibody encompassed by the claims while the patentee (Ono) had not. The claims at issue were therapeutic use claims relating to the use of antibody defined by its function.

9 Informal searching carried out on <lens.org> searching all claims the terms "antibody" and "formulation" using the "Group by Simple Families" option.

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18 Department of Health (Cth), 'First New Brand Price Reductions', *The Pharmaceutical Benefits Scheme* <http://www.pbs.gov.au/info/industry/pricing/pbs-items/first-new-brand-price-reductions>.

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23 An "a-flagged" biosimilar indicates that the sponsor of the biosimilar has submitted evidence of bioequivalence or therapeutic equivalence, or that the sponsor has justified to the Therapeutic Goods Administration that it is not necessary to provide evidence of bioequivalence or therapeutic equivalence. The expectation is that an "a-flagged" biosimilar may be interchanged with the originator biologic without any differences in clinical effect. See <http://www.pbs.gov.au/info/healthpro/explanatory-notes/section2/section-2-symbols>.

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30 *Beecham Group Ltd v Bristol Laboratories Pty Ltd* [1968] HCA 1; (1968) 118 CLR 618.

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An Australian Text and Data Mining Copyright Exception? How Very European …

Alan Ford[1]

> *Is the evil of changing always less than that of suffering? And does not a greatness of genius consist rather in distinguishing between those cases in which uniformity is requisite, and those in which there is a necessity for differences? If the people observe the laws, what signifies it whether these laws are the same?*
>
> Montesquieu[2]

Introduction

The European Union's (the "EU") new directive, *Directive (EU) 2019/790 of the European Parliament and of the Council of 17 April 2019 on copyright and related rights in the Digital Single Market and amending Directives 96/9/EC and 2001/29/EC* (the "Directive"), came into force on 6 June 2019.[3] The Directive is the most significant reform to EU copyright law since *Directive 2001/29/EC of the European Parliament and the Council of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society* (the "InfoSoc Directive")[4] in 2001, and introduces several reforms to EU copyright law.[5] For example, the Directive introduces exceptions and limitations to rights, such as cultural heritage institutions' use of out-of-commerce works,[6] measures to facilitate collective licensing,[7] and significant articles regarding internet service provider liability.[8] Given the breadth of topics the Directive addresses, discussing all of them is beyond the confines of this article. Accordingly, the below discussion focuses on one important exception under the Directive: the exception for text and data mining ("TDM").[9] TDM gives researchers the tools to efficiently find relevant information amongst large amounts of data and text. It is increasingly essential for meaningful research activities given the sheer quantity of information available in today's digital world. As explained further below, the issue is that TDM can and often will infringe the copyright that subsists in the mined material. The limitations on legitimate and important research activities and consequent uncertainty for researchers was the underlying catalyst for the introduction of the TDM exception in the Directive.

This article assesses whether Australia should introduce an exception for TDM that aligns with the TDM exception under the Directive. Since the Directive was only very recently implemented, its full effect is not yet known, so a certain answer to this question is not yet possible. As Australian copyright law currently stands, however, introducing a new exception specifically for TDM seems unnecessary because TDM will likely be excepted under the existing fair dealing carve out in the *Copyright Act* 1968 (Cth) (the "Act") which the EU does not have under its framework.

The discussion starts with a brief description of what the Directive does in broad terms. Then, the meaning of harmonisation and considerations to be taken into account when evaluating its appropriateness will be discussed given we are assessing whether Australia should align an exception with that of the EU. Harmonisation is a growing trend in light of the economic pressures underpinning uniformity and the growing international significance of copyright.[10] We have already seen harmonisation lead to expanded protection, eliminated formalities, and database protection.[11] There is, however, limited harmonisation of exceptions to copyright protection. The exceptions in the *Marrakesh Treaty to Facilitate Access to Published Works for Persons Who Are Blind, Visually Impaired or Otherwise Print Disabled*[12] spring to mind but there are few other examples. The small number of harmonised exceptions may be due to differences between local circumstances combined with intellectual property

("IP")'s intrinsic tension between access and protection, which is a particularly important factor when considering research-focused uses of copyrighted material, such as TDM.[13]

The article then goes on to define TDM in detail both within the Directive and generally before describing TDM's position under the EU's pre-Directive copyright framework. Then, there is a detailed discussion of how the exception operates and an assessment as to whether a TDM-specific exception in Australia is required with a particular focus on the fair dealing carve out. Given the paucity of Australian case law on TDM, several cases from the United States of America ("US") that consider TDM in relation to its fair use exception are explored, providing some guidance on how Australian courts might treat TDM given the similarities between fair use and fair dealing.

The Directive

The Directive reforms EU copyright law which, up until its implementation, primarily relied upon the 19-year-old InfoSoc Directive.[14] The Directive lays down rules aimed at harmonising EU law in relation to copyright and related rights, particularly taking into account digital and cross-border uses of copyrighted content.[15] It further introduces exceptions and limitations to copyright, as well as rules on facilitating licenses and ensuring a well-functioning marketplace.[16]

Before TDM's meaning, its benefits and whether Australia should introduce an exception for it are discussed, harmonisation will be defined and explored.

A Word on Harmonisation

The discussion that follows this section is essentially asking whether Australia should harmonise an aspect of its copyright law with an important exception introduced by the Directive.[17] Evaluating the advantages and disadvantages of achieving legal parity with other jurisdictions is of course contingent on what the specific law itself achieves or seeks to achieve, and whether that law is adapted and appropriate to domestic circumstances. However, quite removed from the specific, harmonisation has general costs, benefits and inherent considerations that should be borne in mind when assessing its appropriateness.

Harmonising copyright laws is often difficult given the intrinsic and traditional territoriality of IP. Despite that territoriality, however, borders have been weakened and harmonisation strengthened by multinational conventions, such as the *Berne Convention*[18] and the *TRIPS Agreement*,[19] and accelerated by the pervasiveness of the internet and digitisation.[20] A fertile ground for harmonisation was laid by the increased trade and interdependency of markets following the end of the Cold War and the reduced ideological and political divides.[21] The EU's policies and regulatory instruments, such as directives, have reflected this and sought to reconcile the needs of an internal market with territoriality in an effort to reduce market fragmentation.[22] The rule of exhaustion of the distribution right ("the first sale doctrine"),[23] for example, allows the resale in any Member State of tangible goods incorporating copyrighted works without rightholder consent after the first authorised sale of the good anywhere in the EU.[24]

However, nations often have different levels of technological development and digitisation, and the consequent non-negligible disparities in IP laws are the result of enactments that suit domestic circumstances.[25] Overcoming these territorial differences was a major achievement of the *TRIPS Agreement*,[26] and IP-related standards have been further harmonised by bilateral and free trade agreements, such as the Australia-US Free Trade Agreement.[27] This facilitates cooperation and promotes the exchange of knowledge by creating a level-playing field among jurisdictions.[28] Harmonisation fosters the imperative of legal certainty[29] and removes impediments to economic growth that can result from regulatory inconsistencies.[30] Inconsistent treatment often reduces competitiveness, causes comparative disadvantages, and risks the loss of opportunities.[31] These overwhelming economic pressures are, indeed, important considerations, but fear of them can sometimes motivate harmonisation, as opposed to a belief that harmonisation will bring about better law.[32]

Hence, differences in law does not always mean that harmonisation is necessary or desirable.[33] The legal, social and economic environment in which the particular law developed, and the circumstances of the proposed receiving nation must be carefully considered when evaluating the prospect of harmonisation.[34] Law is not ahistorical or generic, but is influenced by national character and circumstances, which are themselves shaped by a people's peculiar traditions, history, literature, level of development and shared consciousness.[35] Differences in law may be the product of well-informed democratic decisions that reflect the interests of the myriad domestic stakeholders, but where divergences increase costs, hinder trade and commerce or conflict with prevailing international norms, harmonisation should be considered.[36]

This is particularly pertinent as the internet not only allows but facilitates new cross-border uses of copyrighted material in highly advantageous fields, such as scientific research. Harmonising copyright laws, including exceptions and limitations, is becoming increasingly important to avoid uncertainty and promote collaboration in activities that have the potential to advance human knowledge.[37] The EU itself has fairly uniform legal rules[38] but the Directive seeks to further harmonise copyright in a digital environment for the purpose of scientific research and the preservation of cultural heritage.[39]

The EU is powerful economically and an important trading partner for Australia. Care must be taken to ensure that Australia's interests are not adversely affected by the practices of the greater EU powers when it comes to the fine-tuning of its copyright laws. Indeed, harmonisation with the EU would bring benefits but the risks to Australia's interests by being pressured or simply holding a desire to harmonise should always be closely considered. This is especially so given Australia's unique economy which may not be well-suited to adopt some of the measures and laws the EU deems necessary.

Laws do not need to be identical but legal outcomes should be as consistent as possible, especially with respect to rights, exceptions to those rights, cross-border uses, and effective enforcement because that will increase efficiency, lower transaction costs and advance human knowledge as a whole.[40]

TDM

What is it?

The Directive defines TDM as

> *any automated analytical technique aimed at analysing text and data in digital form in order to generate information which includes but is not limited to patterns, trends and correlations.*[41]

TDM is the computer-assisted search for pieces of information relevant to particular research activities.[42] It encompasses various techniques all of which utilise automated software to gather specific information from large amounts of data.[43] TDM works by identifying material that aligns with the scope of the particular research activity, extracting and copying potentially the whole or substantial parts of such material, and recombining it to identify patterns.[44]

Navigating through the enormous amount of text and data available today to identify information relevant to meaningful research is almost impossible without processing and searching capabilities, such as TDM.[45] Further, the improved research quality and processes could create billions of dollars in the form of broad social and economic benefits, such as the creation of new business models and the discovery or invention of novel medical treatments.[46] The Directive's TDM exceptions facilitate the generation of new knowledge and provide legal certainty to cross-border research projects, but also leave rightholders with some control over access to their work since the exception only operates if users have lawful access to the mined material in the first place.[47]

The Directive also brings the core copyright principle that factual information is not copyrightable into the digital era,[48] and explicitly states that not all TDM activities are relevant to copyright, especially when they relate to "mere facts or data which are not protected" and, therefore, "no authorisation is required".[49] This reflects copyright's goal of the expansion of learning,[50] and recognises that restrictions on TDM that reproduce only facts or data would be contrary to copyright principles and would undermine freedom of expression and information.[51] However, despite the Directive reflecting the principle that semantic, non-fictional facts and data are non-copyrightable, the issue is that such material is often contained in copyrightable databases and texts,[52] and, given the low quantity of reproduction that has been held to infringe copyright,[53] TDM is likely to involve at least some infringing reproductions, extractions or even communications to the public of protected content.[54]

The Pre-Directive Copyright Framework

Existing exceptions and limitations in the EU do not clearly cover new types of uses "in the fields of research, innovation, education and preservation of cultural heritage" that have surfaced as a result of digital technologies.[55] The consequent uncertainty "for both rightholders and users, as regards certain uses, including cross-border uses, of works and other subject matter in the digital environment" was viewed as unsatisfactory.[56] This was reflected in the preparatory documents leading up to the Directive, which focused on promoting certainty and consistency within the copyright framework for research organisations and research activities in an effort to address TDM's precarious position in that framework.[57]

The InfoSoc Directive, for example, exempts temporary reproductions of works that are

> *transient or incidental and an integral and essential part of the technological process and whose sole purpose is to enable: (a) a transmission in a network between third parties by an intermediary; or (b) a lawful use of a work or other subject matter to be made, and which have no independent economic significance.*[58]

TDM that does not involve storing the reproduced material for further processing and is automatically deleted by the search algorithm would fall into this exception.[59] However, high-quality research requires storing data for longer than what could be considered "transient", and is often intentional, militating against any finding of "incidental" uses.[60] This is further compounded given exceptions are interpreted restrictively,[61] meaning that this exception has a limited scope and would be unlikely to cover the majority of meaningful TDM techniques.[62]

The InfoSoc Directive and Directive 96/9/EC[63] (the "Database Directive") both contain exceptions for "illustration for teaching or scientific research".[64] The only TDM that may be allowed under these exceptions is to illustrate how the technique actually works and, perhaps, non-profit scientific projects dealing with smart disclosure systems.[65] Further, the voluntary nature of the exception under the InfoSoc Directive means uncertainty remains regarding whether or not a particular Member State has

implemented it, thus increasing transaction costs. By contrast, the exception under the Database Directive is mandatory, but only applies to reproductions of the particular database that are necessary for accessing its contents and are a normal use of those contents.[66] The term "normal use" is vague and could, therefore, be subject to different interpretations among Member States, which further limits researchers' legal certainty.[67] Germany, for example, has extended the notion of normal use to include TDM but this may not be the case in other Member States.[68]

The Database Directive further allows lawful users to extract and/or re-utilise insubstantial parts of a database for any purpose without the rightholder's authorisation.[69] Notwithstanding that extraction and utilisation are often integral parts of TDM, the qualitative and quantitative assessments when determining insubstantiality lead to uncertainty as they require consideration of the investment in creating the database and the prejudice the extraction or re-utilisation may cause to that investment.[70] The subjectivity involved in assessing insubstantiality hardly provides certainty, and renders the exception inapplicable where a substantial part or the whole of the database is required for useful TDM activities.

TDM activities falling into existing exceptions, such as for temporary reproduction, scientific research, normal use of a database, or extracting insubstantial parts of a database seems unlikely or, at best, uncertain.[71] Introducing the TDM exception, therefore, promises to breathe legal certainty into the copyright framework for a purpose that is directed at advancing human knowledge and improving human lives.

How Does the Exception Work?

Put simply, the Directive creates a mandatory exception for research organisations and cultural heritage institutions to use copyright protected material to which they have lawful access for the purpose of performing TDM.[72] Article 3 requires Member States to provide for an exception to the reproduction of databases right in Article 5(a) of the Database Directive, and the right to extract and/or re-utilise the whole or a substantial part of a database in Article 7(1) of the Database Directive.[73] It further creates an exception to the temporary or permanent reproduction right of a variety of copyright-protected works under the InfoSoc Directive,[74] as well as to the reproduction right in relation to press publications and the right to make press publications available to the public as provided for in the Directive itself.[75]

As mentioned above, the TDM exception in Article 3 is limited to research organisations and cultural heritage institutions.[76] Research organisations are universities, research institutes, or "any other entity with the primary goal of conducting scientific research, or educational activities involving scientific research" on a non-profit basis or that reinvest all profits into its scientific research,[77] or act "pursuant to a public interest mission".[78] Although "public interest mission" could be open to interpretation, the Directive says it could be reflected through "public funding or through provisions in national laws or public contracts."[79]

The scope of the exception is further limited by excluding organisations whose research is enjoyed "on a preferential basis by an undertaking that exercises a decisive influence upon such organisation."[80] Such decisive influence could be exercised "because of structural situations, such as through their quality of shareholder or member".[81] The Directive essentially excludes from the benefit of the exception organisations that give commercial entities preferential access to research results.[82] However, recital (11) qualifies this by providing that research organisations whose "activities are carried out in the framework of public-private partnerships" should also benefit from the exception.[83] This appears to mean that research organisations that are partially privately funded could benefit from the exception, provided they are not privately controlled. Some may argue this fails for adequacy and proportionality since unaffiliated individuals and researchers, journalists, consumers and lawyers may be beyond the exception's scope, [84] but a full assessment of that argument is unnecessary here.

A further issue with Article 3 is that a rightholder can deny lawful access or grant access on a conditional basis, or incorporate TDM into subscription fees.[85] Member States are, however, obliged to encourage rightholders, research organisations and cultural heritage institutions to define commonly agreed best practices concerning the application of the exception.[86] Member States may, therefore, implement legislation, guidelines or rules that discourage or prevent rightholders from circumventing or unfairly gaining from the exception, but the actual actions to be taken remain unseen given the non-mandatory language used. Another hurdle to gaining the full benefit of the exception is obtaining access to a sufficient number of databases in the first place for TDM activities to be worthwhile. Many organisations simply do not have the financial resources to secure access to the quantity of databases to perform meaningful TDM,[87] which risks widening the gap between rich and poor European nations.[88]

Article 4 extends the TDM exception beyond research organisations and cultural heritage institutions to also include commercial entities but only if the rightholder has not "expressly reserved" TDM.[89] Therefore, rightholders can contractually override the exception or require large and, potentially, prohibitive fees for its benefit.[90]

Despite some shortfalls in the exception, and a failure to address some issues, such as with smart disclosure systems,[91] its mandatory nature harmonises Member States' laws and, consequently, creates a consistent and level EU within which researchers and scholars can undertake research projects and accordingly advance knowledge and learning in the digital age without the risk of copyright infringement proceedings.[92]

With an understanding of what TDM does and why an exception for it is necessary in the EU, the next section discusses whether TDM of the type the Directive contemplates falls within an existing exception to copyright or is otherwise permitted in Australia. If that is the case, then introducing an exception specifically for TDM may be unnecessary.

Does Australia Need a TDM Exception?

Since the Act contains no TDM-specific exception, TDM activities may infringe several exclusive rights conferred by copyright subsistence, such as the reproduction right, the right to publish the work, the public communication right, and the adaptation right.[93] However, several methods exist that may except TDM from infringement. For example, the exception for temporary reproduction of works as part of a technical process may apply to TDM.[94] This is, however, unclear and probably unlikely because, to benefit from the exception, the reproduction must be "incidentally made as a necessary part of a technical process of using a copy of the work."[95] Most TDM techniques intentionally reproduce sometimes large amounts of data, and sometimes entire works. It is difficult to see how any TDM could involve reproductions that are only incidental, and, as noted above in relation to temporary reproductions under EU law, TDM techniques may reproduce material for longer than what could be considered temporary and, indeed, often involve permanent reproductions.[96]

Another solution might be licenses. The Association of Learned and Professional Society Publishers (the "ALPSP") has said that exceptions are not conducive to collaboration, and publishers are not, in any event, blocking access to material for TDM purposes.[97] The ALPSP believes that proactive voluntary licensing offers efficiency and the flexibility to adapt to changing markets, provided they are based on collaborative contractual and operational models.[98] Of course, in an ideal world, there would be no need for legislative or judicial intervention and we would all be able to solve problems with agreements, such as licenses. But relying on profit-based entities to allow non-profit researchers to use protected material is unsatisfactory and confers no legal certainty. Further, research organisations are, like most non-profit organisations, bound by financial constraints. Having to pay potentially high fees for access to databases may be prohibitive and prevent meaningful research.

The exception that best fits TDM is the fair dealing exception, which the EU does not have.[99] The flexibility of the fair dealing exception may indeed fill more of a gap than the Directive's TDM exception given the limitations of the exception discussed above, which do not apply to fair dealing.[100]

The Act excepts from infringement a fair dealing with a literary work, including a database,[101] and a dramatic, musical or artistic work, or an adaptation of the work, for the purpose of research or study.[102] The matters to be considered in determining whether a use is a fair dealing include the purpose and character of the dealing,[103] the nature of the work or adaptation,[104] the possibility of obtaining the work or adaptation within a reasonable time at an ordinary commercial price,[105] the effect of the dealing upon the potential market for, or value of, the work or adaptation,[106] and, where only a part of the work or adaptation is reproduced, the amount and substantiality of the part taken in relation to the whole work or adaptation.[107] Where a dealing reproduces not more than 10 per cent of particular works and adaptations as set out in s.40(5) of the Act, it will be considered a fair dealing.[108]

The fair dealing provisions must be read with all relevant provisions of the Act. Accordingly, the combined effect of ss.13(1), 14(1)(a), 31(1)(a)(i), 36(1) and 40 of the Act is that a person infringes copyright if she/he without the consent of the rightholder reproduces or authorises the reproduction of the whole or a substantial part of the work in a material form unless the reproduction is a fair dealing for the purpose of research or private study.[109]

Research means "a diligent and systematic enquiry or investigation into a subject in order to discover facts or principles."[110] This appears to align entirely with TDM which, as discussed above, is the use of automated software to wade through or investigate large amounts of data and text in order to uncover patterns, facts, principles and correlations.[111] This is further reinforced given the non-commercial nature of the research organisations to which the exception is directed. Once the purpose of the dealing has been determined, the fairness assessment is required and is a matter of degree,[112] and most often comes down to whether the amount of the work reproduced was a reasonable portion relative to the entirety of the work and the activity being undertaken.[113] Another important consideration in the fairness enquiry is whether the material the subject of the dealing is supplied in the course of trade, or otherwise for a fee.[114]

The primary analogous Australian case on fair dealing is *De Garis v Neville Jeffress Pidler Pty Ltd*[115] ("*De Garis*"). *De Garis* involved the monitoring of newspapers and other media for subjects that subscribers required and the provision of photocopies of the material together with its source in return for a fee.[116] The Federal Court of Australia inferred that the defendant had found an effective method for retrieving material,[117] which is not unlike a primitive version of TDM. The Court, however, found that the dealing was not done for the purpose of research,[118] but was commercial given the copied material was supplied for a fee.[119] This is in stark contrast with the aims of the Directive. As set out above, the exception for TDM in the Directive is limited to non-profit organisations, or those that invest their profit back into scientific research.[120] At most, the exception may be applied

to public-private funded organisations, but only if they do not give the private entity preferential access to its research.[121] It follows that the activities to which the TDM exception is directed can be distinguished from the defendant's activities in *De Garis*, on commerciality grounds, suggesting TDM within the meaning of the Directive may fall within the fair dealing exception.

Despite this, however, *De Garis* provides only limited guidance given it concerned a dealing different to the TDM under consideration, in addition to the paucity of Australian case law on fair dealing and TDM. Additionally, the Directive extends the exception to commercial entities, subject to the rightholder's approval.[122] Such a use would appear to be beyond the scope of the fair dealing exception under the Act if *De Garis* is followed but the below US cases suggest non-profit activities by commercial entities might be excepted. However, commercial entities would still be able to obtain licenses to mine copyrighted material not unlike the situation created by Article 4 of the Directive.

The US cases may lend some assistance in determining what Australian courts might decide given the similarities of the fair use and fair dealing provisions.[123] Some differences exist, of course, such as the list of purposes under the fair use exception being illustrative only.[124] The fair dealing exception, on the other hand, requires the dealing to fall into one of the prescribed purposes, such as research.[125] This is of little significance to the current discussion given the only purpose under consideration is research. Further, "dealing" and "use" are intended to have the same meaning,[126] and both are sufficiently flexible to apply to new technologies.[127] Additionally, both promote transformative uses and encourage socially useful purposes, which are significant themes running through the US cases.[128] Given the similarities between the US's fair use and Australia's fair dealing exception, the US cases may indicate how the Australian judiciary could treat TDM under the fair dealing exception but they remain illustrative only unless and until similar cases are decided in Australia.

These cases also concern uses by commercial entities, such as Google Inc ("Google"). The commerciality of these entities would disqualify them from the benefit of the exception under the Directive. However, the focus of fair use and fair dealing is on the purpose of the activity being undertaken, as opposed to the entity engaging in the activity.[129] The cases discussed below demonstrate a flexibility inherent in fair use and fair dealing that focuses on the activity itself and whether it promotes the objects of copyright, as opposed to disqualification based on the nature of the entity. Additionally, some of the cases below concern non-profit activities by commercial entities, a distinguishing feature from *De Garis*, which concerned a for-profit activity.[130] Insofar as the cases concern commercial activities, however, they may align with *De Garis* and may not be helpful. It must also be disclaimed that a difference between Australian and US copyright law is that the US has a constitutional mandate to "promote the progress of science and the useful arts".[131] That being said, however, Australian copyright law has always been intended to maintain a robust public domain of works,[132] which appears relatively consistent with the aims of the US Constitution's copyright clause.

In *Authors Guild v HathiTrust*,[133] the HathiTrust Partnership ("HathiTrust") created a shared digital repository of books and other volumes.[134] HathiTrust entered into an agreement with Google pursuant to which Google would create digital copies of the works in libraries, and allow Google users to search and view "snippets" of the books.[135] The works were used in three ways: firstly, for full-text searches; secondly, to preserve the works; and, finally, to allow access for people with certified disabilities.[136] The Court of Appeals for the Second Circuit observed that the full-text search capabilities allowed users to search for a particular term across all the works but, for works not in the public domain or those the use of which the rightholder had not authorised, the search showed only the page numbers on which the searched term was found.[137] This is a form of TDM, and the Court concluded that it could not "imagine a definition of fair use that would not encompass the transformative uses" made by the defendants and recognised that this was an "invaluable contribution to the progress of science and the cultivation of the arts."[138] The Court came to this conclusion despite the defendants copying the entirety of the works because that was necessary to fulfil the purposes of facilitating searches and preserving the works.[139]

In arriving at its conclusion, the Court said that the purpose and character of the use was to allow scholars to identify relevant works far more efficiently, rather than to simply allow access to the copyrighted material, which is aligned with the purpose of the TDM exception.[140] The Court also found that the search capabilities gave rise to new methods of academic inquiry such as text mining.[141]

The Court considered market harm to only those markets that the rightholder would develop or licence others to develop,[142] and, accordingly, any argument about a potential licensing market was mere conjecture.[143] The use was transformative, such that the only traditional, reasonable or likely market to be considered was a transformative market, and the Court inferred that no harm would result to the licensing market.[144] In fact, the Court said that TDM could actually enhance the market for the underlying work by causing researchers to revisit the original work and re-examine it in more detail.[145] Additionally, the defendants adduced substantial evidence of the prohibitive expense involved in utilising works for TDM purposes, which further rested on the assumption that the rightholders could be identified in the first place, an assumption the Court recognised as tenuous.[146]

The Court concluded that the fair use factors suggest that the goal of copyright would be better served by allowing the use than preventing it.[147]

In *White v West*,[148] two publishers copied legal filings into the WestLaw and LexisNexis databases, which were the basis for an interactive legal research tool.[149] The District Court for the Southern District of New York found the use was a fair use. In doing so, it recognised that the entire work was not released to the public,[150] and that Congress codified the fair use doctrine precisely because the doctrine has the flexibility to apply to new technologies.[151] The Court further said that the use served a new and different purpose to the original works, and that fair use functions as a safety valve for innovation, which is which is more necessary than ever due to technological development.[152]

Finally, in *Authors Guild v Google Inc.*,[153] Google digitally scanned books into partner libraries' collections and incorporated them into databases that scholars and researchers could search. The Court of Appeals for the Second Circuit referenced the benefit this project has to TDM and noted that TDM is opening up new fields of research. [154]

In light of the limited Australian guidance on fair dealing and TDM, predicting how Australian courts will treat TDM under the fair dealing exception is speculative. However, if TDM is utilised for non-profit research purposes, it will likely be considered a fair dealing under the Act. Additionally, the US cases may offer some indication on how TDM could be treated under Australian law. Indeed, Australian and US copyright laws have differences but given that US courts have excepted TDM and the EU has introduced a specific exception for it, Australian courts are unlikely to arrive at a decision that is inconsistent with those jurisdictions, especially if to do so would leave Australia lagging behind new technological developments. Further, the recognised social and economic benefits of not-for-profit TDM makes it all the more likely that Australian courts will find such a dealing fair.

Conclusion

Certainty and predictability are imperatives of legal systems, and the desirability of consistency between jurisdictions is increasingly important due to interdependent markets and the opportunities for cross-border collaboration and cooperation brought about by digital technologies and the internet. In this exciting time with such an overwhelming amount of available data and information, law and regulation should not limit the advancement of human knowledge but should be utilised to expand the breadth of our capabilities. How best to achieve this is always difficult in the field of IP, including copyright, given its inherent territoriality, but the increasing erosion of borders has brought about its own opportunities, and harmonising rights and exceptions often yields economic and social advantages. The focus, however, should be on consistent outcomes, as opposed to consistent laws. The Directive's TDM exceptions are required in the EU given TDM's precarious pre-Directive position and the EU's lack of a fair use or fair dealing exception. TDM, as contemplated by the Directive, seems to be the exact activity to which fair dealing would be except from infringement. If this is the case, the cost and the time required to amend the Act would be unnecessary and may bring about undesirable and unforeseen consequences. However, we must be cautious and monitor developments as TDM grows in significance lest Australia fall behind the world, especially in an area as important to humanity as scientific research.

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US Appeals Court Decides Led Zeppelin's *Stairway to Heaven* Does Not Infringe – What of New Zealand and Australian Copyright Infringement Tests?

Ken Moon[1]

Introduction

The copyright case brought against the 1970s United Kingdom ("UK") band, Led Zeppelin, in the United States of America ("US") in 2014 has finally come to a conclusion – hopefully! The 9th Circuit Appeals Court issued an opinion en banc on 9 March 2020[2] confirming the judgment of the District Court for the Central District of California that Led Zeppelin's song *Stairway to Heaven* ("*Stairway*") (rated as one of the greatest rock songs and composed by the band's guitarist, Jimmy Page and singer Robert Plant), did not infringe the copyright in Randy Wolfe's instrumental composition, *Taurus*.

Wolfe wrote *Taurus* in 1967 for his band, Spirit. The copyright claim related only to the acoustic guitar opening in the first two minutes of *Stairway,* a lengthy eight-minute song which was first released in 1971. It was one track on the album (vinyl LP) known as *Led Zeppelin IV* and was another song intended to demonstrate that Led Zeppelin was no longer solely a hard rock band.

The late Randy Wolfe's estate, for whom Michael Skidmore was trustee, sued Led Zeppelin 43 years after the release of *Stairway* claiming that the guitar riff in the first part of *Stairway* was a copy of the eight-bar passage at the beginning of *Taurus*.

In considering the basic categories of copyright in the world of music – compositions (musical works), lyrics and sound recordings – one needs to bear in mind that US copyright in musical works protects not just the music itself, but also any accompanying lyrics. In New Zealand and Australia, as with other countries who adopted the British copyright model, lyrics are treated separately from the music they accompany and are considered literary works having their own separate copyright, allowing not only the possibility of a different copyright owner, but also a different term of protection since this is based on the life of the respective "authors".

Perhaps the US integration of music and lyrics into the same copyright rightly recognises the position of a song unaccompanied by musical instruments which if sung "musically" is more than just lyrics. Consider an unaccompanied soprano in an opera or an unaccompanied choir, for example.

With regard to recording copyright, unlike in most countries US copyright law did not confer copyright in sound recordings until the 1971 amendment to the *Copyright Act* 1909 (US). That applied only to recordings made after February 1972. This meant there was no US recording copyright in *Taurus* that could be asserted against Led Zeppelin. By contrast, copyright was conferred in sound recordings ("mechanical instruments") in the UK in 1911, Australia in 1912 and New Zealand in 1913.

As *Taurus* was an instrumental piece, copyright in lyrics was not an issue in this case. However, it is interesting to note that if copyright did subsist in a three-word song title, another song writer might have been tempted to sue Led Zeppelin. Another song titled *Stairway to Heaven* (with different lyrics) was a hit song written and sung by Neil Sedaka in 1960.

US District Court Central District of California decision

At the 2014 District Court trial, the Judge made a number of decisions on what evidence could be given and how the jury should be instructed. A reminder that as with all US trials, this was a jury trial.

Judge Klausner decided that the sheet music filed at the Copyright Office with the application to register copyright for *Taurus* was the sole benchmark for determining whether *Stairway* was substantially similar to *Taurus.* A reminder that before 1989 when the US finally acceded to the *Berne Convention*,[3] there could be no federal copyright without registration at the Copyright Office. This meant the Judge held that no recordings of Spirit's performance of *Taurus* should be used by the jury to assess copyright infringement. Skidmore had wanted the jury to be able to listen to a recording of *Taurus*, not just to avoid the jury having to rely on evidence from musicologists, but also because in Spirit's recorded performances useful embellishments had been added. Judge Klausner also decided in a preliminary decision that evidence from Skidmore's expert witness which was based on elements introduced in the recorded performance should be rejected.

The jury's verdict was in favour of Led Zeppelin. They decided the two pieces of music were not sufficiently similar to amount to infringement of copyright. However, Skidmore appealed and a three-Judge panel of the Appeals

Court vacated the District Court judgment and ordered a new trial where the jury could hear Spirit's recordings of *Taurus* and compare Led Zeppelin's recording with these instead of the sheet music as interpreted by the expert witnesses. It should be noted that the Judge at trial had allowed Skidmore's selected guitarist witness to play to the jury from the registered sheet music.

Led Zeppelin in turn sought a rehearing of this decision by the Appeals Court en banc – 11 Appeal Judges – and this was granted.

Appeals Court en banc decision

The Appeals Court affirmed the District Court's finding in favour of Led Zeppelin – no infringement.

Randy Wolfe had not attempted to bring a suit in his lifetime – he died in 1997. Thus before getting into an in-depth analysis of copyright infringement law the Court noted that more than 40 years had passed after *Stairway* was released before Wolfe's estate had commenced this copyright infringement case and that not only would laches normally be an issue, but US copyright suits must be commenced within three years of the infringing act – i.e., release of the allegedly infringing recording. Although the Court came up with another reason why the case should not have been thrown out, Wolfe's estate had actually been given another chance to sue because Jimmy Page had re-issued the *Led Zeppelin IV* album in 2014 as a "super-deluxe" CD version using high resolution digitally remastered versions of the original recording studio master tapes. This set a new three-year period running.

The first and the most major copyright question the Court had to consider was which US *Copyright Act* applied to this case. Because the "current" *Copyright Act* 1976 ("1976 Act") was not in force when *Taurus* was composed in 1967, the Appeals Court held the applicable law was that laid down in the *Copyright Act* 1909 ("1909 Act"). The Court noted that while the 1976 Act allowed a recording to be deposited with the Copyright Office in place of sheet music, that Act did not apply to events prior to 1978 when it had come into force. And, in the Court's words, under the 1909 Act, "the deposit copy [of the *Taurus* music] defined the four corners of the *Taurus* copyright".

In relation to this aspect the situation would have been different in New Zealand and Australia. Not only do their current Copyright Acts apply to musical works created before they came into force, but copyright subsists in a musical work as soon as the work "is recorded, in writing or otherwise": to quote s.15(1) of the New Zealand *Copyright Act* 1994. Even if the music is not composed as sheet music it will attract copyright as soon as it is recorded and the sound recording can be used as the benchmark for ascertaining similarity – even though the owner of the copyright in the recording will not be the composer. For example, a recording of Eminem's *Lose Yourself* was used in the most recent New Zealand music copyright case, *Eight Mile Style v New Zealand National Party* (2017) ("*Eight Mile Style*").[4]

Under the US *Copyright Act* 1909 the term of copyright was 28 years from registration, but if renewed at the Copyright Office, it would be extended by a further 28 years. Renewal was not an issue in this case because under a 1992 amendment, renewal was made automatic and the second term of protection was now for 67 years, thus keeping *Taurus* in copyright until 2062. While the lack of appropriate transitory provisions in the *Copyright Act* 1976 meant the *Copyright Act* 1909 applied to determining infringement of copyright, the *Copyright Act* 1976 (as later amended) did have transitory provisions, but only for determining the term of copyright.

Under US law, infringement analysis involves two questions: has there been "copying" and has there been "unlawful appropriation"? The Court noted that the latter question equates to: do the works share substantial similarities? In New Zealand, Australia and the UK these issues have traditionally been expressed as: (i) is there a causal connection between the two works and (ii) is there a sufficient degree of objective similarity between them? There is also an added third: does what has been copied amount to a substantial part of the claimant's work?

As to the first question, when Jimmy Page gave evidence he admitted he had in his vast record collection the Spirit LP which contained the *Taurus* track, although he denied he had used it in any way when composing *Stairway*. On the issue of substantial similarity the Court confirmed that in their Circuit this involved two consecutive tests. The first was "the extrinsic test" of comparing objective similarities – that is the New Zealand and Australian test. The second was "the intrinsic test": that is, the degree of similarity from the point of view of an ordinary reasonable observer, with no expert assistance. The New Zealand *Copyright Act* 1994 does not incorporate a non-expert test like this, although under the *Copyright Act* 1962 it did, but that was limited to design copyright (s.20(8)). However, Justice Cull in *Eight Mile Style* was happy with the notion that "a comparison of musical works is a subjective test of hearing for a *judge* to determine similarity" [emphasis added], citing the judgment in the 1991 Australian case *Grignon v Roussel*. Clearly her Honour had the view that this would (usually) amount to a non-expert test.

It is clear the Appeals Court empathised with the jury on their rejection of substantial similarity from their references to the analysis and explanations given by Led Zeppelin's expert witness, musicologist Dr Lawrence Ferrara. For example:

> *the similarity in the three two-note sequences is not musically significant because in each song the sequences were preceded*

> *and followed by different notes to form distinct melodies. He [Ferrara] described the purported similarity based on these note sequences as akin to arguing that "crab" and "absent" are similar words because the both have the letter pair "ab".*

Beyond the Court scene, and on YouTube Thomas Rozdilsky (known as "TJR") in playing both the *Taurus* and *Stairway* introductions described their similarity as the use of a commonly used A minor descending baseline, and their differences through the use in *Stairway* of a second ascending melody from A to F sharp. [5]

The Court found no problem with the intrinsic (non-expert) test not being carried out by the jury because that would only have been required if they had found substantial similarity under the extrinsic test.

Skidmore also appealed against the instructions the trial Judge had given the jury on the various legal issues involved in determining copyright infringement. One complaint was that the Judge failed to instruct the jury that if it was evident that Led Zeppelin had access to *Taurus* then the level of similarity between *Stairway* and *Taurus* did not need to be as strong as might otherwise be required for a holding of infringement. This legal reasoning is called the "inverse ratio rule" which the 9th Circuit Appeals Court had established many years before. Under this rule the standard of proof of similarity is considerably reduced when a high degree of access to the claimant's work is shown. The Appeals Court's ruling on this will have considerable significance for future cases in the 9th Circuit. The Court not only held that the Judge had not erred in declining to give an inverse ratio instruction, but also decided to abrogate this rule altogether and overrule Circuit precedent to the contrary, saying the rule was "not part of the copyright statute, defies logic, and creates uncertainty for the courts and parties". This holding has significant impact on 9th Circuit law, although not elsewhere in the US where the inverse ratio rule has not been adopted.

New Zealand's Court of Appeal in 1995 rejected the idea that strong evidence of a causal link could impact on the separate issue of objective similarity: *Beckmann v Maceys Confectionary Ltd.*[6] However, a different but vaguely parallel issue that if the copyright work differs only by a small degree from prior works, then only small differences are needed to avoid infringement has been applied in New Zealand since the 1989 Court of Appeal decision in *UPL Group Ltd v Dux Engineers Ltd ("UPL Group Ltd").*[7] This was despite this so-called "squeeze argument", having been rejected in the UK in *Stifam Electrical Instrument Company Limited v Sangamo Western Limited.*[8] In *Henkel* KgaA *v Holdfast New Zealand Limited* ("*Henkel KgaA*")[9] the New Zealand Supreme Court in 2006 continued to accept the logic of the squeeze argument when it said "the greater the originality, the wider will be the scope of protection which copyright affords and vice versa".[10]

Reflecting on New Zealand and Australian copyright infringement tests in the light of the *Led Zeppelin* decision

New Zealand has quite a large body of copyright case law primarily because the *Copyright Act* 1962 was structured to provide copyright protection to designs of functional products in parallel with registered design protection.[11] This was achieved by:

(1) omitting a provision to prevent dual protection under both copyright and registered design;

(2) defining "artistic works" to include drawings irrespective of artistic merit; and

(3) providing that copyright in two-dimensional works (drawings) could be infringed by reproduction of them in three dimensions.

Unlike Australia, protection was thus available to industrial products by virtue of the copyright which subsisted in the engineering or concept drawings from which the product was manufactured.

Legislation for design copyright is even more explicit in the current *Copyright Act* 1994. Unlike in the US, music copyright cases in New Zealand are few. Nevertheless the fundamental principles of design copyright are not so different from music copyright but, in my opinion, New Zealand case law has over the years deviated from what was the norm and now incorporates differences not only from US case law (as might perhaps be expected) but also Australian and UK case law.

New Zealand's early design (and other) copyright cases all rightly adopted the approach to deciding infringement from the 1963 UK Court of Appeal judgment in *Francis Day & Hunter Ltd v Bron* ("*Francis Day*").[12] Despite that case concerning music copyright, the essentials on copyright infringement were very clearly and logically laid down by a very experienced bench comprising Wilmer, Upjohn and Diplock LJJ when affirming the High Court judgment of Wilberforce J, namely:

(a) a sufficient degree of objective similarity between the two works;

(b) a causal connection between the plaintiff's and the defendant's work;

(c) where there is a substantial degree of objective similarity this of itself may constitute evidence that there is a causal connection between the two works or at least an inference that may be the case;

(d) it must not be presumed that there is a causal connection merely from proof of the defendant having the potential to have accessed the plaintiff's work.

Quite logically, in the significant 2011 case *EMI Songs Australia v Larrikin Music Publishing*[13] the Full Court of the

Australian Federal Court cited and adopted the approach of *Francis Day* early in its analysis,[14] but it is interesting that the recent 9th Circuit Appeals Court's approach was not all that different and among other things they took the view expressed in item (d) above in relation to Jimmy Page admitting possession of a recording of Spirit's *Taurus* in his record collection.

In the early era of design copyright in New Zealand, the High Court and the Court of Appeal adopted the *Francis Day* tests and the latter came to the conclusion that tests (a) and (b) were to be carried out in precisely that order. In the 1989 case, *UPL Group Ltd*, Somers J referred to these tests as consecutive "hurdles" and if the first could not be surmounted the race was over and whether the second hurdle could be surmounted was irrelevant.

But in more recent years some New Zealand courts, including the Supreme Court, have considered causality means almost everything and is to be considered first – "the ultimate issue in a breach of copyright case concerns derivation not similarity" – *Henkel KGaA*. Objective similarity was not expressly explored in that decision and the next focus, after causality, was whether the defendant copied a substantial part of the copyright work.[15]

The approach annunciated by the New Zealand Supreme Court on assessing infringement surprisingly approximates a version of the US "inverse ratio rule" which was abrogated in the Led Zeppelin appeal! This reversal of the first and second hurdles and minimising what may now be, if it still exists, the third hurdle. This approach may also increase the risk of allowing copyright to protect ideas – in breach of international copyright principles and in particular as laid down in TRIPS.[16] Until and unless an examination of objective similarity occurs by making ear (audio) or eye (visual) comparisons, Judges may be tempted to think more about the concepts behind the musical or artistic expressions.

With the "hurdles" now back to front, how is the third element of the *Francis Day* infringement approach to be assessed? That is, that a finding of a substantial degree of similarity will afford prima facie evidence to infer that there is a causal connection between the plaintiff's and the defendant's work with the onus on the defendant to rebut it if they can.[17] Direct evidence of copying a work, whether music or design drawings, is rare.

New Zealand copyright infringement principles need to get back on track

Fortunately, this might have started to happen. On the case law front the recent decision of the New Zealand Court of Appeal in *Zhang v Sealegs International Limited*,[18] judgment by Brown J, has re-emphasised the significance of objective similarity and how it should be assessed. For example, features which are commonplace must be taken out of the equation and comparisons must focus solely on features as expressed in the two works and not the ideas behind them despite the fact they may be similar or overlap.

Unusually, there is also the potential for statutory reform to tweak things – comprehensive reform of the New Zealand *Copyright Act* 1994 is now well underway and will not be limited to amendments to simply ensure copyright law is keeping up with information technology.

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2 *Michael Skidmore v Led Zeppelin* No 16-56057, DC No 2:15-cv-03462-RGK-AGR, 9 March 2020; <https://cdn.ca9.uscourts.gov/datastore/opinions/2020/03/09/16-56057.pdf>.

3 *Berne Convention for the Protection of Literary and Artistic Works* (as amended on 28 September 1979), opened for signature 9 September 1886 (entered into force 19 November 1984).

4 [2017] NZHC 2603.

5 <https://www.youtube.com/watch?v=PCEg9gMJakU>.

6 (1995) 33 IPR 543.

7 [1989] 3 NZLR 135.

8 [1973] RPC 899 at 910.

9 [2006] NZSC 102 at [43].

10 [2006] NZSC 102 at [38].

11 Unlike Australia – see Clive Elliott, 'The Triumph of Purism over Principle' 119 (March 2020) *Intellectual Property Forum* 10.

12 [1963] 2 All ER 16; [1963] Ch 587.

13 [2011] FCAFC 47, see [51] for example.

14 Unfortunately *Francis Day* surfaced in the *Eight Mile Style* judgment somewhat after less apposite authorities.

15 [1989] 3 NZLR 135 at [44].

16 *Marrakesh Agreement establishing the World Trade Organization*, opened for signature 15 April 1994, 1867 UNTS 3 (entered into force 1 January 1995) annex 1C ("*Agreement on Trade Related Aspects of Intellectual Property Rights*").

17 *Whangapirita v Allflex New Zealand* (1995) 5 NZBLC 103,733.

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Book Review

Raymond Hind[1]

The EU Design Approach: A Global Appraisal

Edited by Annette Kur, Marianne Levin and Jens Schovsbo
[Edward Elgar Publishing 2018 pp 296. The eBook version is priced from £25/AU$46 from Google Play, ebooks.com and other eBook vendors, while in print the book can be ordered from the Edward Elgar Publishing website.]

Designs have been referred to as the poor cousins of the intellectual property ("IP") family. This is reflected in the relatively low numbers of applications for design protection in comparison to patents and trade marks, and absence of harmonisation and limited policy development. In terms of writings, apart from the occasional article in various legal journals, discussion of design law is often confined to just a minor chapter in more comprehensive books on other aspects of IP law. *The EU Design Approach* addresses this gap at least in terms of European Union ("EU") law. Insofar as EU design law has influenced some aspects of current Australian legislation, this book will be of interest to local readers.

The book's preface states that:

> *The European Union (EU) constitutes an important exception to the general legislative disinterest in design protection. The EU design legislation is based on a truly unique concept for the protection of designs: The Design Approach.*

Individual chapters are separately authored by academics, mostly from continental European universities, and cover topics including the background to, and the development of, the Approach, and aspects of its detailed implementation with reference to relevant case law. The separate authorship does result in a degree of overlap in the discussion of specific aspects in the different chapters but this does not detract from the overall coherence of the book.

The opening chapter sets the scene for much of the remainder of the book and discusses the need for a uniform protection system for designs for all Member States of the EU, starting from a position where a diverse range of protection regimes existed. Rather than trying to harmonise the various existing regimes, it was decided to embark on an approach which was neither a "patent approach" or a "copyright approach". The former requires absolute novelty, substantive examination, and no knowledge requirement to establish infringement. The latter is protection principally against copying. The then existing regimes of most Member States fall into one or other of these two camps and sometimes a blend of the two. The outcome, being the Design Approach, has both unregistered and registered design protection. The unregistered design essentially protects against copying for a restricted period.

Registered design protection features what is termed as a neutral concept of design, meaning that particular aesthetic qualities of design are not required, the role of the informed user in the assessment, absolute novelty but with grace periods, and absence of substantive examination. The discussion of this latter aspect should be of interest to Australian policy-makers who seem strongly in favour of such examination.

The chapter discusses the interplay between a working group established within the Max-Plank-Institute (the "MPI Group") which provided draft proposals for the legislation and the European Commission which accepted some of the proposals and modified others. This discussion is valuable in elaborating the reasoning behind the final form of the Design Approach adopted by the Commission in its detailed provisions. Particular insight is given as the two authors of the chapter, Annette Kur and Marianne Levin, were themselves members of the MPI Group.

The chapter following discusses the Design Approach in the context of historical design philosophy using the Danish design school (functional/minimalist) and the Italian design school (aesthetic) as examples. The extent to which this really advances an understanding of the Approach is somewhat doubtful, but nevertheless it does demonstrate how these different design philosophies are accommodated by the Approach which in addition to the absence of a requirement for aesthetic effects allows functional elements of appearance to be protectable provided they are not entirely dictated by technical purpose.

Globally, the treatment of designs dictated by function can vary significantly. An entire chapter of the book is devoted to this topic under EU law. The chapter considers policy development in this area and its treatment by the courts. There is also related discussion of protection for spare parts and repair provisions, concepts which are embraced in Australian law.

Separate chapters discuss the overlap with copyright law, and the overlap with trade mark law and unfair competition law. While the authors of the two chapters, respectively Philipp Fabbio and Ansgar Ohly, note that parallel rights can currently exist between design law and these other legal regimes, questions are raised as to whether this is desirable. The chapter on copyright overlap provides arguments for and against dual design/copyright protection particularly in the EU context where copyright law is not uniform throughout all Member States. The trade mark overlap aspects, as expected, relate to 3-D or shape trade marks and the author, Ansgar Ohly, expresses some concern that these, and also unfair competition law, can provide almost perpetual rights in a design long after design protection rights have expired. Shape trade marks are said to present a particular problem in this regard as the author notes that the concept of trade mark use has been diminished by the courts in enforcement of the trade mark right. Possible remedies for dealing with these concerns are suggested and involve protection for a design post-expiry of the design right only in circumstances where there is a likelihood of confusion.

Chapters discussing the detailed implementation and case law are directed primarily at EU practitioners. While some aspects of current Australian law were influenced by EU law, as the detailed implementation is different, it is likely that this part of the book may be of limited use to local practitioners.

The "Global Appraisal" in the sub-title of the book is provided primarily by chapters dealing with United States of America ("US") and Chinese law. The heading of the chapter dealing with US law reads "Greeted with a shrug; the impact of the Community Design System on United States Law". Enough said! Nevertheless, the chapter does contain an informative discussion of US law and comparisons with EU law. Unlike the US chapter, the chapter on Chinese law is a stand-alone discussion of Chinese law absent any reference to EU law. While interesting, this chapter adds little to the main thrust of the book.

While *The EU Design Approach* is primarily aimed at a European audience and provides a well written, informative and comprehensive discussion of EU design law, local readers particularly those involved in research and policy development should find this a valuable resource. Whether the Approach is "truly unique" as stated in the preface to the book is questionable, at least to this reviewer, as many of the more fundamental concepts were known prior. But to the extent that they are all brought together in a single package perhaps it is unique.

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Book Review

Luís Bogliolo[1]

Research Handbook on Contemporary Intangible Cultural Heritage

Edited by Charlotte Waelde, Catherine Cummings, Mathilde Pavis, and Helena Enright
[Edward Elgar Publishing 2018 pp 448. The eBook version is priced from £48/AU$89 from Google Play, ebooks.com and other eBook vendors, while in print the book can be ordered from the Edward Elgar Publishing website.]

For lawyers specialised in intellectual property ("IP"), it is customary to think of how law approaches intangibles in terms of whether a particular creation falls within the scope of different regimes which protect literary, artistic or dramatic works, inventions, designs, trade marks, reputation or confidential information. For those of us accustomed to thinking in this way, this book opens up a rich field of thinking about intangibles as cultural heritage. Focusing on contemporary forms of intangible cultural heritage ("ICH"), the various chapters explore how different legal regimes, from human rights, to trade, IP and heritage law clash and interact, prompting us to think about their different rationales. It presents a range of debates and views on ICH, having the underlying goal of challenging established discourses on cultural heritage and on the role of law in safeguarding it. This critical tone informs the approach of the editors, who declare their goal to be inviting fresh thinking around "traditional" conceptions of intangible cultural heritage. Much of the material accomplishes this goal, though some chapters would have benefited from more in-depth analysis. Despite the diversity of themes and authors, there is a notable prevalence of issues related to the United Kingdom ("UK") throughout the book. It would have benefited from a more balanced consideration of issues emerging from and written by authors located in the Global South.

The first chapter suitably provides an overview of the most relevant international treaties safeguarding intangible cultural heritage: the 2003 *Convention for the Safeguarding of the Intangible Cultural Heritage*[2] ("*ICH Convention*") at the global level; and the 2005 *Framework Convention on the Value of Cultural Heritage for Society* ("*Faro Convention*")[3] in the context of the Council of Europe. Lucas Lixinski surveys the processes that led to the conclusion of these instruments and explains how their approaches differ in how cultural heritage is defined, in the key mechanisms they envisage for safeguarding ICH, and in the space they leave for contemporary manifestations of culture to be considered as heritage. He argues that despite the propensity of regional organisations to delimit more strictly the boundaries of authorised common identities and thus authorised heritage, the *Faro Convention* provides a progressive take on cultural heritage. It takes the concept of heritage away from the hold of experts and focuses on listing best practices and recognising communities rather than their cultural manifestations. The emphasis on social processes and on safeguarding ICH is commended to counterbalance the common pull towards the past in heritage law.

Readers of this journal might be particularly drawn to Chapter 2, where Fiona Macmillan reflects on the mutually constitutive relationship between heritage and community and how it is captured by law. Drawing from postcolonial critiques, she argues that international legal texts have reinforced the "authorised heritage discourse",[4] an expression repeated throughout the book to designate the traditional conception of heritage as something that is "found", is inevitably fragile and in need of protection by experts, and which must be passed on to the future unchanged. In what is perhaps one of the most provocative and insightful sections of the book, Macmillan questions the supposedly progressive approach of the *ICH Convention*. For communities that are not represented by a state, or that are contained within or have transcended state boundaries, she asks what could law possibly offer that is of use to them in relation to their cultural practices? The approach of the *ICH Convention*

of inventorying and listing heritage is criticised for often having no other value than attracting tourism. Instead, she claims, the one thing which would genuinely matter in protecting ICH, particularly in relation to contemporary cultural practice, would be protection from the exercise of private IP rights over cultural production. That is notably absent from international instruments on cultural heritage. The chapter makes a persuasive argument that there is an unresolved tension between ICH as something that belongs to a community and copyright regimes premised on private property, the protection of investment and the accumulation of capital. Against commodification and creeping propertisation of intangible cultural goods, Macmillan proposes a more robust articulation of the concept of cultural heritage which would express and control value according to community norms and identities and not according to the market value of private property rights.

Whereas Chapter 2 makes the argument that ICH should be protected from IP regimes, Chapter 13 argues that copyright law has in fact developed a discourse on cultural heritage of its own. Mathilde Parvis' thoughtful and thorough reflection on copyright law as an overlooked legal regime for the safeguarding of contemporary ICH is one the highlights of this book. She argues that copyright regimes act as mechanisms for cultural gatekeeping and that cultural heritage has become an increasingly important parameter within copyright jurisprudence. Rather than focusing on how cultural heritage is occasionally referred to as an item to be protected *from* undue appropriation by copyright or other IP rights, the chapter claims that cultural heritage is often protected *by* copyright. The chapter analyses cases from the UK, the United States of America ("US"), Australia, and France, paying particular attention to the moral right of integrity and, in the case of the US, to the peculiar protection against the destruction of works of "recognised stature".[5] It then moves on to an argument about how the requirements for subsistence of copyright are problematic when applied to new forms of expression such as contemporary performances. The chapter concludes that as a regime that safeguards ICH, copyright can be partial to dominant and well-established expressions of culture, thus strengthening the "authorised heritage discourse". Yet this bias towards culturally dominant works is not inherent to copyright law but mostly incorporated through case law. Accordingly, unlike other regimes, the copyright framework offers substantial flexibility so that jurisprudence can become a strategic field for critical efforts to develop a more progressive cultural heritage discourse.

Chapter 3 traces some of the parallels and differences between international treaties on cultural heritage and on human rights. Yvonne Donders argues that notwithstanding the references to human rights in ICH instruments, these two regimes operate in two different worlds. She claims that human rights treaties are normative treaties, while cultural heritage treaties are more contractual in nature and therefore do not create any substantive rights for individuals or communities. The chapter presents an informative comparison between treaties in both fields, but its regimented and conventional approach to international law precludes a more insightful analysis which could have resulted from elucidating the political projects and the historical development of the two fields.

In Chapter 4, Sarah Harding addresses the contentious topic of cultural appropriation. She makes the argument that protecting ICH should not be understood as granting a right to exclude others from certain cultural practices. Instead, the primary focus of ICH rights should be in ensuring the right to practice one's culture. Through a number of examples of cross-cultural exchanges and appropriations, Harding argues that in some circumstances legal rights are ill suited to protect cultural heritage, and that they might result in more harm than benefit. It is at times unclear what specific rights the chapter is referring to, and whether its criticism is directed towards IP rights, intangible cultural heritage rights, or both. It concludes that assuming all the intangible cultural output of minority and oppressed cultures is property, and that uses of such materials by outsiders is misappropriation, is problematic. One must wonder, however, whether that assumption has ever been a reality.

Chapter 5 brings a reflection on how ICH and cultural diversity have been connected with the topic of sustainable development. The complex relationship between these concepts and discourses is described in a narrative of the various and succeeding documents, meetings, resolutions and treaties of the last decades. Abbe E. L. Brown shows how the protection of ICH and of cultural diversity has increasingly been seen as an important aspect of sustainable development, and conversely how sustainable development has been recognised as essential for safeguarding cultural diversity. The chapter argues that despite the long list of documents and international bodies dealing with these topics, a more instrumental approach is needed in order to enable the integration between culture and sustainable development. One example given in the chapter, related to an oral history of fishing and oil worker stories in Aberdeen, is unfortunately only briefly discussed. The reader is left speculating what is to be taken from this case. Most of the chapter is a rather strenuous description of numerous UN treaties, documents, meetings and resolutions. The short section on the synergies and clashes between IP rights, ICH and sustainable development opens some interesting discussions which could be further developed. Overall, the chapter provides a good general overview of how different instruments have connected ICH, cultural diversity, and sustainable development, but lacks a broader argument.

In Chapter 6, Charlotte Waelde explains that her years of research with dancers and choreographers with disabilities

led her to argue for the recognition of contemporary forms of ICH. More specifically, she claims that the UK is in breach of its human rights obligations in respect of the rights to culture and to participation in cultural life by failing to recognise ICH in its laws. As the chapter convincingly claims, the reason for such failure can be found in how English cultural policy-making has been firmly rooted in economic thinking and thus failed to appreciate the full social value of culture. The focus on creative outputs (books, films, songs) rather than creative processes (writing, filmmaking, singing) has led to a conflation between the creative industries and culture more generally, to the detriment of valuing intangible experiences as a fundamental aspect of the formation of communities' identities. The chapter makes the case for a broad interpretation of ICH. It recognises the indeterminacy and fluidity of concepts such as community and groups for the purposes of ICH, as well as the absence of any determined set of time for which ICH needs to have existed to be deemed transmitted "from generation to generation".[6] It concludes by showing how the UK is replete with ICH, both traditional and contemporary, and lamenting its failure to recognise such fact in its legal system and in government policy.

Both Chapters 7 and 8 address the links between ICH and the concept of identity. Chapter 7 focuses on the conceptual developments in international legal instruments concerning cultural heritage. Anita Vaivade notes that the concept of identity is missing in most of the global international conventions on the topic. However, she argues that in the past two decades an important change in conceptualising heritage in international law took place with the adoption of legal instruments on cultural diversity. These instruments referred to the idea of identity as a way to explain the specificity of cultural activities and goods, thus providing justifications for their protection. Since then, a connection to cultural identity has become a fundamental aspect of heritage identification and an argument for its protection.

Chapter 8 takes the topic of identity and explores how persons who grew in a number of different places (coined "Third Culture Kids" – "TCKs") develop particular relations to cultural heritage. Laia Colomer emphasises how these persons embody a multicultural identity that escapes traditional notions of heritage as a form of national inheritance or a connection to the land. Instead, she argues that TCKs' experience of ICH is more strongly felt in cooking, or cuisine. As a cultural practice that "lives" and, more than any other collective cultural expression, conveys fusion and syncretism, cuisine challenges conventional notions of ICH as something which can be fixed, identified and listed. The chapter capably draws on the experience of TCKs to shed light on some of the paradoxes in contemporary legal approaches to ICH which result in post-multiculturalist models that fuse celebrating diversity and cosmopolitanism with traditional visions of national culture.

In one of the most stimulating chapters of the book, John Schofield argues that heritage is not what it used to be. Attitudes and legal frameworks have shifted significantly over the past 20 years, yet heritage remains largely exclusive. Legal frameworks which safeguard heritage, although much less rigid than before, still separate that which is "within the wall" of heritage and everything else. But alongside official and protected heritage, there remains a range of practices that develop under the radar, beyond the reach of law or "beyond the wall". These forms of "DIY" heritage are illustrated by Berlin's techno music scene and by small independent music venues around the UK which form the so-called "Toilet Circuit". Schofield argues that these examples show how heritage places and practices can thrive beyond the existing legal frameworks, and that often existing under the radar is almost a necessity. This chapter serves as a much-needed antidote to the kind of thinking that sees every conceivable problem as needing a legal solution: either there is a need for new law, for reforming old ones or for enforcing the existing. Sometimes, law and legal discourse is best kept at a distance.

Chapter 10 argues that language itself is one of the fundamental manifestations of ICH. Through a brief history of the Welsh language, from measures in the 16th century limiting its use to the movement reclaiming Welshness in the 20th century, Megan Rae Blakely shows that ICH in the form of language and rituals can be powerful tools for social control and legal change. The chapter provides an interesting case study of how community-led action to safeguard ICH can lead to legal change – in particular in the recognition of the Welsh language on an equal basis to English. The focus on domestic legislation and on a single case leaves open the question of what role international treaties on ICH might play in safeguarding languages which are endangered.

In Chapter 11, Jane Blake discusses the definitional issues concerning ICH, emphasising the politics behind defining what counts and what does not count as ICH. By looking at the interaction between ICH and human rights law, she explores a range of cultural practices that could potentially fulfil the definition of ICH but which are harmful to specific groups within a community. Asking how these practices could evolve before being treated as ICH, she emphasises the importance of participatory approaches in safeguarding ICH. The argument is illuminated by looking closely at how gender dynamics affect all stages of safeguarding ICH, from identification and inventorying to documentation and transmission. The chapter ends on a positive note by highlighting some cases where cultural practices have been transformed by removing unacceptable aspects (often related to the exclusion of women) while keeping their core content.

Chapter 12 focuses on the role that museums play in safeguarding ICH. Catherine Cummings argues that museums can play an important role in furthering the goals of the *ICH Convention* by positioning themselves as active

social spaces for the promotion of ICH within communities. In doing so, museums challenge the dichotomy between tangible and intangible cultural heritage, emphasising how these terms are interdependent and permeable. The author calls for museums to "let the objects out of their cases and make them sing" and demonstrates how this can be done through the examples of graffiti in the Urban Nation Museum for Urban Contemporary Art in Berlin and of projects from UK museums such as the Tate Modern, the Migration Museum Project and Derby Valley Mill World Heritage Site. The conclusion argues that the increasing recognition of ICH has led museums to emphasise community involvement, transforming museums into cultural centres and creative workshops.

The final part of the book brings three case studies on the challenges in safeguarding intangible cultural heritage. In Chapter 14, Lucky Belder and Aydan Figaroa discuss the Dutch tradition of Sinterklaas, focusing on the escalating debate on racism, white privilege and the role of Zwarte Piet in that tradition The authors examine how diverging perspectives on the Sinterklaas tradition were framed in the Dutch courts and in the creation of a single national inventory of intangible cultural heritage. Drawing from critical postcolonial approaches, they expose the paradoxes in safeguarding a tradition to which different communities claim their own version and denounce the version of others. Chapter 15 looks at the ICH present in the Banda Islands of Indonesia. Joëlla van Donkersgoed and Jessica Brown argue that ICH is a central part of community life in the islands. They argue that efforts to nominate the Banda Islands for inclusion in the UNESCO World Heritage List have taken a sense of urgency, but that these processes should have a high degree of community participation in each stage. The chapter makes a compelling case for the significance of ICH for the people of the Banda Islands, but could benefit from a clearer explanation of why inclusion in the World Heritage List is the best way of safeguarding cultural heritage, or why it is so urgent. Chapter 16 looks at community cultural practices at Ziwa and Matendera National Monuments in Eastern Zimbabwe. Njabulo Chipangura argues that, historically, heritage discourse has served to prioritise the work of experts while marginalising the concerns of local communities. Nonetheless, the chapter traces how preservation policies have evolved to take into account the relevance of ICH and the importance of community involvement and participation in the management of the sites.

The final chapter, slightly out of place in the book's structure, addresses how international trade law has governed disputes concerning intangible cultural heritage. Valentina Vadi argues that there is a clash of cultures between the international trade regime and that of safeguarding cultural heritage. As a result, when disputes concerning cultural heritage are at stake, once we know which international institution is going to handle it, we can presume how the dispute will be dealt with.[7] In this clash between cultures, trade law is clearly the dominant regime. While the World Trade Organization has a legally binding dispute settlement procedure, the *ICH Convention* fails to provide a meaningful forum to address ICH-related disputes and is characterised as de facto soft-law in hard law clothing. As a result, a number of disputes concerning ICH are adjudicated by a trade regime which has no mandate to assess the cultural implications of its decisions. The chapter illustrates this by reference to cases concerning attempts by multinational corporations to patent elements of ethnic food and traditional medicine; by the overlap between intangible heritage and IP in geographical indications; by disputes on the commercialisation of seal products and its relevance for certain indigenous peoples; and by the impact of trade agreements on traditional agricultural products, such as corn in Mexican cuisine. These examples are mentioned only in passing, providing interesting paths for further research.

Overall, this *Handbook* does not provide what one would normally expect from a handbook: a structure and a sense of coherence to a field of research. This should be seen as one of its main accomplishments. Instead of projecting an artificial sense of coherence, the various chapters together convey how intangible cultural heritage is a dynamic, pluralist and contested field of research. The editors' aim of encouraging thinking "beyond the walls" of disciplines and legal regimes is largely accomplished. For those unfamiliar with research on intangible cultural heritage, this book is an excellent point of entry into the topic.

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2 *Convention for the Safeguarding of the Intangible Cultural Heritage*, opened for signature 17 October 2003 (entered into force 20 April 2006).

3 *Framework Convention on the Value of Cultural Heritage for Society*, opened for signature 27 October 2005 (entered into force 1 June 2011).

4 Laurajane Smith, *Uses of Heritage* (Routledge 2006).

5 US Code, Title 17, § 106(A)(a).

6 *Convention for the Safeguarding of the Intangible Cultural Heritage*, opened for signature 17 October 2003 (entered into force 20 April 2006), art. 2.

7 This follows the influential argument by Martti Koskenniemi that different international legal regimes incorporate particular logics, histories and biases, so that struggles over international jurisdiction are crucial for determining substantial outcomes. See Martti Koskenniemi, 'The Fate of Public International Law: Between Technique and Politics' (2007) 70(1) *Modern Law Review* 1.

Current Developments — Australia

IP AUSTRALIA

Martin Friedgut and Roseanne Mannion
Spruson & Ferguson

Fees waived for certain extensions of time during the COVID-19 pandemic

On 22 April 2020, the Deputy Director-General of IP Australia issued:

- an exemption from certain extension of time fees for patents;
- a dispensation from the requirement to pay certain extension of time fees for trade marks; and
- an exemption from certain extension of time fees for designs.

The above provide that fees will not apply to some extensions of time during the COVID-19 pandemic.

A streamlined process for extension of time requests is now available as follows:

- From 22 April 2020, customers impacted by COVID-19 can submit a request for an extension of time through eServices. There is no need to provide any additional written explanation. An extension of time of up to three months is available and is free of charge. The usual fee is now waived automatically in eServices. This arrangement applies to most patents, trade marks and designs extension of time requests but does not apply to extensions of time for payment of renewal fees. For extensions of time relating to plant breeder's rights ("PBRs"), see the PBRs frequently asked questions webpage on IP Australia's website (<https://www.ipaustralia.gov.au/covid-19-plant-breeders-rights-faqs>).
- These arrangements will be in place until at least 31 May 2020.

Oppositions and hearings policy

To comply with COVID-19 restrictions and ensure the safety of customers, staff and the public, hearings before IP Australia are now being conducted by video conference, telephone or written submission. For parties who have scheduled face-to-face hearings, IP Australia is in the process of making contact regarding these options. All IP Australia services, including requests for opposition, continue to operate as usual.

The Australian Intellectual Property Report 2020 is now available

The Report provides an overview of what's happening in intellectual property ("IP") in Australia and this year the theme is the digital economy, which is synonymous with information and communications technology ("ICT"), and research on how businesses with IP perform in Australia. The Report also provides interactive data visualisations that allow readers to engage with the data directly.

Some highlights from the Report include:

- Businesses with IP rights last on average five years longer, have an average of more than 10 times as many staff, and have double the average profitability per employee than firms without IP rights. Firms who hold patents and trade marks have four times the profitability.
- 2018 was a record year for applications filed at IP Australia and data shows a slight decline in numbers of applications filed in 2019.
- The United States of America ("US"), China, Japan, Germany and the United Kingdom ("UK") are the top five countries of origin for patent applications filed in Australia in 2019. There was a 46 per cent year-on-year growth in standard patent applications originating from China.
- Australia is the top country for trade mark applications filed in Australia in 2019 followed by US, China, UK and Germany. Applications are down 5 per cent from 2018 figures with a fall of 14 per cent for applications from China.
- Designating Australia via the Madrid System for trade mark applications continues to be a popular choice for non-resident applications with 23 per cent of all applications filed via Madrid.
- Class nine leads the most popular class for trade mark applications with 13,844 applications nominating this class. Class 35 follows closely with 13,515 applications followed by classes 41, 42 and 25.
- The US continues to be the lead source for design applications filed in Australia. Overall, applications were down 4.4 per cent from 2018 figures with applications filed by Australian residents down 13.6 per cent. Non-resident filings, however, increased by 1.7 per cent.
- Applications for PBRs fell by 27 per cent from 2018 figures but the number of PBRs granted in 2019 increased by 25 per cent, its highest level in a decade.

The US and the Netherlands are the major origin of PBRs filed in Australia.

- ICT-related design applications have effectively trebled in the past decade and almost doubled their share of total applications. This may reflect increasing design innovation activity overall in Australia's digital economy.

Innovation patent to be phased out, and other changes to IP legislation

The *Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Act* 2020 (the "Act") received Royal Assent on 26 February 2020 and is now law. Importantly, the Act begins the process of phasing out the innovation patent system. As a result, from 26 August 2021, new innovation patent applications can no longer be filed.

The Act makes several other improvements to Australia's intellectual property system. This includes introducing an objects clause into the *Patents Act* 1990 (Cth) (the "Patents Act"), improving the Crown use provisions for patents and designs and the compulsory licensing provisions for patents. The Act also makes a number of technical improvements to the Patents Act and the *Trade Marks Act* 1995 (Cth) to streamline procedures and increase efficiency.

IP Australia joins global trade marks database TMView

It is now possible to search for Australian trade mark registrations and applications through TMView. This online tool allows users to conduct trade mark searches for words and images in 74 countries via the one database.

Indigenous knowledge report

Last year, IP Australia released a commissioned a report on how the market value of Indigenous knowledge in Australia could be estimated. It has now published the first of a series of "Insights" highlighting key findings from that report. The first "Insight" considers the value of Indigenous knowledge for businesses and can be accessed from IP Australia's website (<https://www.ipaustralia.gov.au/insights-no1-estimating-market-value-indigenous-knowledge>).

Peter Heerey AM QC, Tom Cordiner QC & Alan Nash[1]
Barristers

In this edition we focus on cases that touch upon things that may be at the forefront of readers' minds during this period of social distancing and working from home: groceries; alcohol; internet searches; and the activities of the Commonwealth Scientific and Industrial Research Organisation ("CSIRO").

Kraft Foods Group Brands LLC v Bega Cheese Limited

[2020] FCAFC 65

(14 April 2020)

Trade Marks – supply of products in shippers bearing the registered mark – whether that use was use "as a trade mark".

In what was a relatively minor aspect of the case, the Full Court upheld the primary judge's finding that Bega infringed the appellant's registered KRAFT trade mark. Bega was, otherwise, entirely successful on the appeal, but those successes related to questions of construction of a contract and so will not be dealt with here.

The trade mark infringement arose from Bega's supply of "The Good Nut" branded peanut butter jars in shippers that bore the first appellant's KRAFT trade mark. The shippers were designed to be stacked in a supermarket shelf and opened to display the jars within, but also designed to display the KRAFT trade mark on the side of the shipper facing the customers. Bega apparently used these shippers because, following the termination of its licence to use the KRAFT trade marks, it still held some stock of the KRAFT labelled shippers.

The primary judge found that, when the jars were offered for sale or sold by supermarkets in the shippers, that involved a use of the trade mark by Bega. In particular, his Honour held:

> *As for Bega's submission that it did not use the mark – the supermarkets did – I accept Kraft's submission that a mark which has been applied to goods by a manufacturer is relevantly "used" by the manufacturer at the time when the products are offered for sale or sold by a retailer. See E & J Gallo Winery v Lion Nathan Australia Pty Ltd [2010] HCA 15; (2010) 241 CLR 144 at 162 – 164, [42] and [46].*

Of course, *E & J Gallo* concerned use of a trade mark for the purposes of the owner of a mark establishing use in answer to a non-use application under s.92 of the *Trade Marks Act* 1995 (Cth). Bega contended that the concept of "use" in the context of infringement pursuant to s.120 of the Act is different – the issue there being whether an upstream supplier (or manufacturer) of goods is to be directly (or vicariously) liable for the use by another person of a trade mark in Australia. There is some force in this argument when one considers the scenario of an overseas manufacturer who has no intention of its product entering Australia, but which product is nonetheless imported and sold here by a third

party. On the primary judge's construction, the manufacturer would be liable for direct infringement. Unfortunately, the Full Court considered it unnecessary to decide the issue.

Therefore, the primary judge's decision on this issue remains on foot, along with a similar decision by Moshinsky J in *Playgro Pty Ltd v Playgo Art & Craft Manufactory Ltd* (2016) 117 IPR 489 where His Honour concluded at [139] that "use" in s.120 (infringement) of the *Trade Marks Act* should have the same meaning as in s.92 (removal for non-use), so that the expansive concept of "use" from E&J Gallo was "equally applicable to an infringement context". His Honour was then able to conclude that an overseas supplier of PLAYGO-branded goods infringed an Australian trade mark registration for PLAYGRO, where the goods were supplied in China and imported by the customer. That finding, and that of the primary judge in this case, appear at odds with the finding in *Ward Group Pty Ltd v Brodie & Stone Plc* (2005) 143 FCR 479 that there is no trade mark infringement where the trade mark use was not "targeted or directed" at Australian consumers.

The reason the Full Court did not need to address the issue was because, no doubt to Bega's chagrin, during the hearing of the appeal, Kraft sought and obtained leave to contend that the primary judge ought to have found that Bega's supply to the supermarkets of the shippers bearing the KRAFT trade mark and containing the peanut butter was, in and of itself, a trade mark infringement. The Full Court agreed.

In response to this late argument, Bega contended that the circumstances of its supply of the shippers to the supermarkets meant there was no trade mark use. That was because, when the peanut butter jars were purchased from Bega, the supermarkets had no idea what they would be packaged in. Bega also contended that, if receipt of the shippers by the supermarkets was part of the relevant purchase, supermarkets would not have understood the word "KRAFT" on the shippers to be acting as a trade mark because they understood the product to have been purchased from Bega.

The Full Court considered that, when Bega supplied the peanut butter products to supermarkets in shippers with the KRAFT trade mark, that constituted use of the mark as a trade mark for the purposes of s.120 of the Act because it was used as a "badge of origin" in the sense that it indicated "a connection in the course of trade between goods and the person who applies the mark to the goods" – it distinguished the "goods dealt with in the course of trade by a person from goods so dealt with by someone else".

The Full Court applied an "objective" test of whether the mark acted as a badge of origin, putting aside the subjective knowledge of the supermarkets. We observe that, while it seems clear that the test is "objective", it may be difficult to identify a sharp line between what matters are "objective" and what are "subjective" in the context of determining whether a mark is acting as a badge of origin. It appears that Bega was arguing that, objectively, supermarkets comprise a specialised market (given the way the supermarkets ordered, received and then used the products) which would not consider that the KRAFT marks on the shippers were being used as a trade mark. We understand the Full Court to conclude that one simply looks at the presentation of the mark itself on the packaging, not the context in which it is received or used by the consumer.

Swancom Pty Ltd v The Jazz Corner Hotel Pty Ltd

[2020] FCA 396

(26 March 2020)

Trade Marks – admissibility of screenshots of webpages and searches of online databases

During trial of trade mark infringement and validity dispute, Justice O'Bryan of the Federal Court made rulings as to admissibility of evidence that are set out separately in this decision. The evidence in question was adduced by the respondents and appeared primarily directed to whether the Applicant's trade marks for THE CORNER HOTEL, THE CORNER and CORNER in respect of "live music performances and ticket booking services for such performances" were valid. In particular, His Honour considered the admissibility of:

> *(a) screenshots of webpages for various hotel businesses trading under names that included the word "corner", including The Corner Hotel Alexandra, Victoria; The Corner Pub in Liverpool, NSW; and the Corner Hotel in Ballarat, Victoria;*
>
> *(b) an online search of the St Kilda Historical Society which showed that there was a "Corner Hotel" on the corner of Fitzroy and Barkly Streets in St Kilda which operated from 1864 until 1967; and*
>
> *(c) an online search of the Victorian Heritage Database (an electronic database of Victoria's significant heritage places and objects published by the Heritage Council of Victoria) for hotels or pubs using the word "corner" in their name, which showed there was a "Corner Hotel" that was located on the corner of Barker and Lyttleton Streets in Castlemaine, Victoria and was built in June 1869.*

The facts sought to be established by that evidence was that there were a number of hotels or pubs in Australia that have traded under a name that included the word "corner" and that a number of those hotels or pubs have offered live music performances at the premises.

Each of those exhibits was inadmissible hearsay pursuant to s.59 of the *Evidence Act* 1995 (Cth), unless they fell within an exception or the hearsay rule was waived pursuant to s.190 of the *Evidence Act*.

While there is no invariable rule that a webpage cannot constitute a business record, the screenshots of the websites in issue here were not business records because they were "solely descriptive of the businesses concerned" rather than, for example, "documents by which a business offers a product for sale, which typically includes a description of the product and the price and possibly other terms and conditions of the offer": *Rodney Jane Racing Pty Ltd v Monster Energy Company* [2019] FCA 923 at [178]. His Honour did not address whether the online searches were business records, presumably because that was not in issue. We note that with an online search one might query, however, of whose "business" that would be a "record".

However, his Honour applied s.190(3) of the *Evidence Act* in favour of the respondents, which provides that the Court may order that the hearsay rule does not apply if the matter to which the evidence relates is not genuinely in dispute or the application of that rule would cause or involve unnecessary expense or delay. The matters the Court may take into account in exercising its discretion to waive the hearsay rule are set out in s.190(4), and are: "(a) the importance of the evidence in the proceeding; (b) the nature of the cause of action or defence and the nature of the subject matter of the proceeding; (c) the probative value of the evidence; and (d) the powers of the Court (if any) to adjourn the hearing, to make another order or to give a direction in relation to the evidence."

His Honour concluded that neither of the facts sought to be established by exhibits (as described above) was genuinely in dispute and that adducing admissible evidence to establish those facts would involve unnecessary expense or delay. As to the latter, in (emphasis added):

> *the case of businesses that are currently operating, it would require the respondents to visit the premises in order to obtain direct evidence of their operations. The respondents have adduced evidence of that kind, but to replicate it across all possible venues would, in my view, involve unnecessary expense. In the case of businesses that have closed, it would require the respondents to obtain evidence from the authors of the historical records concerning such premises. Again, in my view, such a step would involve unnecessary expense. I have reached that conclusion in light of the facts that the evidence is relatively uncontroversial; the facts sought to be proved by the evidence are relatively confined, as set out above; and <u>those facts are not determinative of the issues in dispute between the parties</u>.*

The last point is somewhat interesting. It would appear that his Honour might have excluded the evidence if the facts sought to be proven would have been determinative of an issue in dispute, which indicates how the application of s.190 may be of limited practical utility in most cases.

We further note that the parties did not appear to engage with s.64 of the *Evidence Act* which provides that the hearsay rule "does not apply" to "a document so far as it contains" a previous representation regarding an asserted fact in a civil proceeding "if it would cause undue expense or undue delay, or would not be reasonably practicable, to call the person who made the representation to give evidence". That provision does not on its face contemplate the application of a discretion by the Court, though what constitutes "undue" necessarily does and likely brings in the discretionary considerations found in s.190. Nevertheless, the requirement for undue delay or expense in section 64 would apparently have been met in this case and so one might wonder why both s.64 and s.190 were not relied upon.

As a final aside, O'Bryan J observed that, in relation to the screenshots of the websites, the parties did not make submissions about the possible application of the provisions of Part 4.3 of the *Evidence Act*. Part 4.3 covers a wide range of provisions that facilitate the proof of certain matters. In relation to the searches of the Victorian Heritage Database, perhaps his Honour was referring to the provision concerning matters of official record (ss.153 to 159).

Commonwealth Scientific and Industrial Research Organisation v BASF Plant Science GmbH

[2020] FCA 328

(12 March 2020)

Patents – amendment – appeal from Commissioner's decision - whether specification as amended would claim or disclose matter that extends beyond the specification as filed – section 102(1) post Raising The Bar

BASF sought, and obtained from the Commissioner of Patents, amendment of its patent application titled "Process for the production of polyunsaturated fatty acids in transgenic organisms". CSIRO opposed the amendment and failed. It appealed that decision, which appeal was heard and allowed by Justice Beach. The primary question was whether, as CSIRO contended, the amendments were not allowable pursuant to s.102(1) of the *Patents Act* 1990 (Cth) because "as a result of the amendment, the specification would claim or disclose matter that extends beyond that disclosed in" the complete specification as filed.

A question posed in the proceeding was whether s.102(1) is now stricter than it was prior to the *Intellectual Property Laws Amendment (Raising the Bar) Act* 2012 (Cth). Beach J observed that he did not propose to "indulge in any disquisition concerning the differences, if any between the scope of the old s 102(1) and the new s 102(1). As a trial judge that is not my task. And to do so runs the risk of getting lost in some jurisprudential twilight zone outside the dimensions of the documents and the science that I need to consider".

Suffice to say that Beach J did conclude that the test under the present s.102(1) was a strict one and that the United Kingdom authorities on the equivalent provision

there provided suitable guidance. The principles that his Honour identified were as follows. First, "subject matter will be impermissibly added unless the matter is clearly and unambiguously disclosed in the application as filed". Second, "the required disclosure may be express or implied, but on any view must be clearly and unambiguously so. In this regard, a patent applicant is not permitted to add by amendment matter simply because it would have been obvious to the skilled person." Thirdly, "context is important. A patent applicant cannot extract features disclosed in one context and introduce them into a specification stripped of that context. So, the concept of intermediate generalisation as discussed in the UK authorities applies to s 102(1) in its construction and application."

As to "intermediate generalisations" his Honour apparently adopted the description Pumfrey J gave them in *Palmaz's European Patents (UK)* [1998] EWHC Patents 350; [1999] RPC 47 at [71]:

> *If the specification discloses distinct sub-classes of the overall inventive concept, then it should be possible to amend down to one or other of those sub-classes, whether or not they are presented as inventively distinct in the specification before amendment. The difficulty comes when it is sought to take features which are only disclosed in a particular context and which are not disclosed as having any inventive significance and introduce them into the claim deprived of that context. This is a process sometimes called 'intermediate generalisation'.*

The context which will make the amendment unlawful is often a "limitation" on the integer or other context that is missing when it is sought to be added by amendment without that limitation or other context. Therefore the taking of an integer, whose independent significance is nowhere disclosed, from an embodiment of the invention which includes other limiting features cannot be incorporated into the "inventive concept shorn of its original context". That is not to say that only features expressly asserted as being inventive in the specification may be added to a claim by amendment. The question is whether the specification allows for the integer to be added to other embodiments without the limitations found in the context in which it is revealed in the specification as filed. Or put another way, would it be apparent to the skilled person that the integer has general applicability? Where the claim is to a combination, the question is whether the features now combined were disclosed as a combination in the application as filed.

Beach J observed that "intermediate generalisations" are really just a sub-set of impermissibly added subject matter. Accordingly, Beach J posed the relevant question as "whether the skilled person is being presented with any new information about the invention which is not directly and unambiguously apparent from the original disclosure" but noting that "even if a feature was suggested to be technically significant, an impermissible intermediate generalisation may take place if by the amendment the feature is used in a manner significantly different from its original context."

After a comprehensive review of the scientific evidence and the specification as filed and amended, Beach J found that the specification as filed disclosed an invention to an enzyme (CoA-dependent Δ6-desaturase) that, first, must have a preference for converting a certain fatty acid over another (alpha-linolenic acid ("ALA") over linoleic acid ("LA")) **and**, secondly, also must have the same substrate specificity as the enzyme shown in a particular sequence identified in the specification (and not one with, say, 75 per cent homology to the same). Furthermore, his Honour found that the term "substrate specificity" described precise specificity of the enzyme for certain substrates, not, as BASF contended, a broader specificity.

Turning then to the amendments, his Honour observed that certain claims as amended would claim an enzyme which must have 75 per cent homology to the specified sequence (which, BASF accepted, was not the same as having the same substrate specificity of the enzyme shown in that sequence) and a preference for conversion of ALA compared to LA. His Honour found that this involved the impermissible addition of matter because the preferential conversion integer was stripped of its original context in the specification as filed (i.e. that the enzyme must also have "substrate specificity") and was added into a different context.

As an aside, the authors note that it is important to oppose amendments like this because, once made, the only recourse to an amendment wrongly made is to assert a shift in priority date of the claim. However, the provisions relating to the priority date of an amended claim, quite remarkably, use a different, arguably much less strict test, than applies under section 102 of the *Patents Act*. Section 114, read with regulation 3.14 of the *Patents Regulations* 1991 (Cth), only shifts the priority date to the date of amendment when the newly claimed invention is only disclosed in a manner that is clear enough and complete enough for the invention to be performed by a person skilled in the art as a result of the amendment. That is, for the purposes of determining the priority date of an amended claim, it does not matter if the amendment was wrongly made and the claimed invention involved added subject matter.

Urban Alley Brewery Pty Ltd v La Sirène Pty Ltd

[2020] FCA 82

(7 February 2020)

Trade Marks – infringement – whether using "Urban Ale" as a trade mark or good faith use – cancellation on various grounds – discretion – groundless threats of trade mark infringement

As the Bard once famously said, "Dost thou think, because thou are virtuous, there shall be no more cakes and ale?" In the present case, the applicant, Urban Alley, virtuous as it

might be, could not convince the Federal Court to enjoin the enjoyment of its competitor's ale. It also got a fair serve of humble pie.

Urban Alley operates a microbrewery in the Docklands area in Melbourne from which it produces a craft beer under the registered trade mark URBAN ALE (with a priority date of 14 June 2016). La Sirène also produces craft beer, and around October 2016 began producing, marketing and selling a craft beer under the name "URBAN PALE" using this label:

In February 2018, Urban Alley initiated proceedings for trade mark infringement, breaches of the Australian Consumer Law and passing off. Presumably as a back-up measure, in October 2018 La Sirène applied to register the words "FARMHOUSE STYLE URBAN PALE BY LA SIRÈNE" and its label as marks in their own right; these marks were registered in June 2019. Unsurprisingly, Urban Alley amended its claims to also seek cancellation pursuant to s.88(1)(a) of the *Trade Marks Act* of La Sirène's marks (relying on the usual suite of similarity/confusion/deception grounds under ss.44, 42(b), 60 and 88(2)(c) of that Act).

In response, La Sirène sought cancellation of the URBAN ALE mark on the basis of s.41 (lack of capability of distinguishing the registered owner's good), s.44 (deceptive similarity to a prior registered mark, URBAN BREWING COMPANY, registered to Urban Purveyor Group) and s.58 (the true owner of the URBAN ALE mark alleged to be the aforementioned Urban Purveyor Group, owner of the aforementioned URBAN BREWING COMPANY mark). It also raised defences under s.120 (lack of use of URBAN PALE "as a trade mark"), s.122(1)(b)(i) (good faith use of the name Urban Pale to indicate characteristics of its beer), s.124 (continuous prior use of an unregistered trade mark, in this case "urban") and s.122(1)(e) (exercise of a right to use a trade mark given to La Sirène under the Act, leveraging the fact that its word and label marks proceeded to registration). The latter defence depended, of course, on Urban Alley's application for cancellation being unsuccessful.

Justice O'Bryan identified the key questions for determination as the "the ordinary signification of the words 'urban' and 'ale' when used in connection with beer and whether the Urban Ale mark was capable of distinguishing the craft beer product sold by Urban Alley". Neither of those issues was determined in favour of Urban Alley, such that ultimately its proceedings for infringement and cancellation of La Sirène's marks were dismissed. Further, his Honour upheld La Sirène's application for cancellation of the URBAN ALE mark, for the reasons set out below.

Much of the challenge for Urban Alley's case lay in the history of the use of URBAN ALE by the mark's original owner (CSBC, a related company to Urban Alley) and Urban Alley itself. The product was launched in May 2016, under two marks, "Once Bitter" and "Urban Ale". CSBC sought and obtained registration for URBAN ALE and ONCE BITTER separately, one month apart. The "Once Bitter" mark was, however, given much greater prominence on the product's packaging and labelling, and in some contexts no reference was made to "Urban Ale" at all. Further, in other contexts (including statements made by CSBS and Urban Alley's CEO, Mr Meltzer) the words "Urban Ale" were used to describe the style of beer. Urban Alley's evidence suggested that the element "urban" was intended to evoke images of the "laneway culture" of the "great city" of Melbourne, and Mr Meltzer "wanted to create a new style of beer and a segment of the craft beer market that the business could own". We note that "owning" a segment of a market and "owning" the words used to describe that segment are two very different things, and the Act may be of little assistance in achieving either!

It was not until late 2017 that Urban Alley acquired the assets of CSBS and began promoting its product by reference only to the URBAN ALE mark (Mr Meltzer having decided to drop the "Once Bitter" part of the name to avoid consumers mistakenly thinking the beer tasted bitter). Urban Alley launched its current "Urban Ale" product in May 2018, from which point the mark featured prominently in its packaging, labelling and promotional material. At all times, the sales of CSBS/Urban Alley's products were "modest", particularly in the period between the original launch in May 2016 and the release of La Sirène's product in October 2016.

La Sirène's business dates back to 2010. Its brewery produces a "farmhouse" style of beer, but from an inner suburb of Melbourne. By the end of 2015, the operators of the brewery had taken to referring to their operations and style of beer as "Urban Farmhouse", juxtaposing the concept of a traditionally farm-based beer brewed in an urban location. His Honour accepted La Sirène's evidence that the "urban" element of their branding derived from that consideration, and that La Sirène was unaware of Urban Alley's product when it launched its product in October 2016.

Urban Alley produced no evidence of actual confusion, save for a search of a Dan Murphy's website for "urban ale" which produced images of the parties' products. In rejecting

those results as evidence of a risk of confusion, his Honour observed, "It is common for an internet search to produce results based on similar but not identical search terms. The search results depicted each of the parties' products and the question of confusion needs to be considered by reference to the labelling and promotion of the competing products."

In considering La Sirène's application for cancellation of the URBAN ALE mark, his Honour looked first at the question of whether the mark was inherently adapted to distinguish Urban Alley's goods (Urban Alley did not seek to establish that the mark in fact distinguished its goods, given the limited use of the mark before the priority date). His Honour outlined a number of examples of use of the word "urban" in Australia by consumers, commentators and traders alike in a descriptive sense dating back to 2009, in connection with beer and "urban breweries". His Honour observed, "It is a well-known fact that many traditional or mainstream brewers are located in urban areas." Further, the evidence demonstrated that brewers (of all sizes, not just brewers of craft beers) and beer suppliers have chosen to use the word "urban" in their products and their own company names on numerous occasions.

His Honour held (and the parties largely agreed) that the word "urban" as applied to beer and breweries conveys that the relevant beer was brewed in a city rather than a country location and, on another level also is associated with the (in some minds) "trendier" segment of craft beers and microbreweries. The parties also agreed (Mr Meltzer's ambitions aside) that "urban ale" was not descriptive of a style or flavour of beer beyond what would normally be conveyed by the word "ale" alone. But this does not mean when used in connection with beer that "urban ale" is allusive or metaphorical. The words signify a craft beer brewed in an inner-city location. They are descriptive and laudatory, and the evidence pointed to their use as such. In those circumstances, his Honour concluded that the mark was not capable of distinguishing Urban Alley's beer products within the meaning of s.41(1), and the Court's discretion under s.88(1)(a) to order cancellation of a registration that should have been rejected was enlivened.

Adding weight to that discretion was his Honour's acceptance of La Sirène's challenge to URBAN ALE on the ground of deceptive similarity to URBAN BREWING COMPANY. Although not substantially identical, there was a real risk that Australian consumers would be misled into believing goods bearing the two marks came from a common origin, due to the close association in meaning between "Brewing Company" and "Ale" prefixed by the common element "Urban". We note that that conclusion does not bode well for other registered "Urban" marks cited by Urban Alley in support of its claim, such as URBAN CELLARS or one of La Sirène's other marks, URBAN FARMHOUSE BREWING COMPANY. But because ownership of a registered trade mark extends only to marks that are substantially identical to the registered mark (see *Carnival Cruise Lines Inc v Sitmar Cruises Ltd* (1994) 120 ALR 495 at 513; 31 IPR 375; AIPC 91-049, per Gummow J), La Sirène's further ground that Urban Purveyor Group was the true owner of the URBAN ALE mark was rejected.

Urban Alley failed to demonstrate a sufficient reason for words that legitimate traders might wish to use for their ordinary signification to remain on the register of Trade Marks. Accordingly, his Honour ordered cancellation of the URBAN ALE mark.

Given the matters set out above, it is unsurprising that Urban Alley's primary claims for trade mark infringement, misleading and deceptive conduct and passing off were all unsuccessful. So for La Sirène's case: ale's well that ends well, and Urban Alley's case paled in comparison.

Sealed Air Australia Pty Limited v Aus-Lid Enterprises Pty Ltd

[2020] FCA 29

(24 January 2020)

Patents – interest granted under patent licensing agreement – whether later-in-time licensee had an effective licence, which breached original licence

This dispute was primarily concerned with allegations of inducing breach of contract, misleading and deceptive conduct and damages against Visy Packaging Pty Ltd ("Visy"). The claims against Aus-Lid Enterprises Pty Ltd ("Aus-Lid Enterprises") and its exclusive licensee, Auslid Operations ("Auslid") had been dealt with earlier.

In short, Aus-Lid Enterprises owned a patent for a lid for a container which had an integral implement such as a spoon for removing the container's contents. The key element of the patent was that the lid was made in one piece with a spoon hinged on a mechanism that folded under and then clipped on the inner side of the lid. Auslid was granted an exclusive licence to exploit the patent.

Auslid granted Sealed Air an exclusive sub-licence to exploit the patent. The exclusivity of the agreement was expressly stated as follows: "The sublicence granted in clause 3.1 is an exclusive sublicence in the Field and the Patentee and Auslid must not together or separately undertake any commercial activity in the Field or grant any rights in favour of or to any third party in that Field." If that were not clear enough, a further clause provided: "Each of the Patentee and Auslid agrees and acknowledges that … it shall not interfere with [Sealed Air's] enjoyment of the sublicence granted under the terms of this Agreement".

Subsequently, Aus-Lid Enterprises and Auslid granted Visy the right to manufacture and sell the patented spoon-in-lid product to a third party and knowingly permitted and

encouraged Visy to continue to manufacture and supply that product to the third party. Visy began supplying these products to one of Sealed Air's customers in about mid-2014. Sealed Air became aware of that soon after and, unsurprisingly, wrote to Visy, disclosing its exclusive licence and demanding that Visy cease exploiting the patent. It also wrote to Auslid demanding that Auslid revoke its licence to Visy.

In short, Visy's defence was that it held the belief that Auslid was entitled to license it because of representations made by a Mr de Souza for Auslid to the effect that Sealed Air had itself breached the licence by working outside their permitted territory on multiple occasions and that Auslid would provide an indemnity and "hold harmless" letter or agreement to Visy and would defend any claim of breach of agreement by Sealed Air. Mr de Souza told Visy that Sealed Air's complaints were without any substance and the agreement between Sealed Air and Auslid no longer applied.

The primary question for Kenny J of the Federal Court was whether Visy intended to (and in fact did) induce Auslid to breach its contract with Sealed Air. Her Honour noted that actual knowledge typically will satisfy the requisite intention "but where knowledge rises to the level of 'reckless indifference' or 'wilful blindness', the question of intention will be one to be determined in all the circumstances of a particular case." That is, Visy would have a good defence if it could establish that it had a bona fide belief reasonably entertained that there was no contract between Auslid and Sealed Air because the contract had been rescinded or Auslid was otherwise permitted to grant the rights to Visy, notwithstanding the contract between Auslid and Sealed Air. Her Honour also accepted Lindgren J's analysis in *Allstate Life Insurance Company v Australia and New Zealand Banking Group Ltd* [1995] FCA 1368; 58 FCR 26 that:

> *a person's 'knowledge' that what he is inducing will constitute a breach of contract and his 'intention' to induce a breach of contract by what he is doing refer to one and the same thing. After all, ex hypothesi, the alleged tortfeasor's acts are intentional, a breach of contract occurs, and the acts induce the breach. Against that background, 'knowledge' and 'intention' that the breach will result from the acts do not signify any relevant distinction.*

Kenny J also accepted Visy's contention that in some circumstances, there may be a finding of honest belief (that there would be no breach), notwithstanding that the belief exhibits a high degree of credulity – that is, a tendency to be too ready to believe that something is real or true when it is not. However, the question of credulity is to be assessed in light of the qualifications and experience of the person who held the belief. In this case, that person was a qualified and experienced in-house solicitor of Visy.

Her Honour concluded that an experienced and qualified in-house solicitor could not have reasonably held the view that Auslid was not in breach of its agreement with Sealed Air and so concluded that the belief was not genuinely held. Her Honour held:

> *I am not persuaded that an experienced commercial solicitor, such as Mr Stein, would have believed on the basis of what Mr de Souza had communicated to him that there were reasonable grounds to believe that the contract between the applicant and Aus-Lid had been repudiated. For the reasons set out below, it does not seem to me that the conversation that Mr Stein said he had with Mr de Souza on 9 September 2014 improves Visy's position.*

In any event, her Honour found that even if Visy did not have actual knowledge, it acted with wilful blindness or reckless indifference and that was sufficient to establish the tort of interference with contractual relations.

Visy also argued that the inducement must precede the breach of contract, because it argued the breach by Auslid in granting Visy a right to exploit the patent was prior to Visy being aware of the contract (such that Visy could not have induced a breach of contract it was unaware of). Kenny J disagreed. Her Honour observed that it:

> *may be accepted that the dealings between Visy and Aus-Lid began without Visy knowing that Aus-Lid's grant of a licence to it breached a contract with Sealed Air, so that Visy could not then be liable in tort. When, however, Visy gained this knowledge in September 2014, Visy continued to induce or procure Aus-Lid to breach this contract by the continued payment of royalties for its continued manufacture and supply of its patented spoon-in-lid. In this circumstance, there was an actionable interference on Visy's part with Aus-Lid's contractual obligations to the applicant.*

Accordingly, her Honour treated Aus-Lid's breach as a continuing one which was induced by Visy when Visy was given sufficient information regarding the contract to know a breach was occurring. In any event, Visy later entered into an agreement with Aus-Lid in full knowledge of the existing agreement between Aus-Lid and Sealed Air and that in and of itself was an unlawful inducement to breach. Visy was ordered to pay damages to Sealed Air in the sum of AU$1,635,417.

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.

Mattia Pagani, Courtney White, Chris Carter and Miriam Zanker
Davies Collison Cave, Sydney

Patent infringement by supply of a product: *Quaker Chemical (Australasia) Pty Ltd v Fuchs Lubricants (Australasia) Pty Ltd (No 2)* [2020] FCA 306

On 17 March 2020, Justice Robertson of the Federal Court of Australia ruled that a company had infringed two patents by supplying a product to its customer because the use of the product by the customer would have infringed the methods of the patents. His Honour however refused the patentee's claim of infringement by authorisation and the request for additional damages.

Background facts

Quaker Chemical (Australasia) Pty Ltd owned two patents for a method of detecting injuries caused by high-pressure fluids leaking from hydraulic machinery, a risk present in mining operations. The method consisted of supplementing hydraulic fluid with fluorescent dye so that if a high-pressure fluid stream penetrated skin, it could be readily detected under ultraviolet light.

The relevant patents were an Australian standard patent and its divisional, an innovation patent. Claim 1 of the standard patent recited:

> *A method for detecting fluid injection in a patient, the method including the steps of:*
>
> *providing a fluid storage tank;*
>
> *providing fluid for use in machinery and adding said fluid to the fluid storage tank;*
>
> *providing a fluorescent dye and adding the fluorescent dye to the fluid such that the fluid fluoresces in the presence of ultraviolet light; and*
>
> *a possible fluid injection occurring in a patient.*

As part of its business, Quaker had been selling fluorescent dye to Fuchs Lubricants (Australasia) Pty Ltd, which would then mix the fluorescent dye with hydraulic fluid and supply it to various mines.

Between 2015 and 2016, however, Fuchs started supplying hydraulic fluid mixed with a fluorescent dye that had not been acquired from Quaker. Quaker consequently sued Fuchs for patent infringement.

Legal issues

Quaker asserted that Fuchs had infringed the two patents by supplying fluorescent dye to Fuch's customers despite having reason to believe that the customers would use the dye to perform the patented method. Sections 117(2)(b) and 117(2)(c) of the *Patents Act* 1990 (Cth) were said to be applicable. Quaker submitted that there was also a case of infringement by authorisation or joint tortfeasance and sought, among other reliefs, additional damages against Fuchs.

Fuchs cross-claimed that both of Quaker's patents were invalid on grounds of lack of clarity, insufficiency and failure to disclose best method, lack of support, lack of utility, lack of novelty and secret use. (For brevity, it is simply noted here that the invalidity claims were unsuccessful.)

Infringement under s.117(2)(b)

Staple commercial product

Fuchs argued that its conduct fell outside the scope of s.117(2)(b) because the luminescent dye was a "staple commercial product". However, Fuchs had never supplied the luminescent dye on its own, but instead supplied it mixed into hydraulic fluid. Robertson J held that it was the product as supplied that was under scrutiny.

His Honour then found that the product supplied by Fuchs, being a hydraulic fluid containing fluorescein, was a special-purpose fluid designed for particular uses in hydraulic machinery, not a staple commercial product in the nature of raw materials which is commonly available and has a multitude of different uses.

Reason to believe

The next requirement of s.117(2)(b), whether Fuchs had "reason to believe" that its product would be used to infringe the patents, was complicated by the fact that the product had two different applications: leak detection and injury detection; only the latter application was restricted by the patents' monopoly.

The issue became whether Fuchs had known its customers' purpose for buying the product.

Robertson J found that, in all but one case, Fuchs had taken steps to communicate to its customers that the product being bought was not to be used for injury detection. Moreover, there was no plain evidence that Fuchs' customers had employed the product for anything other than leak detection.

The exception was a mine in Broadmeadow, Queensland, operated by the BHP Billiton Mitsubishi Alliance, where Fuchs was informed by the mine operator that the fluorescein-hydraulic fluid mixture would be used to detect injuries; Fuchs even increased the concentration of fluorescent dye in the mixture so as to improve the product's suitability for injury detection.

One of the defences raised by Fuchs was that, given the rarity of high-pressure fluid injection injuries, Fuchs did not have reason to believe that the Broadmeadow mine would put the product to an infringing use. Robertson J rejected this argument as being inconsistent with his construction of s.117(2)(b), whereby the "reason to believe" clause applies

when the occasion to use a product in an infringing manner does in fact arise.

Infringement under s.117(2)(c)

Robertson J found that the product supplied to the Broadmeadow mine also constituted an infringement under s.117(2)(c). His Honour was satisfied that Fuchs had induced Broadmeadow to use the product in a way that infringed the patents because, knowing that Broadmeadow wanted a product for use in injury detection, Fuchs had offered its own fluorescent dye for a lower price than that at which it offered Quaker's dye.

Joint tortfeasance

Quaker's allegation of Fuchs being a joint tortfeasor along with its customers (particularly the operator of the Broadmeadow mine) in the infringement of the patents failed because Quaker had not proved any primary acts of infringement by Fuchs' customers. Robertson J noted that a finding of joint tortfeasance is predicated on evidence of direct infringement. Quaker however was unable to provide evidence that the patents' methods had actually been performed at the mine sites.

Additional damages

Robertson J declined to award additional damages against Fuchs, despite the evidence that Fuchs knew that the supply of its own fluorescent dye for use in injury detection would violate the patents, and despite Fuchs' attempts to disguise its awareness that the patents were potentially being infringed at the Broadmeadow mine.

It seems his Honour's decision was influenced by the finding that Fuchs had a "reasonably arguable defence to the allegation of infringement based on its construction of the claims of the patent", a circumstance deemed relevant in *Oxworks Trading Pty Ltd v Gram Engineering Pty Ltd* [2019] FCAFC 240.

The line between inspiration and appropriation: *In-N-Out Burgers, Inc v Hashtag Burgers Pty Ltd* [2020] FCA 193

In-N-Out Burgers, Inc v Hashtag Burgers Pty Ltd [2020] FCA 193 (26 February 2020) is a case of deliberate appropriation of an overseas brand. It demonstrates that making incremental changes to an infringing mark will not always be enough to avoid breaches of consumer law. The case also explores personal liability of directors and highlights the latter part of a trade mark can be significant in the minds of consumers, despite many legal authorities emphasising the weight and significance of the first syllable of a mark.

Background

American burger chain, In-N-Out Burgers was founded in 1948. It has operated over 300 restaurants in the United States of America ("US") and showcased its brand through "pop-up events" in other parts of the world, including in Australia between 2012 and 2018. In-N-Out Burgers owns a range of Australian trade mark registrations including for IN-N-OUT BURGER, ANIMAL STYLE and PROTEIN STYLE.

Australian company, Hashtag Burgers Pty Ltd, has operated a number of pop-up events and burger restaurants in Australia, initially under the name "Funk N Burgers" and subsequently "Down-N-Out" or a variant thereof. Prior to Hashtag Burgers' incorporation in June 2017, the succeeding directors held their first pop-up event in June 2015 called Funk N Burgers where they served ANIMAL STYLE burgers. Notably, their pop-up event was held five months after one of In-N-Out's Australian pop-up events.

The proceedings

In-N-Out Burgers sent a cease and desist letter to Hashtag Burgers requesting them to stop using the ANIMAL STYLE and PROTEIN STYLE trade marks and to select a different name and logo. Hashtag Burgers denied use of the ANIMAL STYLE and PROTEIN STYLE marks and argued the "Down-N-Out" name was not infringing. Despite this, they made incremental changes to their "Down-N-Out" logo, including removing the yellow arrow and hyphens (common features of the In-N-Out logo) and replacing the "O" in DOWN with a hashtag.

Notwithstanding these changes, In-N-Out Burgers commenced legal proceedings against Hashtag Burgers claiming trade mark infringement, misleading or deceptive conduct and passing off.

Trade mark infringement

The allegations of trade mark infringement concerned Hashtag Burgers' use of various "cheeky" references to the In-N-Out Burger marks, and the use of various iterations of the Down-N-Out mark.

In-N-Out relied on evidence of Hashtag Burgers' promotional materials for the Funk N Burgers and Down-N-Out pop-ups/restaurants and communications between Hashtag Burgers' director and a graphic designer regarding the Funk N Burgers and Down-N-Out signs. Hashtag Burgers' promotion of these pop-ups and restaurants repeatedly referenced In-N-Out, with the Facebook promotion stating, "this time on the menu we have the legendary In'N'Ou … I mean the Down'N'Out burger", another Facebook promotion titled an "In-N-Out Tribute" and the media release entitled "Sydney's answer to In-N-Out Burgers has Finally arrived!" with the body of the text referring to the "cheekily named DOWN-N-OUT". Further to this, Hashtag Burgers' director had asked the graphic designer to make "a Funk N Burgers sign like In N Out Burger" and had requested Down-N-Out branding that "matches In and Out branding".

In response, Hashtag Burgers made the following arguments:

1. the phrases Down N Out and In N Out did not convey the same ideas;
2. the marks incorporated important visual differences, including that "down" looks nothing like "in" and the arrow was missing in Hashtag Burgers' sign;
3. the essential features of competing marks are different; and
4. no witness was called to give evidence that they were confused by the marks.

Justice Katzmann of the Federal Court of Australia held that the latter part of the mark, N-OUT, was the distinctive and significant feature and essential ingredient of In-N-Out's mark.[1] Her Honour found that Hashtag Burgers had "sailed too close to the wind"[2] and had infringed In-N-Out's trade marks because the marks were deceptively similar.

Misleading or deceptive conduct

Hashtag Burgers' conduct relevant to the misleading and deceptive conduct claim was categorised as follows:

1. initial representations at the Sir John Young Hotel during the period 6 June 2016 to August/September 2016 (the use of colours in a specific way i.e. red letters for the name and a bent yellow arrow);
2. incremental changes at the Sir John Young Hotel during the period August/September 2016 to July 2018 – substituting a hashtag for the "O" in DOWN;
3. representations at the Down-N-Out restaurants in Penrith, Ryde, Wollongong, and Crows Nest;
4. representations at the relocated central business district restaurant;
5. representations at the relocated Ryde restaurant; and
6. website and social media use.

Before determining whether Hashtag Burgers' conduct was misleading or deceptive, the Court had to determine whether In-N-Out enjoyed a reputation in Australia as at 25 May 2016, when Hashtag Burgers launched their "Down-n-Out" Facebook page.

By relying on statistics from the Australian Bureau of Statistics about short term departures of Australian residents to the US, numerous articles from popular Australian press encouraging Australians to visit an In-N-Out restaurant and the various pop-ups held in Australia between 2012 and 2018, her Honour was satisfied In-N-Out had reputation in Australia. Significantly, although In-N-Out's pop-up events had limited advertising (only one or two days before the event), they still attracted long queues and were nearly or completely sold out within the first two hours of opening.

Katzmann J considered the incremental changes of removing the hyphens, inserting apostrophes and substituting the "O" with a hashtag. However, these changes were not enough to avoid a potential "hangover effect" which occurs when a respondent does not take steps to correct earlier representations.

In reaching the decision that all categories of Hashtag Burgers' conduct were misleading or deceptive, the Court held that another long-standing authority (*TGI Fridays Australia Pty Ltd v TGI Friday's Inc* (1999) 45 IPR 43, which had reached the opposite conclusion) did not apply because of the obvious differences between the cases, that TGI Friday's did not operate pop-ups and that TGIF was not a distinctive name and a range of Australian businesses used it.

Passing off

While In-N-Out were unable to show they had suffered actual damage, they argued they were entitled to damages under the "user principle". The principle, which entitles a plaintiff to recover damages from a defendant who has wrongfully used the plaintiff's property, was relied on successfully in *Winnebago Industries Inc v Knott Investments Pty Ltd (No 4)* (2014) 241 FCR 271. The Court held there was no apparent reason why the user principle should not apply and ultimately was satisfied the tort of passing off had been made out.

Director's liability

The final substantive question considered by the Court was whether the two directors were jointly liable for the infringing conduct from the time of incorporation of Hashtag Burgers. In-N-Out relied on circumstantial evidence that they were the sole shareholders of Hashtag Burgers, were intimately involved in the decision to adopt the infringing names and logos, and carried out the business for over a year before the company was incorporated. In relation to the misleading or deceptive conduct claim, both directors were held to be knowingly concerned in the infringing conduct. However, the directors held not to be jointly and severally liable with Hashtag Burgers for trade mark infringement and passing off.

Key points

The decision demonstrates that:

1. even a "cheeky" version of a name can contribute to a finding of trade mark infringement;
2. evidence of intention can be relevant to trade mark infringement in some cases;
3. in some cases the latter part of a mark is the distinctive or memorable feature of the mark; and
4. incremental changes made to an infringing mark will not always be enough to avoid a finding of breach of the Australian Consumer Law.

1 *In-N-Out Burgers, Inc v Hashtag Burgers Pty Ltd* [2020] FCA 193, [109].
2 *In-N-Out Burgers, Inc v Hashtag Burgers Pty Ltd* [2020] FCA 193, [152].

Dr Dimitrios Eliades
Barrister[1]

Chhabra v McPherson as Trustee for the McPherson Practice Trust

[2019] FCAFC 228
(13 December 2019)

The Full Court of the Federal Court of Australia's reasons for judgment (the "Full Court's reasons"), relate to an appeal from the decision of the primary judge in respect of a failed copyright infringement claim only: *Chhabra v McPherson as Trustee for the McPherson Practice Trust* [2018] FCA 1755; (2018) 138 IPR 1 (the "primary judge's reasons"). The primary judge had dismissed the originating application, however no appeal was made in respect of the primary judge's findings against the appellants in respect of the tort of passing off or contraventions of the *Australian Consumer Law* ("ACL") found in Schedule 2 of the *Competition and Consumer Act* 2010 (Cth).

The respondents were partners in a law firm formerly trading as MVM Legal. MVM Legal joined an international network of law firms using the name, Kaden Boriss in 2013. The network was identified by the following artistic works:

(together the "KB logos")

The respondents' firm used the KB logos until 1 October 2017. The appellants claimed that the respondents infringed the copyright of the first appellant (Mr Lal) in the KB logos, because the licence to use them, they said, was a bare licence revocable at will and that the licence was revoked, the appellants submitted, on 24 October 2016 or alternatively on 3 or 9 January 2017. The result, the appellants say, is that the respondents infringed by their continued use until 1 October 2017, the copyright in the logos, engaged in the tort of passing off and contravened the ACL.

The grounds of appeal were addressed under four copyright related issues. First, whether Mr Lal was the sole owner of copyright subsisting in the KB logos by virtue of (among other things), an agreement for the assignment of future copyright. Secondly, whether Mr Lal could, as a co-owner with a Mr Batra of the copyright, independently revoke a licence that each of the co-owners had originally consented to grant. Thirdly, whether the licence granted to the respondents was a bare licence revocable at will. Fourthly, whether the licence granted to the respondents was revoked on a number of alternative dates on the facts.

The Full Court dismissed the appeal.

The circumstances bringing about the concept of an internationally branded network of law firms are set out more fully in the Court's reasons.[2] In 2010 Mr Lal, a partner of the Sydney law firm LBR Legal, commenced discussions with Mr Batra, the managing partner of a law firm in Delhi trading as Kaden Boriss Legal LLP. Mr Lal and Mr Batra approached the managing partner of a law firm based in Singapore, Mr Chee. Their discussions appeared to include in their plans, subject to his confirmation, Mr Al Dosari, a partner of a Kuwaiti law firm. A Singaporean company named Kaden Boriss Services Pte Ltd ("KBS") was registered on 10 August 2010 and a draft constitution and membership agreement for the company was circulated on 6 December 2010. These were never executed and in 2011, Mr Lal and Mr Batra resolved that Mr Chee would not be included in the network. KBS was wound up and deregistered, with Mr Chee, Mr Lal and Mr Batra certifying it had no assets.

As to the ownership of the copyright subsisting in the KB logos, the relevant agreement relating to the creation of the works by a third party provided for an agreement to assign the copyright in the logos upon payment for the works. It was an agreement to assign the copyright in the future.

Prior to KBS being deregistered, it engaged a Singaporean company (Pulse) to create the logos for the Kaden Boriss network. Both parties relied on an unexecuted agreement between KBS and Pulse in relation to the creation of the KB logos. Relevantly the KBS and Pulse agreement at paragraph 8.1 provided:

> *All materials and property produced pursuant to this agreement including reports, recommendations, inventions, software, databases, systems, tools, designs, concepts, artwork, names, brands, logos, advertisements, images, layouts, proposals, storyboards, scripts, or works ('Works') created by the Agency for the Client pursuant to this Agreement resides in the Client.* ***The Agency agrees to assign to the Client any present and future copyright, designs, inventions, trade marks and any other intellectual property in the Works upon payment of all Fees relating to the creation of such Works. The Agency agrees to execute all documents and do all things necessary to give effect to the assignment in this clause.*** [Their Honours' emphasis]

Pulse created the KB logos through the joint authorship of two employees, habitually resident in Singapore, who were employed by Pulse and had created the logos pursuant to their terms of employment. The completed logos were delivered to KBS, however KBS did not make any payment towards Pulse's fees. Mr Lal and Mr Batra ultimately paid Pulse's final invoice and on 12 January 2017, Pulse entered into a deed which referred to Pulse as the assignor and Mr Lal and Mr Batra as the assignees of the copyright in the KB logos.

The primary judge found that Mr Lal and Mr Batra were the co-owners of the copyright in the KB logos in Australia.[3] The primary judge reasoned:

- Pulse was the initial owner of the copyright in logos in Australia: *Copyright Act* 1968 (Cth) (the "Copyright

Act"), s.35(6); *Copyright (International Protection) Regulations* 1969 (Cth), reg. 4.

- An assignment of copyright does not have effect unless it is in writing and signed by or on behalf of the assignor: Copyright Act, s.196(3).
- Pulse was the only party who could assign the copyright in the KB logos.
- The entitlement to the assignment of copyright subsisting in the logos, was conditional upon the Pulse fees for creation being paid.
- Pulse had not provided a written assignment of the copyright in the KB logos to KBS nor been requested to.
- Even if KBS was identified as the "client" in paragraph 8.1 reproduced above, the best KBS would have had (assuming Pulse's fees were paid), was the benefit of an agreement to assign, an equitable interest: *Acorn Computers Ltd v MCS Microcomputer Systems Pty Ltd* (1984) 6 FCR 277; *Robert J Zupanovich Pty Ltd v B & N Beale Nominees Pty Ltd* (1995) 59 FCR 49.
- Following KBS' deregistration its interest in the copyright was, as a matter of practicality, not capable of being asserted.
- It was not necessary to determine whether Mr Lal and Mr Batra could be the "Client" in paragraph 8.1.
- Mr Lal and Mr Batra, did not become the owners of the copyright in the logos merely by paying Pulse's fees for the creation of the KB logos.
- The deed, notwithstanding it was in confirmatory language, should be taken to be a present assignment of the copyright in the KB logos from Pulse to Mr Lal and Mr Batra, as it fulfilled the requirements of s.196(3) of the Copyright Act, having in accordance with its terms, retrospective operation to 2011.
- Mr Lal and Mr Batra could therefore grant a licence to the respondents when they joined the network.
- As there was no further assignment from Mr Batra to Mr Lal of the copyright in the KB logos, Mr Lal's claim to sole ownership of the copyright had to fail.

An argument belatedly raised by the appellants, to the affect that Mr Lal and Mr Batra had agreed, that Mr Lal would have the exclusive right to the KB logos in Australia failed.[4] The Full Court noted from the primary judge's reasons:

> *Ultimately, the chain of title with respect to the Australian copyright in the Kaden Boriss Logos commences with Pulse and ends with the Confirmatory Deed under which Mr Lal and Mr Batra are, clearly, co-owners of the copyright that Pulse assigned.*

The appellants sought to argue that by the deed and an email dated 4 August 2010 from Mr Batra to Mr Lal, Mr Batra had assigned the copyright in the KB logos to Mr Lal. In addition, the appellants claimed that when these were read with the minutes of a meeting in 2010, where the plan for an international network were discussed, that Mr Lal was the owner solely of the copyright.

The Full Court found no error by the primary judge, who had considered that the 4 August 2010 email,[5] did not on its terms purport to effect an assignment of copyright.[6] Rather, the email made general assertions about the use of the "brand" but did not broach the core subject of ownership of the copyright. In addition, the email correspondence relied upon by the appellants did not, as anticipated by s.197, deal with the future copyright in the KB logos to be created but concerned rights to the "name" and the "brand".[7]

The Full Court went further and determined that even if the email of 4 August 2010 between the founding parties of the KB network of firms under the KB brand had spoken in terms of a future assignment, their Honours still would have rejected the email and the deed as a basis to give Mr Lal sole title to the copyright in the KB logos. First, Mr Batra was not, on 4 August 2010, a person entitled under the Copyright Act to assign the future copyright in the KB logos and, secondly, the 4 August 2010 email was not signed by or on behalf of the person who would apart from that section be the owner of the copyright upon its coming into existence, namely Pulse.[8]

On the issues of nature of the licence and the revocation of the licence to the respondents by Mr Lal alone, the primary judge observed that there were no authorities provided to his Honour for the proposition that Mr Lal could revoke the licence without the consent of the copyright co-owner, Mr Batra. The appellants alleged that the primary judge "ought to have found" that one of two co-owners of copyright could revoke a licence that both co-owners had consented to grant. The Full Court also noted the absence of authority for the proposition.[9] The Full Court determined that the primary judge had made no error in saying that the appellants conducted their case on the assumption that a gratuitous licence was revocable at will and that this assumption was wrong in principle.[10]

Finally, there was no evidence, as the primary judge had determined, that Mr Batra had consented to Mr Lal revoking the respondents' licence. In the absence of any consent by Mr Batra, a co -owner of the copyright in the FB logos, it was unnecessary to determine whether purported acts of revocation by Mr Lal effectively revoked the licence.[11]

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

[2020] FCA 239

(28 February 2020)[12]

The reasons of Justice Greenwood of the Federal Court of Australia relate to an application by Hells Angels Motorcycle

Corporation (Australia) Pty Limited ("HAMC"), to release to it the security for costs it paid in the proceeding pursuant to an order of the Court: *Hells Angels Motorcycle Corporation (Australia) Pty Ltd v Redbubble Ltd* [2016] FCA 530 (16 May 2016). The amount sought by the respondent (Redbubble) in its interlocutory application for security, was AU$270,000, however the amount of AU$50,000 (the security), was ordered to be paid and was paid as ordered.

On 21 August 2019, his Honour made a determination in relation to costs of the proceeding: *Hells Angels Motorcycle Corporation (Australia) Pty Limited v Redbubble Limited* [2019] FCA 1349 (the "costs orders"). The relevance of these orders was that there was a costs order against HAMC, and because of that order, Redbubble objected to the release of the security. His Honour made directions as to the opposed application for the release of security and determined the matter on the parties' written submissions.

Relevantly, the costs orders provided that:

- Redbubble pay 65 per cent of HAMC's costs of and incidental to the proceeding.
- Redbubble pay HAMC's costs of and incidental to Redbubble's unsuccessful cross-claim for revocation of the trade marks in suit on the basis of non-use under s.92 of the *Trade Marks Act* 1995 (Cth).
- HAMC pay Redbubble's costs of and incidental to HAMC's application for summary judgment, limited to those costs thrown away by reason of the application.
- No order for costs was made in relation to Redbubble's security for costs application.

His Honour firstly referred to the first two orders for costs in HAMC's favour, specifically in relation to 65 per cent of the costs of the proceeding and all HAMC's costs for the cross claim. In relation to the costs ordered against HAMC, Greenwood J referred to the costs orders and specifically to his Honour's following observation at [46] of those costs orders:

> *As to the application for summary judgment, the questions in controversy and the matrix of fact which needed to be examined to resolve the rights of the parties meant that an application for a judgment summarily would be unlikely to succeed. As to that application, Redbubble should have its costs limited to the costs thrown away by reason of that application. I assume that some of the costs involved in analysing the claims of the applicant were not wasted (such as reading affidavits ultimately relied upon at trial etc).*

His Honour noted Redbubble's argument that the amount of the security for costs provided by HAMC as a result of the orders of 16 May 2016 ought not to be released until Redbubble is paid the costs payable to it in relation to HAMC's application for summary judgment, the third order.

From these observations his Honour concluded that the first two orders in favour of HAMC "will significantly exceed" the third costs order in Redbubble's favour for the HAMC summary judgment application. His Honour anticipated that the order in favour of Redbubble could be set-off against the costs payable by Redbubble to HAMC. It followed that Greenwood J ordered the release of the security to HAMC.

1 Barrister, Queensland.
2 The Full Court's reasons at [12]–[23].
3 The primary judge's reasons at [46].
4 The Full Court's reasons at [51].
5 The email is reproduced in the Full Court's reasons at [21].
6 The Full Court's reasons at [57].
7 The Full Court's reasons at [58].
8 The Full Court's reasons at [59]–[60].
9 The Full Court's reasons at [72], [73].
10 The Full Court's reasons at [95].
11 The Full Court's reasons at [99].
12 In this matter, the author represented the applicant (HAMC).

Current Developments – New Zealand

Andrew Brown QC
Barrister, Auckland
Correspondent for New Zealand

Zespri Group Limited v Gao & Ors

High Court of New Zealand, Katz J, 5 – 9, 12 November 2018, 10 July 2019, 10 February 2020

[2020] NZHC 109

Plant Variety Rights ("PVRs") – new varieties of G3 and G9 kiwifruit – PVRs held in New Zealand and China – action in New Zealand for breach of New Zealand PVR registrations – first defendant exported budwood to China – first defendant purported to license rights to G3 and G9 kiwifruit for whole of China – extraterritorial issues – actions partly in New Zealand partly in China – liability for breach of PVR where actions in New Zealand diminished exclusive rights conferred within New Zealand – joint liability of company – damages – "user principle" applied – s.17 Plant Variety Rights Act 1987 (New Zealand) ("PVR Act").

Breaches of G3 licence agreement with plaintiff – joint liability of second defendant as partner in partnership – extraterritoriality not an issue where breach of contract – damages – user principle appropriate for wrongful use of IP rights in contractual context – permanent injunction.

Comments: PVRs are infrequently litigated. However, such rights are extremely valuable – particularly for new varieties of fruit. This case concerned extensive breaches of Zespri's PVRs for two new disease-resistant varieties of kiwifruit (G3 and G9). The defendant Mr Gao, his wife and their company variously engaged in actions including taking G3 and G9 budwood to China, purporting to license this for China and assisting the establishment of at least 174 hectares of kiwifruit orchards in China planted with the two varieties.

In her decision Katz J found that a breach of the PVR Act can occur where only some of the defendant's acts occur in New Zealand since these acts had diminished the exclusive rights conferred within New Zealand. Damages were granted on the application of the user principle with a discount for (inter alia) the fact that action was likely to be taken by Zespri in China as well.

The defendants' actions also constituted breach of licence agreements granted by Zespri to Mr Gao and his wife in relation to their own kiwifruit orchard in New Zealand. Damages of NZ$14.8m and NZ$10.8m were awarded to Zespri.

Facts

On behalf of kiwifruit growers Zespri controlled all kiwifruit exports from New Zealand to countries other than Australia. It accounted for around 30 per cent of global kiwifruit sales. In 2015 kiwifruit was New Zealand's second largest horticultural export with receipts of NZ$1.2 billion.

Zespri held exclusive plant variety rights to two gold kiwifruit varieties, G3 and G9, under the PVR Act. These were valuable as they were resistant to Psa virus. In 2009 it registered similar rights in the United States and in 2010 it applied for registration in various other countries including China. Those rights were subsequently granted.

As a result of investigation, Zespri came to believe that from 2012 the first defendant, Mr Gao, had exported G3 and G9 plants to China, purported to license these for the whole of China and engaged in conduct that breached Zespri's rights. Zespri brought proceedings against Mr Gao, his wife Xia Xue and their company, Smiling Face Limited. The first two causes of action were that Mr Gao either in his personal capacity or on behalf of Smiling Face Limited had breached the PVR Act. The third cause of action alleged that Mr Gao's supply of G3 to Chinese growers and related activities breached the G3 licence agreements that Zespri had granted to Mr Gao and Ms Xue in relation to their own kiwifruit orchard that they had purchased in 2013.

PVR Act: A PVR lasts for 23 years from the date of grant in the case of woody plants and their root stocks – including kiwifruit varieties. The holder of a PVR may bring civil action against anyone infringing it [19].

The Judge made a number of key findings of fact as to the activities of Mr Gao and Smiling Face Limited.

(1) Alleged licence and supply of G3 and G9 to Mr Shu in China

Based on the evidence presented, taken together with other circumstantial evidence, the Court was satisfied that [85]:

(a) Mr Gao had agreed to provide G3 and G9 budwood to Mr Shu in August 2012.

(b) Mr Gao, in accordance with that agreement, exported G3 and G9 budwood from New Zealand in August 2012 and provided it to Mr Shu in China.

(c) Mr Gao (on behalf of Smiling Face) signed a False Licence Agreement and Receipt in October 2012.

(d) The purpose of the False Licence Agreement and Receipt was to deceive prospective investors in Mr Shu's orchard into believing that the G3 and G9

varieties being grown on that orchard were lawfully licensed. Mr Gao was aware of this purpose at the time he signed the documents.

(e) Mr Shu was clearly able to secure significant investment in the Xianning 1 Orchard and subsequently the Xianning 2 Orchard.

(f) Mr Shu showed the False Licence Agreement to local authorities in China to prove that he was lawfully authorised to grow G3 and G9.

(g) Mr Gao received some form of consideration for his provision of G3 and G9 budwood to Mr Shu in signing the False Licence Agreement and Receipt, but the precise quantum of that consideration is not known.

(h) Following Mr Gao's provision of G3 and G9 budwood to Mr Shu in August 2012, Mr Shu facilitated the planting of those varieties at four different orchards. As at 2016 G3 and G9 were growing at all four of those orchards.

(i) The land area of the relevant orchards planted with G3 and/or G9 was approximately 174 hectares.

(2) Alleged joint venture with Mr Yu (through Liangshan Yi

The Court was satisfied that the circumstantial evidence supported findings that [99]:

(a) Mr Gao entered into a joint venture with Mr Yu in relation to the development of the Liangshan Yi Orchard/Demonstration Park.

(b) Mr Gao invested funds in the joint venture, as envisaged in the (draft) Investment Agreement.

(c) The "Psa-Resistant Overseas Variety" referred to in the Cooperation Agreement was G3.

(d) Mr Gao's role as "technology officer" was to supply G3 to the joint venture with the intention that it be subsequently produced, promoted and sold to third parties as Psa-resistant kiwifruit varieties. Mr Gao was the only party based overseas. He had ready access to G3 through his work in New Zealand and had previously offered to sell and/or sold G3 to others in China.

(e) Mr Gao did provide G3 to the joint venture for planting on the Liangshan Yi orchard.

(3) Alleged joint venture with Mr Yuan and offer to sell G3 to Mr Li

The Court's key factual findings were [112]–[113] that Mr Gao, when he was in New Zealand, offered to sell G3 plants to Mr Li and an agreement was concluded for the sale of G3. Mr Li, however, subsequently withdrew from the deal once he discovered that Mr Gao did not have authority to sell G3 material to him. The Court suspected that the two exclusive kiwifruit varieties Mr Gao agreed to supply to his joint venture with Mr Yuan were intended to be G3 and G9. Further, an undisclosed orchard may well exist. There was insufficient evidence, however, to prove these facts on the balance of probabilities.

(4) Alleged dealings with Jiashang Agriculture and Mr Yang

The evidence relating to this infringement grouping fell short of establishing on the balance of probabilities, that Mr Gao had exploited (or attempted to exploit) the G3 and/or G9 varieties through Jiashang Agriculture [118].

Extraterritoriality issues

This case raised issues of territoriality as Mr Gao and Smiling Face were alleged to have engaged in infringing conduct that was cross-border in nature – with some acts occurring in New Zealand and others when Mr Gao visited China [26]. The defendants submitted that Mr Gao's New Zealand-based acts (such as purporting to authorise growing of G3 and G9 in China) could not constitute an infringement of Zespri's New Zealand PVR rights because of the presumption against extraterritoriality of legislation.

(A further issue for the Court was whether Mr Gao's acts or conduct in New Zealand had diminished Zespri's enjoyment of its exclusive rights in the G3 and G9 varieties [119]).

Held, granting an injunction and awarding damages

Extraterritorial application

1. Any acts or conduct within New Zealand that diminished Zespri's enjoyment of its exclusive rights[1] would be infringing even if the relevant act formed part of a chain of conduct, some of which occurred outside New Zealand. Such liability arose as a result of Mr Gao's conduct within New Zealand diminishing the value of the express exclusive rights conferred within New Zealand (which property rights were also recognised in overseas *International Convention for the Protection of New Varieties of Plants* countries, including China) [38]. A claim was not "extraterritorial" simply because it involved foreign acts or parties. Coverage of acts that commenced or took place within the borders of the country whose law was applied was not extraterritorial in the sense that was relevant for the purposes of the presumption against extraterritorial application [39]. Recognising acts within New Zealand as potentially infringing, even when they formed part of a chain of actions that included cross-border elements, accorded with a purposive interpretation of the PVR Act, viewed in its wider international context [41].

First cause of action: did Mr Gao breach Zespri's PVR rights?

2. Mr Gao's conduct within New Zealand fell into two broad categories:

   (a) Acts relating to the sale (including offers to sell) and export of G3 and G9 to China.

(b) The signing of the False Licence Agreement and Receipt [120].

3. The chain of conduct relating to Mr Gao's sale and export of G3 and G9 to China involved the following broad categories of conduct [123]:
   (a) An offer to sell (by Mr Gao in New Zealand).
   (b) (An acceptance of that offer (by Messrs Shu, Yu and Li, respectively, in China).
   (c) In respect of the sales (to Messrs Shu and Yu only) preparing the G3 and G9 material for export to China, including growing and/or harvesting the relevant material, preparing it for transit, making and implementing shipping arrangements (or packing it for transit in Mr Gao's luggage or carry on bag, if taken personally by him to China) and related acts (in New Zealand).
   (d) Provision of the G3 and G9 material to Messrs Shu and Yu, in China.

4. The conduct set out in (a) and (c) above occurred in New Zealand. The False Licence Agreement and Receipt were also signed by Mr Gao in New Zealand [124].

Could Mr Gao and Smiling Face Limited be concurrently liable for the same conduct?

5. Where liability was established in relation to particular conduct undertaken by Mr Gao on behalf of Smiling Face Limited then both were concurrently liable for those actions.

Could export of a protected variety infringe PVR Rights?

6. Conduct taken within New Zealand to facilitate export of protected varieties could potentially diminish the right holder's enjoyment of its exclusive rights [130].

Could an offer to sell a protected variety infringe PVR Rights?

7. The PVR Act expressly defines "sale" as including offers to sell. Accordingly Zespri was the only person or entity within New Zealand that had the right to offer to sell reproductive material of the G3 and/or G9 varieties, regardless of whether (or indeed where) an actual sale was subsequently concluded. An offer to sell could be made to a person within New Zealand but could also be made (from New Zealand) to a person who is based overseas [132]. If Parliament had intended to restrict, the relevant, exclusive right to complete sales only, it would not have included "offers to sell" in the definition of sale in the PVR Act [133].

What consequences flowed from Mr Gao's relevant acts within New Zealand?

8. As a result of Mr Gao's acts within New Zealand, the G3 and G9 varieties had been released into China in an uncontrolled manner. As at 2016, G3 and G9 plants were growing commercially on four orchards associated with Mr Shu and one orchard associated with Mr Yu [134]. If Mr Gao had not taken various steps in New Zealand to harvest or otherwise obtain G3 and G9 reproductive material and then arrange for its export to China, those varieties would never have reached China [135].

9. The False Licence Agreement and Receipt were signed by Mr Gao on behalf of Smiling Face on the express understanding that they were to be relied on to assist in the commercialisation of G3 and G9 in China. Mr Shu had subsequently relied on those New Zealand-originated documents to obtain funding and plant extensive orchards and market the kiwifruit grown there as G3 and G9. Mr Shu had falsely represented to authorities in China that this conduct fell within the terms of those documents and had therefore been duly authorised [136].

How had these consequences impacted Zespri?

10. There was harm not only to Zespri's plans for China in building a sustainable production base for expansion but also its brand in China and globally. (Inferior fruit marketed as G3 would tarnish the high-quality reputation and lower prices for illegitimate fruit might affect future price expectations). There was also a clear risk that unauthorised growers might illegitimately compete with Zespri in the future to supply other overseas markets with Zespri's own proprietary varieties [141]–[142].

11. The Court was satisfied that Zespri had proved that Mr Gao's actions within New Zealand in relation to its G3 and G9 varieties had had the effect of diminishing its enjoyment of its exclusive rights in those varieties and that the cause of action had been proved.

Second cause of action: did Smiling Face breach Zespri's PVR rights under the PVR Act in G3 and/or G9?

12. The second cause of action had been proved [147]. Mr Gao signed the False Licence Agreement and Receipt in New Zealand in October 2012, as agent for Smiling Face.

13. In relation to infringement grouping 2, Smiling Face was the relevant party to the Liangshang Yi joint venture and any actions taken by Mr Gao (in New Zealand) to implement that joint venture and perform his obligations under it (including the export of G3 and G9 to China) were equally attributable to Smiling Face, as the relevant party to that joint venture [146].

What damages were appropriate for the breach of the PVR Act by Mr Gao and Smiling Face?

14. Once infringing conduct within the New Zealand jurisdiction was proved, then the plaintiff was entitled to full compensatory damages for it. Zespri was therefore entitled to recover damages flowing from exploitation abroad of the domestic acts of infringement committed by Mr Gao and Smiling Face [150]–[152].

What approach should be taken to quantifying damages?

15. Applying s.17(4) of the PVR Act, it was appropriate in this case to focus on Zespri's losses, rather than Mr Gao's gain, when assessing damages [154]. As for the flagrancy of the infringing conduct (s.17(4)(c)), the Court was satisfied that this was premediated, calculated and flagrant [155].

16. The Court was satisfied that the user principle was the appropriate method by which to assess damages in this case. These principles, however, must be applied in the context that s.17(4) of the PVR Act required the Court, when assessing damages, to take into account not only any loss suffered by the rights holders, but also any loss *likely to be suffered by them*. Accordingly, any notional licence fee must take that into account [160].

17. It was appropriate to use Zespri's 2016 New Zealand G3 licence fee as the starting point for assessing damages on a user principle basis [165]. The total land area of the five orchards on which Zespri had proven that G3 and G9 was now growing totalled 174.2 hectares. Applying a notional fee of NZ$171,000 per hectare to 174.2 hectares would result in a damages figure of NZ$29,788,200. It was appropriate to reduce the initial damages figure by 50 per cent to take into account that only a portion of each orchard was planted in G3 (or G9) and (more significantly) that Zespri could reasonably be expected to take legal action in China to protect its PVR rights in G3 in that country and attempt to mitigate its future losses. Accordingly, the appropriate damages figure for the first and second causes of action was NZ$14,894,100 [170]–[171].

Third cause of action: alleged breach of G3 licence agreements

18. The reporting clause in the G3 licences entered into between Mr Gao and Ms Xue with Zespri required them to report any infringements that they were aware of immediately on signing the first licence agreement on 31 July 2013. They were then required to report any new infringements as soon as they became aware of them and to give Zespri all reasonable assistance in dealing with the relevant infringements [175]. Given that the obligations were contractual rather than statutory, no issues of extraterritorial application arose. The obligations were not limited to conduct occurring in New Zealand [176].

19. Mr Gao breached the agreement on signing because he had provided G3 to Mr Shu the previous year. Mr Gao had an obligation to immediately report those matters to Zespri on signing the first licence agreement [177]. In addition, the following conduct or events after 30 July 2013 breached one or more of the licence conditions [178]:

    (a) The ongoing knowledge acquired by Mr Gao of Mr Shu's activities in relation to G3 in China, as a result of the ongoing business relationship between the two men.

    (b) Mr Gao entering into a joint venture with Mr Yu (the Liangshan Yi joint venture) with the aim of working together to exploit G3 (and G9) in China.

    (c) Mr Gao's agreement in November 2015 to provide G3 budwood to Mr Li.

20. Ms Xue was jointly liable under the G3 licence agreements for Mr Gao's breach of the reporting clause, despite the fact that Zespri did not allege any specific wrongdoing on her part. Every partner in a partnership is jointly liable with the other partners for all obligations that the partnership incurred while he or she is a partner [180].

21. Mr Gao's breaches of the licence agreement contributed to the harm that Zespri had suffered, albeit to a lesser extent than the PVR Act infringements. This was because by the time of the first contractual breach on 30 July 2013, the G3 variety had already been established on three orchards in China [183].

The appropriate measure of damages

22. The user principle has been recognised as an appropriate contractual measure of loss when the defendant has wrongfully used intellectual property rights in a contractual context. The breaches in this case fell squarely within the recognised category of wrongful use of intellectual property rights and the Court was satisfied that the user principle was the appropriate measure of damages under the contractual cause of action [185]–[186].

23. The quantification of damages involved multiplying the relevant land area of 126.6 hectares by a notional licence fee of NZ$171,000 per hectare which resulted in a figure of NZ$21,658,600. That figure should be discounted by 50 per cent to take into account that only a portion of each orchard was planted in G3 (or G9) and (more significantly) that Zespri could reasonably be expected to take action in China to attempt to mitigate its future losses. This resulted in a damages figure of NZ$10,824,300 [187].

Relief

24. Zespri was granted a permanent injunction against Mr Gao, Ms Xue and Smiling Face restraining them from further infringing or procuring any further infringements of Zespri's PVR rights in the G3 and G9 varieties [202].

1 Judgment [37]:

In this case Zespri has the following exclusive rights pursuant to s 17 of the PVR Act:

(a) to produce for sale, to offer to sell, and to sell G3 and G9 reproductive material;

(b) to propagate G3 and G9 for the purposes of the commercial production of kiwifruit; and

(c) to authorise any other person or persons to do any of those things.

Current Developments – Asia

CHINA & HONG KONG

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Civil Litigation in the People's Republic of China

Civil litigation can prove an effective form of dispute resolution for intellectual property ("IP") owners whose rights are violated by the notorious pirates and counterfeiters operating in China. Indeed, IP owners are increasingly considering civil litigation to be a necessary part of their broader People's Republic of China ("PRC") enforcement campaigns, pursuing it in lieu of (or as a parallel to/follow on from) administrative and criminal enforcement actions.

China's legal system offers a range of laws upon which an IP owner whose legitimate rights have been infringed may base a civil action. This includes not only the IP-specific laws (the Trade Mark Law, Copyright Law and the Patent Law) and their respective implementing regulations and judicial opinions, but also the Criminal Law, the Civil Law, the Tort Law, the 2019 E-Commerce Law, the Product Quality Law, and the Anti-Unfair Competition Law.

In general, these laws allow IP rights holders to bring a civil action against an infringer and demand compensation, injunctions halting further infringements, as well as other forms of civil relief. While the reasons for any given IP owner to pursue civil action vary, a significant consideration is clearly the deterrent impact a favourable court judgment can have – not only against the specific infringer and its related entities, but also potentially on other infringers. It sends a clear message to the market that the IP owner is determined to protect its valid rights, has succeeded in doing so, and is therefore that much more likely to take action against other infringements (ideally pushing the pirates to softer targets).

As well, and in some cases, favourable judgments provide just the right amount of demonstrated success to push large on-line platforms to step up their efforts protecting the IP owner's rights from ongoing infringement on their platforms.

Before filing a lawsuit

A. Evidence collection and preservation

Unlike in most western jurisdictions, there is no formal discovery process in China. Given that, filing a civil action is very unlikely to lead to any disclosure of evidence by the infringer, particularly not incriminating evidence.

Accordingly, evidence collection and preservation by the IP owner is the crucial first step in any potential PRC civil litigation. In practice, this process necessarily begins with online and/or onsite investigations to identify infringement evidence and assets for possible freezing by the court, and to confirm the identity of potential targets for civil actions. That process is normally followed by notarisations to preserve infringement evidence for relevant legal actions.

IP rights owners facing multiple potential counterfeiters and infringers, say in an online counterfeiting context, would usually begin their work with non-notarised online sample purchases from a few selected targets of larger scale (who are more likely manufacturers or connected to manufacturers and/or have greater assets). Once purchased samples are confirmed to be fake or infringing, IP owners can then move on to a second round of purchases, this time in the presence of a Chinese notary public, to document the process of ordering and receiving the infringing product for use in later legal actions.

Often, it makes sense to send investigators out in the field to conduct onsite investigations. Onsite investigations are more often directed against manufacturers or larger-scale sellers (where online pirates often do not have a brick-and-mortar operations or significant stocks on hand worth raiding). The notarisations conducted at onsite locations are designed to document as much of the counterfeiter's operations as possible, lock in evidence of the pirate's activities tied to the fakes and oral admission showing bad faith, along with, importantly, commercial receipts bearing the company's seal or "chop" to legally tie them to the counterfeits. Payment of purchase costs to the pirate's bank accounts can also be useful for obtaining the targets' financial account information, key information for asset preservation requests to the court.

B. Jurisdiction and the possibility of forum shopping

Before filing the civil complaint, IP owners will need to consider which courts could potentially have jurisdiction over their civil action with a particular eye on avoiding jurisdictions and courts that may be "problematic".

For example, for actions based on tort, jurisdiction resides with people's courts in the place where either the infringing act was committed or where the defendant is domiciled. Given this, it is often possible for an IP owner to design their evidence collection process around the desired forum for their action. For instance, if the infringer is domiciled in a small city where the courts do not have much experience with IP infringement claims, would not be likely to award high damages, and may be inclined to favour a local defendant over a foreign plaintiff (technically referred to as "getting hometowned"), notarised purchases can be arranged

(either online or offline) through the infringer's distributor that is based in a city where the courts are more favourable or online through some major online e-commerce platforms. The latter will generally require naming the platform as a defendant, as well, but generally speaking, they are willing defendants, taking the infringing listing down immediately upon being served the complaint – and thus almost always absolving themselves of any liability for infringement due to their having acted when put on notice of legal proceedings.

C. Formality documents

This is often one of the most difficult parts of the civil litigation process – at least for brand owners themselves. In that regard, and in addition to a civil complaint (and of course notarised evidence supporting the claims therein), before a case may be formally accepted, the civil court will require the plaintiff to submit a set of legalised formality documents. These documents include:

(1) A Power of Attorney ("POA"). This document must be crafted to ensure that the attorney retained in China by the IP owner has sufficiently broad authority to fully prosecute the case – but should not be unnecessarily wide-ranging.
(2) A Certificate of Identity of Legal Representative ("CILR"). The CILR is a document confirming the company's empowerment of the person signing the POA by designating them its "Legal Representative", a term of art in China indicating an individual who is specifically authorised to execute documents legally binding the company. Often, the CILR must be supported by proof of its executor's authority, perhaps in the form of a current company extract or via a board resolution.
(3) Certificate of Incorporation ("COI") or Certificate of Good Standing ("COGS") for companies, passport for individuals. These documents prove the legal existence and identity of the entity/individual owning the IP.

For foreign brand owners, the formality documents must be both notarised (save for government issued documents, such as original COIs and COGSs issued by a government body, which are deemed self-authenticating – copies of such documents must be notarised) and legalised. This means that, for example, for IP owners based in Australia, the CILR and POA must first be executed before a local notary public, then authenticated by the Department of Foreign Affairs and Trade, and then, verified by the Chinese embassy/consulate. This process in other countries, particularly the United States of America, can be quite cumbersome, and consular employees are known to often be quite picky when reviewing materials.

Filing of the civil action

Once preliminary evidence collection is completed and formality documents are completed and in hand, brand owners may formally initiate a lawsuit against the identified targets by filing a civil complaint with a people's court.

Under the PRC Civil Procedure Law, a civil action may be properly instituted at a people's court of competent jurisdiction and scope if it is brought by a plaintiff with a direct interest in the case against an identified defendant or defendants, stating specific claims, facts and reasons upon which the case is based.

The court must either formally accept the case (if properly instituted), or otherwise issue a decision not to do so within seven days of the case's filing. The latter decision can be appealed.

Assuming the case is formally accepted by the court, it must then serve a copy of the complaint to the defendant within five days of the case's acceptance. The defendant will then have 15 days in which to respond with its own answer and to challenge the court's jurisdiction. Should the defendant provide an answer without raising a jurisdictional challenge, it is deemed to have waived its opportunity to challenge same, except for issues involving the appropriate level of the court or of exclusive jurisdictions.

The court receiving a jurisdictional challenge must then evaluate it, and transfer jurisdiction to a competent court if it determines jurisdiction is improper.

There are at least two ways in which a defendant can effectively delay the start of a case: by contesting jurisdiction, discussed above, and/or by evading service, discussed below.

Service of complaint

Similar to service of process in common law jurisdictions, in the PRC, service of the complaint may be effected in multiple ways. These include via direct service, by leaving the complaint at the defendant's home/place of business (usually its registered address), by fax or email (with the consent of the party being served), by mail or by proxy. If the party to be served cannot be located, or where service cannot be effected by any other means, service of process may be completed via publication, and is considered completed 60 days after said publication.

Any service of litigation documents must be accompanied by a service receipt, which must be signed or stamped and dated by the party on whom it is served. This date starts the clock on the defendant's time to provide an answer and any challenge to jurisdiction, discussed above.

Collection of evidence by the court and evidence preservation

To mitigate the lack of a formal discovery process in the PRC, provisions exist in law that can result in court-ordered and executed actions to preserve evidence of infringement, providing IP owners with two additional avenues to collect important information and evidence for use in civil actions.

Under the PRC Civil Procedure Law, the court is empowered to demand delivery up of evidence that cannot be obtained by the IP owner itself where the court is convinced, based on objective evidence, that a particular piece of evidence is particularly important to a case. This could include sales records from an online platform, or documents from the records of a government agency, such as the Market Supervision Bureau that conducted a raid action against the infringer.

As well, the court can grant an "evidence preservation order" which can be used to seize and/or seal up evidence that is at risk of being destroyed or cannot be obtained later. For example, this could include large quantities of infringing products and tooling to manufacture those products at the pirate's factory, or perhaps financial and/or production records from the pirate's offices.

In relation to the evidence preservation request, and if granted, the court will send Judges to seal the infringing products on-site. It is important to keep in mind that this sets up a bit of an adversarial situation, where the enforcing Judge is often pressured, lobbied and lied to by the defendant or its employees. Plaintiffs therefore need to dispatch competent and aggressive lawyers to the assist in and witness the execution of the order to facilitate the process and maximise odds of success.

Asset preservation

Similar to the procedure for evidence preservation, an IP owner may also apply with the court to freeze the infringer's assets before or at the time of initiating a civil suit. Asset preservation applications, made on an ex parte basis, are allowed where a plaintiff's legitimate rights and interests would be irreparably damaged if the application were not granted. The IP owner may file such an application with a court in the place where the defendant's assets are located, where the defendant is domiciled, or any other court with competent jurisdiction of the case. The successful applicant will need to supply a bond or guarantee (generally in the same amount as the damages sought) along with the application. The court is required to make a decision on the request within 48 hours of accepting the application, and once the application is approved, the asset shall be frozen immediately.

As to the bond, some locations require that it be made via cash payment. Others allow for the bond/guarantee to be posted by an insurance company. If the latter, the IP owner will need to work and directly arrange the posting of the bond with the insurance company. Generally speaking, asset preservation bonds are very affordable.

If no application has been made by the parties, the people's court may also, when necessary, order the adoption of preservation measures on its own.

Overall, preservation is limited to the scope of the request or property related to the case, and the asset is to be sealed up, seized, frozen or preserved via other methods prescribed by law. After the people's court has preserved the property, it must immediately notify the person whose property has been preserved, who then has a right to petition against the freeze order, seeking the frozen asset's release or a reduction in its amount.

Preliminary injunctions

Preliminarily injunctions are possible under the law, but rarely granted in practice due primarily it seems to the significant impact Chinese courts view them as having on defendants and their business operations.

Regardless, an IP owner or an interested party may apply for the court for preliminary injunction where an infringer is infringing or will imminently commit acts that infringe the IP owner's legitimate rights in contravention of law, which if not stopped immediately, will cause irreparable harm to the IP owner, interested party or public interest.

In weighing applications for preliminary injunctions, courts will take into account whether the IP owner or interested party could potentially be made whole through other judicial remedies, whether the infringer has the financial ability to make payment of damages, whether other remedies will be sufficient to compensate the IP owner for its losses, whether, when the application is made, the scope and depth of the damages are determinable, and whether the foreseeable damages include intangible and unmeasurable damages, such as those to a person's reputation.

Given recent guidance from the Supreme People's Court in relation to the proper application of preliminary injunctions, it is hoped that more PRC courts will see fit to grant applications for preliminary injunction.

Settlement

Chinese civil litigation can be expected to last at least six to nine months, and the wait for a judicial decision, post-trial, can take far longer – where there is no deadline for Chinese courts to issue judicial decisions in cases involving foreign brand owners (as there is in cases involving two Chinese parties). This protracted period of time offers plenty of opportunities to broach the issue of a possible settlement with the defendant.

In some courts in China, there is actually a mandatory pre-suit mediation procedure that requires both parties to at least discuss the possibility of settlement (though not where an ex parte asset preservation order has been requested, where notice of mediation would tip off the defendant as to the action). Where that is the norm, and after the IP owner files a lawsuit, the court will not immediately accept the case, but will instead set a timeline of about one month to see if both parties could be willing to settle. If no settlement is reached,

then the case will be transferred to formal case acceptance. Based on our experience, settlement is rarely reached at this stage, where the mediators in such procedures are generally retired Judges or other semi-experienced individuals who are fairly lax about the process and seem little inclined to pressure the defendants to negotiate in good faith.

During the course of the civil dispute, the parties may consider, and the court may even (very strongly) encourage, settlement and/or mediation any time after a civil suit is initiated. It is not uncommon for a defendant to even approach the IP owner to broach the topic of possible settlement soon after being notified of the lawsuit, especially if the defendant's assets are frozen through the asset preservation action. More likely though, parties can expect the court to exert pressure on the parties to resolve the dispute amicably, often even proposing a settlement amount one can assume is likely to be on par with the final judgment award.

Parties may enter into a settlement agreement freely and negotiate to determine the appropriate terms. As compared with the content in a judgment, a settlement agreement may also contain terms and conditions relating to matters outside the civil complaint, matters that go beyond what could be included in a formal court judgment (which will be limited to the matters within the four corners of the complaint).

In addition to settlement agreements negotiated between the parties themselves, settlement is also possible through court-assisted mediation, which often result in a mediation order confirming the settlement between the two parties prepared by the court. The terms contained in such court mediation order are mandatory and can be directly enforced against the non-complying party by the court. The Judge, however, has broad discretion as to the terms to include in the mediation order, independent of the parties' wishes, and again, will be unlikely to include terms not contemplated within the scope of the complaint before the court.

Strategically, if multiple rights of the IP owner are infringed, it may choose to initiate a civil suit against the pirates for infringement of a few of its rights, and later decide to enter into settlement for all at the same time, thereby saving significant costs and time in resolving the dispute.

One of the key aspects of a negotiated settlement during the pendency of proceedings is its ability to save the IP owner the trouble of having to squeeze a damages award out of a recalcitrant defendant.

Post-case acceptance proceedings

After the case is accepted, the court will schedule a date for both parties to exchange evidence and conduct the trial. Sometimes, the evidence exchange is held only a day or two before (and sometimes even the morning before) the formal hearing. During the evidence exchange, the Judge reviews the evidence submitted by both parties, and each side's response to the other's evidence, which helps to streamline the case's formal hearing.

Usually, there will be only one hearing for a civil suit, unless the case is complicated and involving voluminous evidence and multiple parties. At the court hearing(s), the Judge first asks both parties to provide their statements regarding the case. Afterwards, both parties present their respective evidence and make arguments, after which, each side will be given an opportunity to provide a rebuttal argument.

After the court hearing(s), the parties are permitted to submit written post-hearing opinions emphasising their main arguments, supplementing any points not fully fleshed out in the hearing(s), and/or responding to any questions raised by the court during the hearing.

It will then take, on average, about three to six months for the court to issue its judgment, perhaps longer, depending on the Judge's workload.

Post first-instance proceedings

Following a first-instance judgment, both parties are entitled to file an appeal to the appropriate appellate court, usually within 15 days (for PRC companies and individuals) or 30 days (for overseas companies and individuals) of receiving the judgment.

Alternatively, and if certain criteria are met, the parties may apply for a retrial within six months from the date the judgment takes effect.

While there are no specific requirements for filing appeals, an application for retrial must be based on specified errors in fact and/or in law, or procedural errors. As well, "new evidence" that could be sufficient to overturn the initial judgment may also form the basis of an appeal. The relevant judicial interpretations explain that such new evidence include:

(1) evidence that existed before the end of the first court hearing, but was not discovered until after the trial due to external circumstances;
(2) evidence that was discovered before the end of the first trial, but could not be obtained or provided within the prescribed period due to external circumstances;
(3) evidence that was formed after the first court hearing, but which cannot itself be the basis for a new trial; and finally
(4) evidence that had already been submitted in the original trial, but was not cross examined by the other side and did not form the basis of the judgment, unless it was ruled to be inadmissible by the court due to the responsible party's failure to provide a reasonable explanation for failing to meet the evidence submission deadline.

JAPAN

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Japan protects wagyu genetic resources as valuable intellectual property

Every gourmand has savoured the delicious authentic wagyu from Japan, the world famous marbled premium beef served in Japanese restaurants. This Japanese beef has justly earned the reputation as the epitome of luxury beef with tender meat quality, delicate, rich flavours that also commands prices several times higher than other domestic Japanese domestic beef cuts. In 2020, the genetic resources of such wagyu livestock has been conferred special legal protection as valuable intellectual property ("IP") under Japanese law.

In the midst of discussing Japanese Government measures relating to the COVID-19 pandemic, on 17 April 2020, the "Diet" (Parliament) of Japan also enacted two Bills amending Japan's *Unfair Competition Prevention Law*[2] and the *Improvement and Increased Production of Livestock Law*[3] to enshrine the legal protection of fertilised eggs and sperm of wagyu Japanese beef cattle.

The Bills were approved unanimously at a plenary meeting of the House of Councillors, the upper chamber of Japan's Parliament. Both Bills passed the House of Representatives, the lower chamber, early in April. The two pieces of legislative revisions are aimed at preventing unfair competition over livestock genetic resources and enshrining such genetic resources that have gone through improvements as IP.

Both pieces of legislation were designed to protect the premium value of Japanese wagyu beef, which has grown popular in the United States of America, Europe and Asia, and to encourage Japanese exports of the premium meat. In 2019, Japan exported ¥912.1 billion (US$8.2 billion) in agricultural goods, a record high and close to the Japanese Government's ¥1 trillion target. Beef accounted for ¥24.7 billion of the total, up 29 per cent in 2018.

Protected wagyu

The enhanced statutory measures to protect this valuable beef export came after an attempt to smuggle a massive amount of wagyu cattle fertilised eggs into China in 2018 was thwarted. As breeding outside Japan will dilute and harm Japanese premium beef exports by Japanese breeders, the Japanese farming industry has been calling for stricter legal measures to prevent the unauthorised smuggling of wagyu genetic materials abroad, which was unregulated prior to the enactment of the 2020 legal revisions.

The new legislation will crack down on the smuggling and improper trading of the cattle's genetic materials, protected as IP, that have been carefully developed through years of selective breeding.

Under the new *Unfair Competition Prevention Law*, local animal husbandry laboratories and other entities in Japan can seek injunctions against the unauthorised trading or improper procurement of semen. Violating contracts that restrict the sale of wagyu genetic material to domestic use could lead to prison terms of up to 10 years or maximum fines of up to ¥10 million (US$92,000) for individuals and up to ¥300 million for businesses.

The Japanese parliament also revised the *Improvement and Increased Production of Livestock Law* which also boosted the statutory protection for the improvement of livestock production to enable the tracing of illegal transactions and the tightening of controls on the distribution of wagyu genetic materials.

The revised laws will impose traceability obligations on all parties to document on containers of wagyu semen the identifying information of the cattle, when it was collected and other provenance details and genetic data relating to the wagyu cattle semen or ova. Buyers' names will also have to be recorded by sellers.

The new legal protections will enhance the protection of Japan's agricultural sector and future exports of this premium beef product as Japanese cuisine continues to enjoy greater popularity overseas.

1 Any questions about this article should be emailed 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 Law No. 42 of 19 May 1993, as amended.

3 Law No. 209 of 1950, as amended.

SINGAPORE

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Element Six Technologies Ltd v IIa Technologies Pte Ltd
[2020] SGHC 26

Introduction

In one of Singapore's largest patent infringement suits to date, a patent relating to synthetic or laboratory-grown diamonds was found to be valid and infringed.

In a 204-page judgment following four years of litigation, the Singapore High Court upheld the validity of Element Six Technologies Ltd's ("E6") patent relating to chemical vapour deposition ("CVD") diamond material of certain optical properties, and found the patent infringed by samples of diamond material from the defendant, IIa Technologies Pte Ltd ("IIa"), as well as by IIa's process for growing diamond material.

Background

The plaintiff, E6, is part of the De Beers Group, which is in turn a subsidiary of Anglo American PLC. E6 specialises in the production of synthetic diamond material using CVD techniques to produce synthetic diamonds for technical applications in various industries (e.g. optics, semiconductors, and sensors). CVD refers to a process where diamonds are grown from a substrate (i.e. a diamond seed), placed in a CVD reactor containing a mixture of gases and bombarded with atoms.

The defendant, IIa, is a major manufacturer of CVD diamond material with a diamond growing facility in Singapore for which it invested more than SG$200 million (AU$215 million).

The patents in suit were two patents that E6 registered in Singapore, namely, Singapore Patent Nos. 115872 ("SG 872") and 110508 ("SG 508"). E6's case was that its patents have been infringed by three samples of diamond material from IIa (individually referred to as "Sample 2", "Sample 3", and "Sample 4", and collectively referred to as the "Samples"), as well as by IIa's process for growing diamond material.

IIa's case was that E6's patents are invalid and are, in any case, not infringed by the Samples or its process.

Decision

SG 872

The High Court found SG 872 to be valid and infringed.

Validity of Claim 1 of SG 872: Key Product Claim

The key product claim of SG 872 is Claim 1, which covers CVD diamond material of certain characteristics, in particular, low optical birefringence within a certain range of values. Birefringence is an optical property used to determine a diamond's suitability for high-end optical applications. The Court's findings on the validity of Claim 1 can be summarised as follows:

- Claim 1 was held to be novel. IIa had construed claim 1 as a product-by-process claim, and had contended that since there is no difference between CVD diamonds and mined diamonds or diamonds made using high pressure, high temperature ("HPHT") technology, any prior art which discloses a single crystal diamond of any origin with the same properties as claimed will invalidate Claim 1. The Court, however, sided with E6 and found that CVD diamonds are a distinct type of diamond, thereby rejecting IIa's argument that Claim 1 has been anticipated by natural diamonds or diamonds made using HPHT technology within the claimed birefringence range. The Court also found that the mere disclosure of CVD diamonds described in the prior art as having "low birefringence" – without any quantitative measurement of birefringence – would not be sufficient to anticipate Claim 1.
- Claim 1 was held to be inventive. Preliminarily, the Court noted that IIa had adopted a wrong approach by contending that Claim 1 does not involve an inventive step simply because it is allegedly anticipated by the prior art; the novelty and obviousness inquiries ought not to be conflated. The Court ultimately found that the steps to be undertaken in order to obtain a CVD diamond within the claimed birefringence range would not have been obvious to a person skilled in the art ("PSA").
- Claim 1 was held to sufficiently disclose the claimed invention. The Court found the defendant's arguments relating to alleged flaws with using the Metripol system to measure birefringence to be unmeritorious.

Validity of Claim 62 of SG 872: Key Process Claim

The key process claim of SG 872 is Claim 62, which comprises substrate preparation and the deliberate addition of 300ppb to 5ppm of nitrogen to the synthesis process. The High Court's findings on the validity of Claim 62 can be summarised as follows:

- Claim 62 was held to be novel. The main issue was whether there was anticipation on the basis that the prior art disclosed an overlapping nitrogen range. The Court followed the United Kingdom ("UK") Court of Appeal's approach in *Jushi Group Co Ltd v OCV Intellectual Capital LLC* [2019] RPC 1 that where prior art discloses a range that overlaps with the range in a patent, the question to be asked is whether the prior art teaches the PSA to operate in the area of the combined overlap of the ranges. In the present case, the Court answered this question in the negative, as the most preferred range of nitrogen in the prior art was not

the same as the overlapping range, and the amount of nitrogen in the examples was outside of the overlapping range.

- Claim 62 was held to be inventive. In particular, the Court noted that, at the relevant time, nitrogen was viewed as an impurity or contaminant that ought to be reduced to the lowest practical levels possible. Claim 62 is inventive as, contrary to this consensus, it taught the controlled addition of a specific concentration of nitrogen in order to improve the optical properties of the resultant CVD diamond.
- Claim 62 was held to sufficiently disclose the claimed invention. The Court rejected IIa's arguments relating to (a) the quantitative relationship between the addition of nitrogen and the reduction of dislocation density or strain in the resultant CVD diamond, (b) the calibration of other growth parameters to ensure that the level of nitrogen is consistently kept at the desired level, and (c) the overlap of examples in certain patents.

Chain of Custody and Provenance of the Samples

Of particular note were IIa's vigorous and unmeritorious contentions in relation to the provenance and chain of custody of the Samples. As a general point, the Court noted that IIa always had the opportunity to inspect the Samples and adduce positive evidence to show that the Samples did not originate from it; instead, IIa chose to speculate on alleged gaps in E6's account of provenance and chain of custody, which reflected an incorrect understanding of the burden of proof. A summary of the Court's findings on provenance and chain of custody is below.

For provenance, the Court held that all of the Samples, which were obtained via trap purchases, had originated from IIa.

- Sample 2, which was purchased from a third party (referred to as MWE), was found to have originated from IIa, based on contemporaneous documents that showed its sale from IIa to MWE. In this regard, the Court rejected IIa's argument that in order to establish provenance, E6 must call witnesses with personal knowledge to testify; instead, the Court held that there is nothing preventing E6 from adducing other evidence, including documentary evidence, to establish provenance. In fact, the Court noted that in the present case, greater weight may be placed on contemporaneous documentary evidence as opposed to witness testimony, since the Samples are not identifiable by naked eye inspection alone.
- Sample 3 was also purchased from a third party (referred to as PGD); it was found to have originated from IIa based on the fact that (a) PGD and IIa were owned by the same company at all material times and (b) IIa's CEO, who is the sole shareholder of PGD, was in a position to have PGD produce documents showing that Sample 3 was obtained from other sources, but did not do so.
- For Sample 4, the case was relatively straightforward, as it had been purchased directly from IIa.

For chain of custody, the Court held that there was an unbroken chain of custody, meaning that the Samples were the very samples tested for infringement.

- The Court accepted E6's evidence on the "fingerprints" of the Samples, which involved a comparison of various images, weights, and dimensions taken of the Samples at various stages.
- The Court rejected IIa's argument that where there is doubt as to the identity of an exhibit, every single witness who handled the exhibit must be called to establish the chain of custody. The Court clarified that the case law relied on by IIa was in the criminal law context, where the burden is on the prosecution to prove, beyond a reasonable doubt, that there was an unbroken chain of custody; in the context of civil cases, an unbroken chain of custody need only be proved on a balance of probabilities. On the aforesaid basis, the Court held that it was not necessary for E6 to call each and every individual involved in the chain of custody, including individuals from external third parties to which the Samples had been sent to for certain tests, to give evidence.
- As for E6's evidence on its diamond traceability system, the Court found it to be a proper system designed to ensure the integrity of the Samples. IIa claimed that the daily checkout lists ("DCLs"), which record the check ins and check outs of diamond material to and from E6's storage facility, were fraught with inconsistencies and discrepancies. The Court, having reviewed the evidence, nonetheless found that these inconsistencies and discrepancies, which in any event only accounted for a small percentage of the total number of DCLs, could be explained by simple human error. The Court noted that since the DCLs were completed by a miscellany of scientists on a daily basis as a routine matter, it was not inconceivable for there to be human administrative errors; it was inappropriate for IIa to infer, merely from these errors, that there was tampering of evidence.

Infringement of SG 872

Having found IIa responsible for the Samples, the Court went on to find Claims 1 and 62 of SG 872 infringed.

The Court noted generally that IIa could have conducted a physical examination of the Samples, of the various machines used, or of the tests conducted, or asked for repeat tests or experiments on the Samples. However, IIa only relied on technical arguments. The Court found that there were legal consequences to IIa's decision not to conduct its

own experiments or ask for repeat experiments. First, save in exceptional circumstances, where a defendant does not ask for a repeat of the notice of experiments, the Court will accept that the steps described will produce the results alleged. Second, when determining the issue of infringement, the Court places weight on actual experiments conducted as they are "inherently more transparent than a good deal of other evidence".

A summary of the Court's findings regarding the infringement of SG 872 is as follows:

- For Claim 1, the Court relied on the Metripol measurements, which measure the birefringence of the diamond, to determine whether the Samples are infringing. The Court found that the Samples all had a low optical birefringence within the SG 872 range, which meant that they infringed Claim 1.
- For Claim 62, the Court found that the electron paramagnetic measurements of the Samples were evidence that the Samples were grown with a process that had a nitrogen range that fell within the range of Claim 62 of SG 872. The Court also reviewed the defendant's evidence on its manufacturing process, and concluded that the range of nitrogen used fell within the range of Claim 62 of SG 872.

SG 508

Claim 1 of SG 508 is a process claim covering the conversion of the starting colour of a CVD diamond to any one of a number of desirable colours via annealing (i.e. heat treatment). The Court concluded that Claim 1 of SG 508 lacks novelty as it was anticipated by several pieces of prior art that also disclosed and enabled the process of annealing CVD diamonds to produce a desired colour. The Court also concluded that Claim 1 of SG 508 lacked inventiveness as the prior art would have informed the PSA that annealing a CVD diamond under suitable conditions would result in a change in colour, much like natural diamonds and diamonds made using HPHT technology.

Notwithstanding the above, the Court noted that SG 508, if valid, would have been infringed by Sample 3, which had been annealed.

Comments

This decision brings clarity to various aspects of patent infringement suits.

- Where a trap-purchased sample is adduced as evidence of infringement, the plaintiff need only prove on a balance of probabilities (as opposed to beyond a reasonable doubt) that the sample originated from the defendant and is the very same sample tested for infringement. Further, although the burden of proof falls on the plaintiff, it does not behove the defendant to advance speculative arguments or decline to adduce positive evidence to show that the samples did not originate from it, especially if it is in a position to adduce such evidence.
- Where experimental evidence is adduced by one party, it is open to the other party to conduct their own experiments to determine whether the results are accurate. Failure to request for repeat experiments or to conduct their own experiments may lead the Court to accept that the experimental steps exhibited would produce the results alleged, as well as place weight on evidence of the actual experiments that have been tendered.
- The defendant in this case attempted to rely on the Singapore Court of Appeal's statement in *Sunseap Group Pte Ltd and others v Sun Electric Pte Ltd* [2019] 1 SLR 645 ("*Sunseap*") that "[i]f the court finds in the defendant's favour that the independent claims are invalid, it follows that the dependent claims must also fall". While the Court in this case did not make any comment on the correctness of the Court of Appeal's aforesaid statement in *Sunseap*, it found the case to be distinguishable in the context of SG 872, as independent Claims 1 and 62 were found valid.

The Intellectual Property Office of Singapore has also made certain revisions to its patent examination guidelines ("guidelines") that arise from this decision.

- As discussed above in relation to the novelty of Claim 62 of SG 872, the Court decided to follow the UK Court of Appeal's approach to overlapping ranges in *Jushi Group Co Ltd v OCV Intellectual Capital LLC* [2019] RPC 1. The guidelines now state that where the claimed range overlaps with a numerical range disclosed in a prior art document, the claimed range would clearly lack novelty if there is an explicit mention in the prior art of a specific example falling in the overlapping range or at its end-points. In the absence of such a specific example, the question to be asked is whether the prior art, read in light of the common general knowledge, taught the PSA that he should operate in the area of the overlapping range.
- As discussed above in relation to the novelty of Claim 1 of SG 872, the Court noted that IIa had construed it as a product-by-process claim. The guidelines now set out the Court's holding that essential issue for novelty in such cases is whether the product, when produced by the process, is itself a new, or unique, product.
- The guidelines now make reference to the "structured approach" that the Court adopted from *Unwired Planet International Ltd v Huawei Technologies Co Ltd and others* [2017] Bus LR 1971 in assessing the priority date of Claim 1 of SG 872. The structured approach

involves (a) reading and understanding, through the eyes of the PSA, the disclosure of the priority document as a whole, (b) determining the subject matter of the relevant claim, and (c) deciding whether, as a matter of substance and not form, the subject matter of the claim can be derived directly and unambiguously from the disclosure of the priority document.

Combe International Ltd v Dr. August Wolff GmbH & Co. KG Arzneimittel
[2020] SGIPOS 3[1]

Introduction

This case concerned the VAGISAN trade mark in Singapore, which was registered by Dr August Wolff GmbH & Co. KG Arzneimittel (the "proprietor"), the medical division of a German cosmetics and pharmaceutical products company called the Dr Wolff-Group.

Combe International Ltd (the "applicant"), an American company retailing a range of brands in feminine health and intimate skin care, which owns several VAGISIL registered trade marks in Singapore, applied for a declaration of invalidity to invalidate the VAGISAN mark based on section 23(3) of the *Trade Marks Act* (the "Act") read with:

(1) section 8(2)(b) of the Act: that the marks are similar, the goods are identical/similar, and a likelihood of confusion exists;
(2) section 8(4)(b)(i) of the Act: that the VAGISIL marks are well known to the relevant sector of the public in Singapore, a confusing connection exists between the goods of both proprietors, and the applicant's interests are likely to be damaged consequently; and
(3) section 8(7)(a) of the Act: that the applicant had goodwill, that the use of the VAGISAN mark is likely to amount to a confusing misrepresentation, and there is a likelihood of damage to the applicant.

The applicant succeeded on the sections 8(2)(b) and 8(7)(a) grounds, but failed on the section 8(4)(b)(i) ground.

Section 8(2)(b) of the Act – similar mark on similar goods

Distinctiveness of the VAGISIL mark

It is well established that the relevant date for determining whether grounds of invalidation exist is the date of application for registration of the subject mark. In this case, the relevant date for the VAGISIL mark is 19 March 2012 ("Relevant Date").

The Principal Assistant Registrar ("PAR") first looked at the distinctiveness of the VAGISIL mark, which would play a part in the subsequent mark-similarity analysis. In determining that the prefix "VAGI" had weak distinctive character, she was not persuaded by the limited evidence of use of "VAGI" prefixed marks in Singapore before the Relevant Date. Evidence of the state of the register also did not persuade her, since it did not necessarily reflect the reality of the marketplace.

She did however refer to dictionaries, and found that there were an extremely small number of words in the English language beginning with the prefix "VAGI", and all but one of those words relate to vagina and vaginal health. Moreover, out of those words, "vagina" was the most commonly used word. Hence when encountering "VAGI" applied on the goods, the public is likely to recognise it as a short form of "vagina" and an indication of the intended treatment area. Consequently, "VAGI" has weak distinctive character.

Since the distinctiveness of the VAGISIL mark lies only in the combination of "VAGI" and "SIL" to form an invented word, the VAGISIL mark only possesses a normal level of distinctive character.

Similarity of marks

Comparing the marks VAGISIL and VAGISAN , the PAR found that they had an above average level of visual similarity. They share a majority of letters, the same structure and number of letters. Moreover, the distinctiveness in the way that "VAGI" has been conjoined with a three letter suffix starting with "S" is also captured in VAGISAN . The difference of two letters at the end of the marks were insufficient to distinguish the marks sufficiently and substantially.

The PAR also found that the marks had an above average level of aural similarity, in light of the overall phonetic impression produced, which was influenced by both marks having the same number and sequence of syllables, and the rhythm and intonation of the marks. Both marks share two out of three identical syllables, with the third syllable beginning with the same "S" sound. Even though it is unlikely the last syllable will be slurred, overall, the marks are still aurally similar.

Since VAGISIL and VAGISAN are both invented words with no dictionary meanings, the PAR found that they ly neutral.

Similarity of goods

It was undisputed that the goods were similar – the proprietor had conceded the same, and the PAR furthermore found that some identical goods were claimed, such as "cosmetics" and "pharmaceutical" products.

Likelihood of confusion

With regard to the likelihood of confusion, the PAR emphasised a key distinction between two types of confusion – direct and indirect confusion. Direct confusion is where the consumer mistakes one mark for another. Indirect confusion is where consumers may perceive the marks are different, but still perceive that the goods or services of both marks originate from the same source, or economically linked or associated sources. This distinction was reiterated as the PAR analysed

the relevant factors in the likelihood of confusion analysis.

In finding that there was a likelihood of confusion, the PAR took into account her earlier finding that the marks shared an above average level of similarity. She also opined that the goods may be purchased from a brick-and-mortar shop – if so, customers would view the goods and the choice to buy the item is generally made visually, although oral communication with the assisting sales staff is not excluded. Where the goods are purchased online, customers would only perceive the marks visually. Since the marks are visually and aurally similar, this contributed to the likelihood of confusion.

The factors that did point away from a likelihood of confusion were the nature of the goods, and whether consumers would apply care in making their purchases. The PAR acknowledged that the goods in question, vaginal care products, are used on a part of the body that is intimate and sensitive, and consumers are likely to be careful in selecting and purchasing the goods. While this means that direct confusion is less likely, she clarified that there may still be indirect confusion due to the similarities between the marks, which is not necessarily dispelled by the fact that consumers are careful.

Given that the marks and goods are similar and there is a likelihood of confusion, the ground of invalidation under section 8(2)(b) succeeded.

Section 8(4)(b)(i) of the Act – well known mark

Based on the evidence, the PAR was not convinced that the VAGISIL mark was well known in Singapore by the Relevant Date. First, most of the evidence provided by the applicant post-dated the Relevant Date. Second, the applicant did not provide context, which would have helped to demonstrate the significance of the evidence adduced. For instance, while the applicant had adduced sales figures, the applicant did not provide context as to the size of the market in Singapore for the goods and the market share held by the applicant. Without the relevant context, the PAR commented that she was unable to reach the finding that the VAGISIL mark was well known in Singapore. Third, the relationship between some of the evidence to the mark being well known was not demonstrated. For instance, the applicant adduced evidence of references made to VAGISIL in television shows, books and articles, but did not show what extent the relevant public in Singapore were exposed to them, or explain what effect, if any, they have on them. Without this crucial link established, the PAR opined that this evidence cannot assist her to reach a conclusion as to whether the VAGISIL mark was well known in Singapore.

Hence, the ground of invalidation under section 8(4)(b)(i) failed.

Section 8(7)(a) of the Act – passing off

It was not disputed that the applicant has goodwill in Singapore. With regard to misrepresentation, the PAR took the opportunity to highlight the distinction that under section 8(7)(a) the focus is on the mark as was actually used, and on the actual goods sold under it, whereas under section 8(1) and (2), all normal and fair uses of the applicant's registered mark in relation to the registered goods may be considered. While the applicant would sometimes use its VAGISIL mark in conjunction with a "V" device, the PAR found that this did not detract from the distinctiveness of the word VAGISIL and consumers would still distinguish the applicant's goods by the word VAGISIL, with or without the "V" device. Due to the same reasons which successfully established a likelihood of confusion, misrepresentation is also made out. Finally, the PAR found that there was a real likelihood of damage to the applicant's goodwill, engendered by both parties competing in the same line of products and the diversion of custom.

Hence, the claim in passing off was made out, and the ground of invalidation under section 8(7)(a) succeeded.

Comments

With regard to section 8(2)(b), this decision helpfully clarifies the factors of importance when determining the distinctiveness of a mark prior to the mark similarity analysis. In this case which concerned the discussion of whether a prefix was distinctive, referencing dictionaries was found to be helpful, whereas referring to the state of the register was found to be unhelpful. Evidence of the use of marks containing the prefix can be helpful provided it pre-dates the Relevant Date, and the extent of use of the marks is clearly shown.

An interesting point to note was the distinction emphasised by the PAR between direct and indirect confusion. A nuanced approach has to be taken when considering the different factors in the likelihood of confusion analysis, since some of these factors may indicate a lesser likelihood of direct confusion, but may not necessarily obviate indirect confusion. Hopefully future decisions will further illuminate what contributes to indirect confusion (other than mark similarity), and how indirect confusion may be obviated.

With regard to section 8(4)(b)(i), this decision also shows that a wealth of evidence cannot simply be adduced indiscriminately. Future applicants should take note that for the evidence to be given weight, it has to pre-date the Relevant Date; moreover context must be provided as a backdrop in order to demonstrate the significance of the evidence adduced. Lastly, care must be taken to establish the link between the evidence adduced and whether the mark is well known in Singapore, such as by providing evidence of the exposure of consumers in Singapore to the applicant's promotional material.

1 Editors' note: the Australian and United States proceedings of this case are discussed in the Megan Evetts and Ed Heerey QC article in the context of survey evidence.

Current Developments – Europe

EUROPEAN UNION

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The final nail in the coffin for the patent with unitary effect or just another bump in the road? The German Constitutional Court declares void the German *Act of Approval on a Unified Patent Court* (2 BvR 739/17)

Introduction

In the midst of the rising COVID-19 crisis, the German Federal Constitutional Court (Bundesverfassungsgericht) published its long-awaited decision which was triggered by a constitutional complaint against the *Act of Approval to the Agreement on a Unified Patent Court* ("the Act of Approval") on the 20 March 2020. By means of an order, the constitutional judges in Karlsruhe decided that the Act of Approval was void. This means that full implementation of the "Unitary Patent package", which consists of two European Union ("EU") Regulations and the *Agreement on a Unified Patent Court* ("UPCA"), suffered a significant setback, if not even a fatal blow. Until now, 16 other participating EU Member States have already ratified the UPCA including the United Kingdom ("UK") which recently however took the decision not to take part in this project because of Brexit. The non-participation of Germany as one of the major patent jurisdictions within the proposed framework would cast serious doubts over the viability of the nascent system. But calls to scrap the entire project may be premature since the German Federal Government responded to the verdict of the Constitutional Court by declaring its continued willingness to take part in the Unitary Patent package.

Background

The Unitary Patent package is the latest of several attempts to create a European patent system under the auspices of the EU. While the *European Patent Convention* ("EPC"), signed in 1973, can be regarded as the successful outcome of early ideas to establish a common system for registering patents within Europe outside the EU framework, it did not provide for unitary patent rights among the contracting member states. The EPC system operates by having a central granting office, the European Patent Office ("EPO"), applying a common standard for rules of patentability pursuant to which patent applications might be filed. Once granted, the patent holder would enjoy protection in the contracting member states of the EPC designated in the application, while enforcement of such patents would be subject to the applicable national law. The importance of the EPC for harmonising patent law in Europe is increased due to the incorporation of its substantive provisions on patentability into many national patent laws of EPC contracting states. Attempts by the EU and its predecessor to provide for unitary patent rights similar to those currently provided for trade marks[1] and designs[2] have not yet come to fruition. After the conclusion of the *Treaty establishing the European Economic Community* ("EEC Treaty")[3] , the young European Economic Community ("EEC") saw patents as an important field of activity and set up a Patents Working Group in 1959. The EEC Treaty, however, did not foresee a special competence to legislate for unitary rights which explains why the earliest attempt to do so was concluded as an international agreement between the member states. The rationale of the Community's first attempt to set up unitary patent rights, the 1975 *Community Patent Convention* ("CPC"), was based on safeguarding the free movement of goods protected by patents, and hereby eliminating trade distortions within the Community. The Community Patent system was eventually planned to be operating alongside the wider EPC with the EPO as the granting office of Community patents. The first version of a CPC, however, never came into force due to the failure of some countries to ratify it. Later attempts to revive the project, such as the 1989 CPC[4] or the Commission's proposal for Community Patent Regulation in 2000,[5] also failed.

New momentum was gained after the Council of the EU authorised enhanced cooperation[6] with respect to the creation of unitary patent protection. This eliminated the deadlock caused largely due to the translation regime of prospective patents of the EU. Spain and Italy initially sued against the decision to apply enhanced collaboration but the Court of Justice of the European Union ("CJEU") dismissed the case. The result of these efforts is the Unitary Patent package which includes three legislative measures: two EU Regulations (one on the creation of a patent with unitary effect[7] and another on the translation regime[8]) and one international agreement between the participating Member States on a centralised court system, the UPCA.[9] The EPO would be granting the patents with unitary effect. The court system foresees a court of first instance which is divided in national, regional and a central division and would oversee litigation over the validity and infringement of patents with unitary effect as well as existing and prospective national European Patents of contracting Member States.

While the two Regulations are technically already in force, their application is subject to sufficient numbers of ratification of the UPCA. The Agreement itself was signed by 25 Member States (excluding Spain, Poland and Croatia) on 19 February 2013.[10] Importantly, the UPCA prescribes that it enters into force where at least 13 of the 25 signatory

states ratify the Agreement and deposit the instrument of ratification or accession pursuant to Article 89(1) of the UPCA. In addition, Article 89(1) mandates that "the three Member States in which the highest number of European patents had effect in the year preceding the year in which the signature of the Agreements" need to be among these Member states who ratify the Agreement. These Member States were Germany, France and the UK. Brexit, has now led to the UK's non-participation in the Unitary Patent package,[11] so the decision on the German Act of Approval was anxiously awaited by the patent community in Europe and beyond.

The decision

The German Federal Constitutional Court commenced its analysis by tracing the inception and development of the Unitary Patent package. The Court then engaged with the substance of the constitutional complaint at hand. The complainant, inter alia, alleged the violation of his right of democratic self-determination pursuant to Article 38(1) of the *German Constitution* (the "Basic Law")[12] in conjunction with Articles 20(1), 20(2) and 79(3) of the Basic Law. In a nutshell, the point raised here by the complainant was that the requirement for a qualified, i.e. two-thirds majority, for ratifying the Act of Approval within the German federal parliament, the Bundestag, as prescribed by Articles 23(1) and 79(2) of the Basic Law, was not met. The German Basic Law prescribes that an act of approval to an international treaty relating to the EUs integration agenda must be compliant with Article 23(1) of the Basic Law in conjunction with Article 79(2) of the Basic Law. This means that a two-thirds majority in both federal parliamentary chambers, i.e. the Bundestag and the Bundesrat, (the second federal parliamentary body representing the 16 federal German states) are necessary where an Act amends or supplements the Basic Law or makes such amendments and supplements possible.

The Constitutional Court found the complaint to be permissible[13] and justified on this point. The UPCA would fall within the scrutiny of Article 23 (1) of the Basic Law since it would confer judicial functions to a supranational court and the decision taken by such court would be enforceable within Contracting Member States of the Agreement.[14] The Court also noted that the UPCA would be part of the European Integration process albeit its nature as a supranational treaty.[15] The Court further explained that since the powers transferred to a subject of international law cannot simply be "retrieved", a special level of legitimacy in the form of a two-thirds majority in both chambers would be required.[16] Against this background, German citizens can claim that the transfer of sovereign powers needs to conform with the procedures of the Basic Law in order to preserve their rights of democratic participation in the European integration.[17] Without such effective conferral of sovereign powers, the subsequent measures taken by the EU or a supranational organisation would lack democratic legitimation.[18]

Consequently, the Court found that the Act of Approval conflicted with the Basic Law since it was approved without the required two-thirds majority of the members of the Bundestag.[19] While the legislative draft of the Act was adopted unanimously by the Bundestag in its third reading on 27 March 2017, only about 35 of its Members were present when the final vote was cast.[20] The Court also noted that neither the presence of the required quorum had been determined pursuant to § 45 (2) of *the Rules of Procedure of the Bundestag*, nor did the President of the Bundestag declare that the Act of Approval had been adopted by a qualified majority pursuant to § 48 (3) of the *Rules of Procedure of the Bundestag*.[21] The Court found the remaining grounds for complaint to be inadmissible. Finally, three justices provided a dissenting opinion finding that the "right to democracy" would not give rise to a right that formal requirements for the conferral of sovereign powers be adhered and "would obstruct and narrow the political process in the context of European integration".[22]

Comment

The Unitary Patent package had a bumpy start when it was finalised in 2012 and the Brexit vote in 2016 cast serious doubt over its future. Initially, the UK Government signalled its willingness to participate in the project from outside the EU's framework even though this created legal and political complications. Hence, the UK Government's decision earlier this year to abandon the project at least provided some clarity. The stalling ratification by Germany provides yet another setback though arguably not of insurmountable nature. Along these lines, the Preparatory Committee of the Unified Patent Court stated that "[d]espite the fact that the judgement will result in further delay the preparatory work will continue, while the judgement and the way forward is further analysed."[23] Wouter Pours mentions that it might be a blessing in disguise that the Constitutional Court based its verdict on formal issues. The other complaints[24] brought forward which were found to be inadmissible would have had more impact on the process of the Unitary Patent package as they would have required a revision of the UPCA.[25] The problem here is that the Court found these issues to be inadmissible as they had not been substantiated by the claimant and therefore not assessed by the Court which risks these being brought forward again in different form. Nevertheless, the German Government has announced its willingness to pursue the project[26] though the UPCA would warrant revision to take into account the UK's departure from the project[27] and it may also not be a top priority in the current COVID-19 crisis.

1 Regulation (EU) 2017/1001 of the European Parliament and of the Council of 14 June 2017 on the European Union trade mark (OJ 2017 L 154, 1).

2 Council Regulation (EC) No 6/2002 of 12 December 2001 on Community designs (OJ 2002 L 3, 1).

3 *Treaty establishing the European Economic Community* opened for signature 25 March 1957 (entered into force 1 January 1958).

4 89/695/EEC: Agreement relating to Community patents – Done at Luxembourg on 15 December 1989 (OJ L 401, 1).

5 European Commission, 'Proposal for a Council Regulation on the Community Patent' COM (2000) 412, 1 August 2000 (OJ 2000 C 337, 278); Commission of the European Communities, 'Green Paper on the Community Patent and the Patent System in Europe', 24 June 1997, COM (97) 314.

6 Council Decision 2011/167/EU of 10 March 2011 authorising enhanced cooperation in the area of the creation of unitary patent protection (OJ 2011 L 76, 53).

7 Regulation (EU) No 1257/2012 of the European Parliament and of the Council of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection (OJ 2012 L 361, 1).

8 Council Regulation (EU) No 1260/2012 of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection with regard to the applicable translation arrangements (OJ 2012 L 361, 89).

9 *Agreement on a Unified Patent Court* <https://www.unified-patent-court.org/sites/default/files/upc-agreement.pdf>.

10 Council of the European Union, 'Minutes of the signing of the Agreement on a Unified Patent Court' 19 February 2013, 6572/13.

11 Joff Wild, 'The UK will not be part of the UPC, government confirms to IAM', *IAM-Media*, 27 February 2020 <https://www.iam-media.com/law-policy/uk-no-upc>.

12 Article 38(1) of the Basic Law states:

Members of the German Bundestag shall be elected in general, direct, free, equal and secret elections. They shall be representatives of the whole people, not bound by orders or instructions and responsible only to their conscience.

The Court elaborated that this provision would not only encompass the formal legitimacy of federal state power conferred by the right of free elections but would also cover the right of citizens to be subjected only to public authority which they can legitimise and influence [135].

13 The other complaints related to the selection of the judges of the Unified Patent Court, the Unified Patent Court's Administrative Committee's powers to adopt rules of procedure for the Court without the necessary democratic legitimation and a violation of EU law – Bundesverfassungsgericht BVerfG 2 BvR 739/17 [103].

14 Bundesverfassungsgericht BVerfG 2 BvR 739/17 [143].

15 Bundesverfassungsgericht BVerfG 2 BvR 739/17 [144] – [155].

16 I.e. in accordance with Article Art. 23(1) second and third sentence in conjunction with Article 79(2) Basic Law – Bundesverfassungsgericht BVerfG 2 BvR 739/17 [97].

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18 Bundesverfassungsgericht – Press Release No. 20/2020 "Act of Approval to the Agreement on a Unified Patent Court is void" (20 March 2020) <https://www.bundesverfassungsgericht.de/SharedDocs/Pressemitteilungen/EN/2020/bvg20-020.html>.

19 Bunderverfassungsgericht BVerfG 2 BvR 739/17 [162]–[164].

20 Oddly, this was assessed by looking at the video file of the relevant proceedings at the Bundestag – Bunderverfassungsgericht BVerfG 2 BvR 739/17 [27].

21 Bunderverfassungsgericht BVerfG 2 BvR 739/17 [27].

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FRANCE

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Major changes in French trade mark law of cancellation and revocation actions

By an Order dated 13 November 2019, the French Government implemented most of the provisions introduced by *Directive (EU) 2015/2436* of 16 December 2015. This Directive aims at harmonising and modernising trade mark law in the European Union.

Among the Directive's innovations, its Article 45(1) provides:

> *Without prejudice to the right of the parties to appeal to the courts, Member States shall provide for an efficient and expeditious administrative procedure before their offices for the revocation or declaration of invalidity of a trade mark.*

Article 45(1) is aimed at limiting the workload of courts and also to ease the clearance of trade mark registries.

In France, until now, only courts were competent to cancel or revoke trade marks. The French Industrial Property Office (Institut National de la Propriété Industrielle – "INPI") was only in charge of trade mark examinations and oppositions.

Further to the 13 November 2019 French Order, and since 1 April 2020, two major changes are worth mentioning:

1. The INPI now has exclusive jurisdiction over:
    - trade mark revocation actions initiated as a principal claim, based on all grounds (i.e., a trade mark having become generic, misleading and absence of a genuine use);
    - trade mark cancellation actions initiated as a principal claim on absolute grounds and on relative grounds concerning solely the infringements of distinctive and quality signs, thus excluding grounds relating to copyright, designs and personality rights.

2. The courts henceforth have exclusive jurisdiction over the other civil claims, i.e.:
    - for trade mark cancellation actions initiated as a principal claim on relative grounds concerning copyright, designs and personality rights;
    - for trade mark revocation and cancellation actions on any ground whatsoever, initiated as a principal or counterclaim in connection with any other claim within the jurisdiction of the court, notably an action for infringement and/or unfair competition. *In practice, this will mostly cover the counterclaims that are often filed by defendants in infringement actions;*
    - for trade mark revocation and cancellation actions when either probative measures or provisional or protective measures ordered to stop a trade mark infringement are in progress before the commencement of proceedings on the merits.

Needless to say, the drawing of the exact line delimiting the respective jurisdiction of the INPI and the courts will be the subject of many future disputes and challenges.

Another innovation is that INPI decisions on revocation or cancellation actions may be appealed by the parties before the Court of Appeal which shall hear the entire dispute and rule de facto and de jure. This is an important aspect of the reform since all other INPI decisions, such as opposition decisions, are only subject to annulment before the Court of Appeal.

However, the involvement of the INPI in these proceedings is criticised by some French scholars as it appears to be both judge, when it rules on the invalidity or revocation of a trade mark, and party, when it can submit its observations to the Court of Appeal.

Finally, cancellation and revocation proceedings before the INPI are meant to be much more expeditious than judicial proceedings. Indeed, in France, the time required to obtain a judicial decision in first instance is generally between 18 and 24 months.

Before the INPI, there is a phase of written exchanges limited to a maximum period of six months followed by a possible oral hearing. At the end of such examination period, the General Director of the INPI has a period of three months to render a decision, failing which the claim is deemed to be dismissed.

While the implementation of faster administrative proceedings appears prima facie as a positive step, some have expressed their doubts as to the INPI's ability to handle the anticipated heavy workload and to comply with the tight deadlines provided by law.

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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Is the famously stringent *German Patent Act* about to be softened?

Introduction

With more than 1000 new patent disputes per year, Germany is by far the country with the highest number of patent disputes in Europe. This is not a coincidence. Germany is a very important market for many companies in Europe. Almost every large company has a headquarters or branch in Germany and offers its products and services on the German market. The competitive market and the number of potential conflicts is therefore very large. In addition, the German patent law system is quite fast, effective and has a strong reputation. A first-instance proceeding in a patent infringement case usually lasts 6-15 months. So the patent owner is able to use a German court decision to pressure the patent infringer not only in Germany, but throughout Europe, without spending years waiting for the decision. There are further peculiarities of the German system, which some think favour the patentee over the alleged user of the patent, which we discuss below.

However, German patent law was reformed most recently more than 10 years ago. In view of the ongoing digitalisation, the ever-shorter product cycles and the increasing technological complexity of products, the Federal Ministry of Justice felt compelled to draft a parliamentary paper – or more comprehensibly a discussion draft – of a law on modernisation of the *German Patent Act*. This draft is not yet a final law but forms a basis for discussion in the German Bundestag (the federal parliament), which then decides on an amendment of the *German Patent Act*.[1]

The draft contains many minor amendments with the objective to clarify and simplify the current *German Patent Act*, and also amendments to the *German Trademark Act* and the *German Utility Model Act*. In this update, however, we focus on the proposed amendments which are most relevant for patent litigation. In order to classify the proposed amendments more clearly, we will first explain the current status and then discuss the proposed amendments.

Synchronisation of infringement and validity proceedings

The German system for patent disputes is highly regarded not only in its efficiency but also in its bifurcated system which is only used in very few countries. There are separate proceedings for patent infringement and for patent validity.

A patent holder or other entitled party may, in the first instance, claim the infringement of his rights to the patent in dispute before one of the responsible District Courts. Within these proceedings the judges decide on the infringement of the patent. The judges are bound by the granted patent. They are not authorised to decide on the validity. After the decision is made, it is usually possible to appeal against the first-instance decision before the Higher District Courts. Under certain circumstances, an appeal on points of law against the decision of the higher district courts can be filed with the Federal Court of Justice.

If one wants the validity to be reviewed by a court, one has to file a nullity action with the Federal Patent Court in the first instance. The decision of the Federal Patent Court can be appealed against at the Federal Court of Justice.

This separation has the advantage that both infringement and validity are heard by specialised courts. However, the infringement courts can reach a decision more quickly and at lower cost, which means that the plaintiff can effectively and efficiently enforce its rights. Even the first-instance judgment is provisionally enforceable. The advantage of the validity proceedings before the Federal Patent Court also offers a cost-efficient solution because the Federal Patent Court is staffed with legally qualified and technically qualified members.

Still, validity is considered to some extent in infringement proceedings. Usually, the defendant in infringement proceedings files a nullity action with the Federal Patent Court to challenge the validity of the patent in dispute. This is usually done at the same time as filing the statement of defence in infringement proceedings. In infringement proceedings, the defendant requests to stay the infringement proceedings on the basis of the nullity action. Should the infringement court come to the conclusion that the patent is infringed, but consider it most likely that the patent in dispute will not be maintained in its current scope, it will stay the proceedings until the decision of the Federal Patent Court.

In practice, however, such a bifurcated system can cause problems. While the infringement courts could reach a decision after only six months in the extreme, the proceedings before the Federal Patent Court take up to two years at times. This may result in the unfortunate case that the infringement proceedings are already in the second instance and the plaintiff may even have enforced the first-instance decision provisionally, but the Federal Patent Court revokes the patent in dispute. Such situations can cause a degree of legal uncertainty on both sides. Further, the system has been criticised because it allegedly would allow to enforce patents with questionable validity.

Already in 2009, s.83 of the *German Patent Act* introduced a so-called qualified notice of the Federal Patent Court. In this notice the Federal Patent Court announces its preliminary assessment of the factual and legal situation. Furthermore,

the date of the oral hearing before the Federal Patent Court is usually also announced with the qualified notice. Often the parties of the nullity proceedings react to the notice again with a written statement. So the qualified notice enables the parties to prepare themselves before the oral hearing at the Federal Patent Court and to base their further submissions on it. The infringement court can also request the Federal Patent Court to provide the qualified notice to the infringement court. In this way, the infringement court should be enabled to decide its summary examination of the above-mentioned request for a stay of proceedings faster and more purposefully.

However, in actual practice, the qualified notice of the Federal Patent Court was frequently not available at the time of the infringement court's decision. As mentioned above, this can result in uncertainties. Therefore, the draft deals with the task of synchronising the two proceedings as best as possible by accelerating the validity proceedings before the Federal Patent Court. The draft proposes that the notice should be bound to certain deadlines. This is to be done by inserting the following sentences into s.83 of the *German Patent Act*:

> *This notice shall be given within six months of service of the action. If a patent case is pending, the notice should also be sent to the other court ex officio. The patent court may set a deadline to the parties for a final written statement in preparation of the notice under sentence 1. If the patent court does not set a deadline, the notice may not be issued before the end of the deadline under s.82(3), second and third sentences. Statements of the parties received after expiry of the deadline need not be taken into account by the patent court for the notice.*

The aim of this amendment is to tighten the deadline regime. On the one hand for the parties to nullity proceedings, on the other hand also for the Federal Patent Court. The goal is to ensure that the infringement court receives the qualified indication no later than six months after filing the nullity action. This is to be achieved not only by the target deadline, but also by sending the notice to the infringement court ex officio, i.e. without a request by the infringement court. Since the nullity action is usually filed at the same time as the statement of defence in infringement proceedings, this means that the infringement court should receive the qualified notice of the Federal Patent Court already six months after filing the statement of defence at the latest and could take it into account in its decision.

Injunctive relief, i.e. the "automatic" injunction

The holder of the patent rights can file various claims before the infringement court. One of the sharpest swords is undoubtedly the injunction according to s.139 of the *German Patent Act*, which can also be provisionally enforced after the first instance. While injunctions are rare in most jurisdictions, they are the stipulated result of the infringement of an absolute right such as a patent under German law. This has been called and be derided as an "automatic" injunction sometimes.

A good example of the impact of this claim, which was also reported in the worldwide press,[2] is the action brought by chip manufacturer Qualcomm against smartphone manufacturer Apple. Qualcomm disputed with Apple in the run-up to the proceedings about the conclusion of new licences. To increase pressure on Apple, Qualcomm sued smartphone manufacturer Apple in Germany and won the case in the first instance. Qualcomm provisionally enforced the first-instance decision and forced Apple to stop selling its patent-infringing iPhones throughout Germany. Apple was subsequently under enormous pressure and settled with Qualcomm. According to press reports, Qualcomm allegedly received US$4.7 billion from Apple in the second quarter of 2020 as a result of this settlement.

As advantageous as this injunction may be for the plaintiff, it can hit the defendant just as hard. In some cases, even disproportionately hard. For example, in its 2016 Heat Exchanger Decision (case no. X ZR 114/13), the German Federal Court of Justice stated that, under particularly narrow conditions, the sued patent infringer could be granted a period of time to deplete the infringing products if the immediate enforcement of the injunctive relief would constitute unjustified harshness and would therefore be contrary to good faith. In that particular case the patent related to a heating element for a cabrio headrest.

In the underlying case, the Federal Court of Justice denied such harshness, as cabrios are still commercially viable without such an extra heating element. The outcome could have been different if a more important or even essential part of the overall product had been at stake. Still, the decision clarified that the immediate enforcement of the injunction can be waived under particularly narrow conditions. However, the courts of first instance so far have never made use of this option. The Federal Ministry of Justice therefore felt compelled to add the following sentence to s.139 of the *German Patent Act*:

> *The claim is excluded if the enforcement of the right to injunctive relief is disproportionate because, due to special circumstances taking into account the interests of the patentee vis-à-vis the infringer and the dictates of good faith, it represents a harshness not justified by the exclusive right.*

But the Federal Ministry of Justice emphasises in its draft that this hardship clause should not lead to a devaluation of patent law and that the restriction of the right to injunctive relief should be limited to exceptional cases only. It is therefore not a material change, but rather a codification of existing case-law. Nevertheless, lower instance courts may feel more secure in applying the written law and we expect that this clause – should such an amendment of the patent

law actually be made – will be a solution to the rare instances wherein the injunction really is disproportionate.

Protection of secrets

Another issue in patent disputes are trade secrets. These can also be affected by patent litigation, and various scenarios are imaginable.

For example, the patent holder believes that his rights are infringed by a secret manufacturing process of a competitor but cannot prove it. The patent holder has the possibility to initiate a so-called inspection procedure by explaining to the court that a patent infringement is likely and that he or she needs to inspect the factories of the potential infringer. It is understandable that the potential infringer is afraid that his or her business secrets will be compromised, especially those which are unrelated to the alleged patent infringement.

It is also possible that the alleged infringer would have to disclose business secrets in his or her defence in the ongoing infringement proceedings but is afraid of disclosing secret information in this way.

One of the most relevant cases in practice, however, is the disclosure of previously concluded licence agreements when determining fair, reasonable and non-discriminatory ("FRAND") licence terms, which always plays an important role in disputes regarding standard essential patents.

So far, the *German Patent Act* does not provide for procedural protection of trade secrets. The draft would like to correct this by introducing a new s.145a to the Act. It provides for certain paragraphs from the *German Trade Secret Act* to be applied in patent litigation:

> *In patent litigation, sections 16 to 20 of the German Trade Secret Act of 18 April 2019 shall apply accordingly.*

According to s.16 of the *German Trade Secret Act*, the court may, at the request of a party, classify information in whole or in part as requiring secrecy if it may be a trade secret. Such information must then be treated confidentially by the parties to the proceedings and may not be used or disclosed outside of court proceedings. According to s.18 of the *German Trade Secret Act* this also applies once the legal proceedings are concluded. The court may also determine and enforce penalties for non-compliance (s.17 of the *German Trade Secret Act*). In addition, according to s.19 of the *German Trade Secret Act*, the court may restrict the group of persons who may be present at the oral proceedings or who may be granted access to the file. Section 20 of the *German Trade Secret Act* specifies the procedure for the measures to protect secrecy.

Conclusion

The initiative to synchronise the infringement proceedings and the nullity proceedings is welcomed by many business enterprises, associations and lawyers' associations. After all, this amendment would speed up the proceedings even more and increase legal certainty significantly. Even if it is merely a target provision, it can be assumed that the Federal Patent Court should arrive at a qualified indication much faster than before.

Regarding the hardship clause in the case of injunctive relief, opinions are divided. Parts of the business community, which are more often on the defendant side, welcomed the proposal. Hence, it would be disproportionate, for example, if an entire mobile telecommunications network must be switched off, even though the protected invention contributed only a very small part to the functioning of the network. The draft also refers to "complex products", whereby the critics complain that it is unclear at what point a product should be complex. Therefore, some believe that the hardship clause will only increase uncertainty and thus costs, but not a more reasonable use of the already possible exception. The same applies to so-called "complex products".

The introduction of procedural secrecy protection is welcomed by all sides. In some cases, even more measures are called for which are known in non-German legal systems, e.g. "external attorneys-eyes-only" regulations under which only lawyers have access to sensitive information.

Whether and to what extent the amendments proposed by the Federal Ministry of Justice will actually be implemented by the Bundestag remains to be seen. All in all, a reform of the *German Patent Act* is to be welcomed in order to make Germany even more attractive as a venue for patent litigation.

1 The draft can be found on the homepage of the Federal Ministry of Justice (<https://www.bmjv.de/SharedDocs/Gesetzgebungsverfahren/DE/PatMoG_2.html>) or an English translation on the website of the German IP law firm Kather Augenstein (<https://www.katheraugenstein.com/en/english-translation-discussion-draft-of-the-german-federal-ministry-of-justice-on-the-reform-of-the-german-patent-act/>).

2 See Lauren Feiner, 'Apple will stop selling some iPhone models in its stores in Germany following ruling in Qualcomm patent case', *CNBC* (Web Page, 20 December 2018) <https://www.cnbc.com/2018/12/20/qualcomm-reportedly-wins-injunction-against-apple-in-munich.html>.

UNITED KINGDOM

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The CJEU finds that no intention to use goods and services covered by a trade mark registration may constitute bad faith

At the beginning of this year, the Court of Justice of the European Union ("CJEU") delivered a very important trade mark decision, *Sky v SkyKick* (C-371/18) ("*Skykick*"). In its keenly awaited judgment, the CJEU confirmed that applying to register a trade mark without any intention to use it in relation to the specified goods or services can constitute bad faith, which is an absolute ground of invalidity. One small comfort for trade mark applicants, however: where a finding of no intention to use is made in relation to some goods or services only, the finding of bad faith applies only to those goods or services – such that the rest of the registration remains valid. This decision will be a sharp warning to trade mark applicants to ensure that they have an honest rationale for applying for all the specified goods and services, and not to be tempted to file too broadly.

The dispute first arose when Sky, the well-known media and telecommunications giant, issued trade mark infringement proceedings in the High Court of England & Wales against SkyKick, a software provider. Sky relied on four Community (European Union ("EU")) marks and one national United Kingdom ("UK") mark which all included the word "Sky". Those trade marks were registered in respect of a very large number of goods and services, some of which fairly represented the goods and services that Sky offers under the marks, but some which did not.

SkyKick filed a counterclaim for invalidity, arguing: (i) the trade marks were registered for goods or services that are not specified with sufficient clarity and precision; and (ii) the trade marks were filed in bad faith. In particular, SkyKick relied upon the very large list of goods and services covered by the trade marks, some of which Sky clearly had no intention to use at all (such as "bleaching preparations", "insulation materials" and "whips").

The High Court of England & Wales decided to stay the proceedings and referred the following questions to the CJEU for a preliminary ruling:

(1) *Can an EU trade mark or a national trade mark registered in a Member State be declared wholly or partially invalid on the ground that some or all of the terms in the specification of goods and services are lacking in sufficient clarity and precision to enable the competent authorities and third parties to determine on the basis of those terms alone the extent of the protection conferred by the trade mark?*

(2) *If the answer to question (1) is yes, is a term such as "computer software" too general and covers goods which are too variable to be compatible with the trade mark's function as an indication of origin for that term to be sufficiently clear and precise to enable the competent authorities and third parties to determine on the basis of that term alone the extent of the protection conferred by the trade mark?*

(3) *Can it constitute bad faith simply to apply to register a trade mark without any intention to use it in relation to the specified goods or services?*

(4) *If the answer to question (3) is yes, is it possible to conclude that the applicant made the application partly in good faith and partly in bad faith if and to the extent that the applicant had an intention to use the trade mark in relation to some of the specified goods or services, but no intention to use the trade mark in relation to other specified goods or services?*

(5) *Is section 32(3) of the UK Trade Marks Act 1994 compatible with Parliament and Council Directive 2015/2436/EU and its predecessors?*

Despite the wording of the last question, the questions must be understood as relating to *Regulation 40/94* and *First Council Directive 89/104*, which were the relevant Regulation and Directive in force at the date the trade marks were filed. Nevertheless, the CJEU's judgment will still have a direct bearing on the interpretation of the current law.

A substantial part of the judgment concerned the bad faith questions, 3 and 4, so this update will tackle those first.

Questions 3 and 4 – bad faith

Questions 3 and 4, taken together, essentially ask two things. First, whether a trade mark application made without any intention to use the mark in relation to the goods and services applied for constitutes "bad faith". And secondly, if it does, whether it is possible for an application to be made partially in bad faith (in relation to the goods and services the applicant has no intention to use) and partially in good faith (in relation to the other goods and services). This was an important issue since a finding that even a small part of a specification was made in bad faith could have resulted in the entire application being invalid.

The CJEU commented that although neither *Regulation 40/94* nor *Directive 89/104* define "bad faith", it is an autonomous concept of EU law that must be interpreted consistently. The meaning of bad faith in everyday language suggests a dishonest state of mind or intention. Applying this within the trade mark context, one must look at the aims of trade marks within the EU, which are to contribute to a system of undistorted competition, in which each undertaking must be able to register trade marks which enable a customer to distinguish goods or services from those with a different origin.

Referring to the previous CJEU decision of *Koton Magazacilik Tekstil Sanayi ve Ticaret v EUIPO,* C-104/18, the CJEU held that bad faith as a ground for invalidity applies:

> *where it is apparent from relevant and consistent indicia that the proprietor of a trade mark has filed the application … not with the aim of engaging fairly in competition but with the intention of undermining, in a manner inconsistent with honest practices, the interests of third parties, or with the intention of obtaining, without even targeting a specific third party, an exclusive right for purposes other than those falling within the functions of the trade mark* [paragraph 75 of the *SkyKick* judgment].

An applicant is not required to know precisely the use he or she will make of the mark at the time of filing the application. And bad faith cannot be presumed purely on the basis that the applicant had no economic activity corresponding to the applied-for goods and services at the time of filing the application. However, if the applicant has no intention to use the mark for the goods and services, and there is no rationale for the application, then this may constitute bad faith.

The CJEU went on to explain that it follows from the relevant provisions of *Regulation 40/94* and *Directive 89/104* that where a ground of invalidity exists in relation to certain goods and services only, the trade mark is to be declared invalid in relation to those goods and services only. Applying this in the context of bad faith, when the absence of the intention to use the trade mark in accordance with the essential functions of the trade mark concerns only certain goods or services, the application constitutes bad faith only in so far as it relates to those goods or services. This means that trade marks with over-broad specifications may be found partially invalid in respect of the goods and services an applicant has no intention of using, but valid in relation to the remaining goods.

Questions 1 and 2 - lacking in sufficient clarity and precision

Taking questions 1 and 2 together, the CJEU looked at Article 3 of *Directive 89/104*. Article 3 provides a list of the grounds for invalidity which recital (7) of the *Directive 89/104* describes as exhaustive. That list does not include the lack of clarity and precision of the terms used to describe the goods and services covered by the mark. The provisions of *Regulation 40/94* mirror *Directive 89/104*. Note that although the grounds for invalidity contained in the current EU *Trade Mark Regulation 2017/1001* and *Directive 2015/2436* differ slightly from those in *Directive 89/104* and *Regulation 40/94*, they also do not include a lack of clarity and precision.

This means, the CJEU held, that the lack of clarity and precision in the terms used to describe the goods and services covered by a national or Community trade mark cannot be considered a ground of invalidity. The CJEU was also not convinced that the lack of clarity and precision fell within one of the existing absolute grounds. Taking all this into account, the CJEU concluded that a national or Community trade mark cannot be declared wholly or partially invalid on the basis of lack of clarity and precision.

Question 5

The final question referred to the CJEU concerned a provision of the UK *Trade Marks Act* 1994, which provides that a trade mark application must state that the trade mark is being used (by the applicant or with his consent) in relation to the applied-for goods and services, or that the applicant has a bona fide intention that it be so used (s.32(3) *Trade Marks Act* 1994). This provision does not appear in the corresponding EU legislation, and therefore the High Court of England & Wales sought confirmation from the CJEU that it remained compatible with EU law.

As explained above, the absolute grounds for invalidity set out in *Directive 89/104* are an exhaustive list and a Member State is prohibited from introducing new grounds of invalidity into national legislation. However, Member States are free to make provisions regarding the procedure of registration, revocation and invalidity of trade marks. Subsection32(3) introduced a procedural requirement. Although the infringement of the requirement may constitute evidence for the purposes of establishing possible bad faith, it does not constitute a separate ground for invalidity.

For these reasons, the CJEU held that s.32(3) was compatible with EU law.

Postscript – the High Court of England and Wales decision on 29 April 2020

On 29 April 2020, the High Court of England and Wales handed down its judgment in the national litigation in the *SkyKick* case in the light of the CJEU decision. Lord Justice Arnold held as follows (at paragraph 37):

> *As Sky point out, the combined effect of (i) the CJEU's ruling that trade marks cannot be declared invalid on the ground that the specification of goods and services lacks clarity and precision, (ii) the CJEU's ruling that trade marks cannot be declared wholly invalid where bad faith only affects part of the specification and (iii) SkyKick not having attacked the validity of the Trade Marks in so far as they are registered in respect of "telecommunications services" and "electronic mail services" on bad faith grounds is that the Trade Marks are validly registered in relation to those services whatever the position may or may not be with regard to other goods and services.*

Prior to the CJEU reference, the High Court of England and Wales had found that SkyKick's email migration service was identical to "electronic mail services" covered by the trade marks, and that there was a likelihood of confusion. Therefore, unfortunately for SkyKick, Sky's trade marks were valid for "electronic mail services", and infringed by SkyKick.

Current Developments – North America

CANADA

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Official Marks Not Immune to Infringement Claims by Owners of Prior Trade Mark Registrations

The Canadian Federal Court of Appeal recently ruled in *Ontario (Energy) v Quality Program Services Inc.*, 2020 FCA 53 that the *Trademarks Act* provision relating to Official Marks does not:

> *confer … any particular protection against claims for trademark infringement or other claims under the Act. A public authority that chooses to use a mark that is confusing to a registered trademark does so at its peril. Clear legislative wording would be required to effect a different result. We add that the appellant has not persuaded us that the context and purpose of the provision support a different interpretation.*

This ruling significantly curtails the extremely broad rights associated with Official Marks in Canada.

In Canada, trade marks that are adopted and used by public authorities and are published in the Canadian Trademarks Journal pursuant to section 9 of the Canadian *Trademarks Act* are called Official Marks and are provided a broader scope of protection than regular trade marks. Official Mark applications are not examined by Trademarks Office examiners with respect to the registrability criteria for regular trade marks as set out in the *Trademarks Act*. Official Marks are not required to be registered in association with specific goods and services and do not have to be renewed. Any mark that so nearly resembles the Official Mark as to be mistaken for it may be prohibited, even where there is no likelihood of confusion when taking into account factors such as whether the trade mark looks or sounds like the Official Mark, suggests a similar idea, or whether it is used to market similar goods or services.

The issue in this case arose when the provincial Ministry of Energy, a governmental agency in Ontario, adopted the mark "emPOWERme" in connection with a website used to educate Ontario electricity ratepayers about the Ontario electricity system and energy conservation. The plaintiff, Quality Program Services Inc. ("QPS"), is a British Columbia company, which since April 2012 has delivered a program focusing on energy awareness, conservation, and efficiency, known as the EMPOWER ME program. The program approaches new Canadians by hiring trusted people from their communities as "Energy Mentors", who then perform outreach in the communities and provide information and advice about energy conservation and efficiency.

QPS filed a trade mark application with the Canadian Intellectual Property Office on 12 April 2013, for use of the mark EMPOWER ME in connection with energy awareness, conservation, and efficiency services, based on its use of the mark since 20 April 2013. The registration was granted on 23 July 2014, with trade mark registration no. TMA882733. QPS uses the EMPOWER ME mark on its website, social media, various types of promotional materials, at booths at community cultural events, and in advertising in various publications. The mark has also been used under license by sponsors to promote the EMPOWER ME Program.

QPS claimed damages and other relief for trade mark infringement, passing off and depreciation of goodwill under the *Trademarks Act* in relation to its EMPOWER ME trade mark registration and the defendant's use of the mark emPOWERme in connection with a website.

After the commencement of the action, the defendant requested that the Registrar of Trademarks give public notice of its adoption and use of emPOWERme as an Official Mark pursuant to subsection 9(1)(n)(iii) of the *Trademarks Act*, and the Registrar subsequently gave such notice. In addition to other defences, the defendant argued that the Official Mark status of its trade mark afforded a complete defence to QPS's claims.

The Court held that section 9(1)(n)(iii) of the *Trademarks Act* does not insulate the defendant from infringement claims and awarded QPS damages in the amount of CA$10,000 (AU$10,960) for the infringement of its trade mark rights.

In upholding the judgement on appeal and rejecting the notion that the broad rights granted to Official Mark owners provide a shield to infringement claims by owners of prior trade mark registrations, the Federal Court of Appeal has provided important clarification of the scope of the rights associated with Official Marks.

UNITED STATES OF AMERICA

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Precedential Opinion Panel Clarifies "Reasonable Likelihood" Standard for Printed Publications at the Institution Stage of Patent Post-Grant Proceedings

On 20 December 2019, the Precedential Opinion Panel ("POP") of the Patent Trial and Appeal Board ("PTAB") issued its decision in *Hulu, LLC v Sound View Innovations, LLC* (IPR2018-01039) ("*Hulu*"), [1] addressing "What is required for a petitioner to establish that an asserted reference qualifies as a 'printed publication' at the institution stage [of a post-grant proceeding before the PTAB]?"[2]

In *Hulu*, the petitioner filed a petition for inter partes review ("IPR") asserting that the challenged claims would have been obvious over a textbook titled *Sed & Awk* by Dale Dougherty ("Dougherty"). A three-judge panel of the PTAB issued a decision on 3 December 2018, denying institution of an IPR. That panel found that the petition did not provide sufficient evidence that Dougherty was publicly accessible, and that the petitioner therefore had not done enough to meet its burden to qualify Dougherty as prior art under 35 U.S.C. §§ 102(a) and (b) for the purposes of institution.[3] It therefore declined to reach the merits of the petitioner's obviousness arguments.

The POP agreed to consider the broader question raised in the *Hulu* IPR namely, at the institution stage, what must a petitioner include in its petition in order to provide sufficient evidence that an asserted reference is printed publication prior art? The POP concluded that, for institution of an IPR[4] a petitioner must establish a *reasonable likelihood* based on "a totality of the evidence" that a reference is a printed publication.[5] The POP distinguished this burden from a petitioner's ultimate burden to prove that a reference is a printed publication by a *preponderance of the evidence* during trial and for purposes of the PTAB's Final Written Decision.[6] The POP did not find that any particular evidence or indicia on a reference is per se sufficient at the institution stage, but rather found that the indicia on the face of a reference, such as printed dates and stamps, should be considered by the PTAB on a case-by-case basis such that each panel will determine under the circumstances whether a petitioner has met its burden to show that a particular reference was publicly available.[7] The POP explained that after filing a petition, a petitioner will have opportunities to submit additional evidence, if necessary, in response to patent owner arguments, including (1) in a pre-institution reply to a patent owner preliminary response, (2) in a reply to the patent owner response after institution and/or (3) in a motion to file supplemental information.[8]

In so finding, the POP agreed with the parties that the standard at institution should focus on whether a petitioner demonstrated a "reasonable likelihood" that a reference is a printed publication and agreed with challenger Hulu's position that a full evidentiary record could be developed during trial.[9] It rejected the patent owner's argument that there should be a "high" or "elevated" threshold determination at institution, that "conventional markers" of publication would be insufficient on their own to make a prima facie case of public accessibility, or that a petitioner should not have an opportunity to present additional evidence after filing its petition.[10]

For the specific reference at issue, the POP found that for purposes of institution, Hulu had established a reasonable likelihood that Dougherty is a printed publication "based on the totality of the evidence to date."[11] In particular, the POP identified that "[t]he face of Dougherty bears a copyright date of 1990, a printing date of November 1992, and an ISBN date of 8/94 … [i]n addition, the book is a textbook from an established publisher, O'Reilly, and a well-known book series."[12] The POP found that, taken together, this evidence was sufficient to establish a reasonable likelihood that Dougherty is a printed publication that a publisher made available to the pertinent public prior to the October 1995 critical date for the challenged patent.[13] The POP ordered the matter remanded to the original merits panel for further proceedings consistent with its opinion, including consideration of whether to institute a trial on the merits of the obviousness ground presented in the original petition.[14]

Following *Hulu*, if potential IPR petitioners intend to rely on printed publication prior art, they should consider whether the reference contains sufficient information on its face to establish a reasonable likelihood that it is a printed publication, or whether additional supporting evidence – such as an authenticating declaration may be necessary at the institution stage. In considering what to present in the petition, petitioners should be mindful that the PTAB will impose an ultimate burden on the petitioner to prove that the reference is a printed publication by a preponderance of the evidence and consider whether and when to present additional evidence to meet that standard – either by seeking leave to file a pre-institution reply to a patent owner preliminary response or by responding after institution in a reply or motion to file supplemental information. In view of the clarified burdens identified by the PTAB, patent owners should consider whether and when to identify a position that a reference does not qualify as a printed publication, and whether and when – in view of its opportunities to respond later in the proceeding – to challenge the sufficiency of a petitioner's initial offer of proof. Petitioners and patent owners alike should monitor how the PTAB considers

questions of public accessibility post-*Hulu*, including specific factors considered by the PTAB to indicate public accessibility and whether and to what extent the PTAB permits petitioners to offer evidence of public accessibility that was not included in the original petition.

1 The correspondents represent Hulu, LLC in IPR2018-01039.

2 *Hulu, LLC v Sound View Innovations, LLC*, IPR2018-01039, Paper 29 (PTAB 20 December 2019) at 2.

3 *Hulu, LLC v Sound View Innovations, LLC*, IPR2018-01039, Paper 29 (PTAB 20 December 2019) at 2.

4 The POP did not squarely address the standard that will apply in assessing whether a reference was publicly available in post-grant review ("PGR"), but did note that the standard for institution of PGR is that it is "more likely than not" that a petitioner would prevail at trial. *Hulu, LLC v Sound View Innovations, LLC*, IPR2018-01039, Paper 29 (PTAB 20 December 2019) at 13 (citing 35 U.S.C. § 324(a)).

5 *Hulu, LLC v Sound View Innovations, LLC*, IPR2018-01039, Paper 29 (PTAB 20 December 2019) at 13–14, 17–18.

6 *Hulu, LLC v Sound View Innovations, LLC*, IPR2018-01039, Paper 29 (PTAB 20 December 2019) at 13–14, 17–18.The POP also did not squarely address the standard for demonstrating that a reference was publicly available for PGR at trial, but noted that it is the same standard (preponderance of the evidence) that is used for IPR. *Hulu, LLC v. Sound View Innovations, LLC*, IPR2018-01039, Paper 29 (PTAB 20 December 2019) at 13 (citing 35 U.S.C. § 326(e)).

7 *Hulu, LLC v Sound View Innovations, LLC*, IPR2018-01039, Paper 29 (PTAB 20 December 2019) at 17–19.

8 *Hulu, LLC v Sound View Innovations, LLC*, IPR2018-01039, Paper 29 (PTAB 20 December 2019) at 14–15.

9 *Hulu, LLC v Sound View Innovations, LLC*, IPR2018-01039, Paper 29 (PTAB 20 December 2019) at 11.

10 *Hulu, LLC v Sound View Innovations, LLC*, IPR2018-01039, Paper 29 (PTAB 20 December 2019) at 11–12.

11 *Hulu, LLC v Sound View Innovations, LLC*, IPR2018-01039, Paper 29 (PTAB 20 December 2019) at 19.

12 *Hulu, LLC v Sound View Innovations, LLC*, IPR2018-01039, Paper 29 (PTAB 20 December 2019) at 19.

13 *Hulu, LLC v Sound View Innovations, LLC*, IPR2018-01039, Paper 29 (PTAB 20 December 2019) at 20.

14 *Hulu, LLC v Sound View Innovations, LLC*, IPR2018-01039, Paper 29 (PTAB 20 December 2019) at 21.

Current Developments – Africa

AFRICA

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The Constitutional Court of South Africa provides guidance on patent prosecution policy in South Africa

Judgment of the Constitutional Court of South Africa of 24 October 2019, *Ascendis Animal Health (Pty) Limited v Merck Sharp Dohme Corporation and Others* [2019] ZACC 41

Introduction

Patent litigation in South Africa is, like conventional commercial disputes, fought and won through the traditional court route, starting before the Commissioner of Patents in the High Court of South Africa ("High Court") and ending at the Supreme Court of Appeal ("SCA").[2] However, s.167(3)(b) of the Constitution of the Republic of South Africa[3] permits the Constitutional Court of South Africa ("Constitutional Court") to hear conventional commercial matters (including patent cases) where such matters raise a constitutional issue or an arguable point of law of general public importance.

The outcome in an action for patent infringement and whether or not a defence of patent invalidity in terms of s.61 of the *Patents Act* 1978[4] ("Patents Act") are matters that concern the private and individual interests of litigants. But, in the case discussed here, the Constitutional Court held that the interpretation of s.61 (whether the different grounds for patent invalidity constitute a single cause of action) is a matter of general public interest in the area of patent litigation and raises a constitutional issue. This is because it has implications for potential litigants who might be interested in instituting revocation proceedings as well as defend infringement proceedings by relying on patent invalidity.

Background

The case is based on the decision of the SCA which refused an application for leave to appeal against the decision of the High Court on the issue of amendment of pleadings in a patent infringement action.

Merck Sharp Dohme Corporation and Merial Limited are the patentees of South African Patent 1998/10975 (the "1998 patent"). In 2011, Ascendis Animal Health (Pty) Limited ("Ascendis") filed an application at the High Court in terms of s.61 of the Patents Act seeking to invalidate the 1998 Patent on grounds that the invention claimed was not patentable in terms of s.25 of the Patents Act. Under s.25, inventions that are not new (novelty), and/or lack an inventive step (obviousness) are not patentable.

While Ascendis' application for revocation was still pending, Merck Sharp Dohme Corporation and Merial Limited instituted proceedings against Ascendis for infringing the 1998 patent by manufacturing and distributing anti-parasitic formulation covered by the claims in the patent. Since it was the validity of the same patent (the 1998 patent) at the root of both proceedings and particularly because proceedings in Ascendis' revocation action had reached a fairly advanced stage, the parties agreed to stay the infringement proceedings and proceed with the revocation proceedings to finality. Ascendis argued only that the claims of the 1998 patent lacked novelty and therefore the 1998 patent should be revoked on that ground. Ascendis decided that it would proceed with the obviousness ground if its novelty argument failed. The High Court agreed with Ascendis that the 1998 patent lacked novelty and fell to be revoked which led to Merck Sharp Dohme Corporation, Merial Limited and Merial South Africa (Pty) Limited (the respondents) appealing the decision before the SCA. The SCA found no merit in the novelty attack and therefore reversed the decision of the High Court. Neither the High Court nor the SCA ruled on the obviousness claim made by Ascendis.

At the infringement action still pending before the High Court, Ascendis filed an application to amend its defence by removing the novelty defence and proceeding with the obviousness defence and also by introducing a new defence of inutility pursuant to s.61(1)(d) of the Patents Act. Ascendis argued that each ground for revocation of a patent under s.61 is a separate and distinct cause of action and that it could advance a new cause of action by way of an amendment since it introduced a new and further ground of invalidity (i.e. inutility). The respondents opposed Ascendis' application for amendment and also filed their own application to amend their pleadings to plead res judicata in light of the SCA's judgment. The High Court found no merit in Ascendis' argument and held that the grounds listed in s.61 of the Act constitute a single cause of action: the invalidity of the patent. The High Court further held that while an applicant may rely on any of the grounds listed in s.61 to advance its claims or defence, it may not rely on them piecemeal. The High Court further allowed the respondents' application to amend their pleadings to plead res judicata based on the judgment of the SCA. Ascendis then sought the leave of the High Court to appeal against the High Court's decision refusing the amendment of its pleadings.[5]

The High Court refused leave to appeal whereupon Ascendis also applied to the SCA for leave to appeal. When the SCA also refused it leave to appeal, Ascendis then approached the Constitutional Court seeking leave to appeal.

After ascertaining that the issues in the case fall within its jurisdiction and granting Ascendis leave to appeal, the Constitutional Court raised the following issues for determination (paraphrased):

(1) whether all of the patent invalidity grounds stated in s.61 of the Patents Act constitute a single cause of action or separate and independent causes of action; and

(2) whether the defence (on grounds of inutility and obviousness) raised in the infringement action is res judicata based on the SCA decision holding that the novelty challenge lacked merit.

The decision

There was no majority decision in this case because, of the 10 Justices of the Constitutional Court who sat on the appeal, five Justices upheld the appeal and allowed Ascendis to amend its defence in the infringement action while the other five Justices dismissed the appeal.

Upholding the appeal

On the first issue of whether the grounds for challenging the validity of a patent under s.61 of the Patents Act constitute a single or separate cause(s) of action, Justice Khampepe (Froneman J, Ledwaba AJ, Nicholls AJ and Theron J concurring) held that the grounds were separate causes of action as the facts needed to establish each ground were separate.[6] According to the Justices:[7]

> *Each of the grounds of revocation as set out in section 61 of the Act constitute separate, distinct and independent causes of action because the facta probanda that need to be proven for each ground are different. Although the legal conclusion that results from claims of either novelty, obviousness or inutility may be the same (in other words, the finding of a patent's invalidity) it does not follow that they all represent a single cause of action. The facts required to prove a claim of novelty, inutility and obviousness are markedly different as the elements constituting each ground are different.*
>
> *On a simple level, this is obviously so. In layman's terms, novelty requires that something is new or different than what existed before (the prior art). Obviousness accepts that it is new, but it is an obvious step that anyone who is versed in the prior art could make because while it is a step, it is not an inventive step. Inutility is the contention that the blueprint of the patent itself does not lead to the claimed usefulness or result.*

For the same reason, Justice Khampepe et al. held with respect to the second issue that the defence on grounds of inutility and obviousness was not res judicata. The Justices further considered what they called the "scheme of the Act" and held that there are separate, distinct provisions and procedures under the Patents Act for revocation and infringement proceedings (see the table below). The Justices concluded that the legislature meant for the two proceedings to be separate. Accordingly, the failure of Ascendis' novelty challenge in the revocation proceedings cannot be used to foreclose its defence on grounds of obviousness and inutility in the infringement proceedings against it.[8] This is particularly so when the High Court did not hear arguments nor rule on the question of obviousness and/or inutility. The Justices felt strengthened in this position given the provisions of rule 28(1) of the *Uniform Rules of Court*, which allow parties to amend their pleadings unless good cause is shown to the contrary.[9]

The "scheme of the Act" according to Justice Khampepe (Froneman J, Ledwaba AJ, Nicholls AJ and Theron J concurring): [10]

	REVOCATION PROCEEDINGS	INFRINGEMENT PROCEEDINGS
Governing provisions	Section 61	Section 65
Nature of evidence	Affidavit only	Oral and documentary evidence
Originating process	Application	Pleadings (i.e. by writ)
Time within which to file	Anytime	Not earlier than nine months from the date of its sealing
Evidentiary burden	On applicant	On patentee
Nature of reliefs sought	In rem (against the patent)	In personam (against the person infringing/or the patentee if defence succeeds)
Orders that may be made	Removal of patent from the register	Successful defence of invalidity renders patent unenforceable against successful party but enforceable against third parties
Re-litigation by/against the same party	Yes (with costs) on different grounds[11]	No

Dismissing the appeal

Justice Cameron (Mogoeng CJ, Jafta J, Madlanga J and Mhlantla J concurring) first emphasised that the issue at hand in both Ascendis' revocation proceedings and the respondents' infringement proceedings was the validity of the 1998 patent. They held that once the SCA found the 1998 patent to be valid, the issue of patent validity became res judicata between the parties and cannot be relied on as a defence in the patent infringement proceedings.[12] Accordingly, these Justices found that the grounds for patent invalidity listed in s.61 of the Patents Act constitute a single cause of action: patent invalidity. This finding was dictated by the need to ensure that parties are not permitted to use the different grounds under s.61 to engage in piecemeal litigation and continued challenges of patent validity.[13]

Justice Cameron et al. drew on examples from various jurisdictions such as Germany and the United States of America ("US") as to how litigants may deploy patent invalidity in both revocation and infringement proceedings to avoid duplication. The Justices pointed out that in Germany, patent invalidity and patent infringement claims are handled by separate, specialist courts and patent invalidity may only be raised as a claim in a separate action and may not be raised as a defence to patent infringement.[14] With respect to the US, the Justices indicated that even though patent invalidity and infringement proceedings are, similar to the system in South Africa, contested in the same forum, there was a separate procedure for expedited validity proceedings in the US and where a party's invalidity claim fails on any ground, that party may not be permitted to rely on that ground in the infringement proceedings.[15] The Justices concluded that in South Africa, even though validity challenges may be made in revocation and infringement proceedings, a plea of res judicata should be successfully raised against a challenger who fails in revocation proceedings and subsequently seeks to raise invalidity in an infringement action.[16]

Comments

The conclusion reached by the 10 Justices who heard the appeal is understandable when one notes that it was informed by considerations to avoid duplication of actions. Furthermore, the case is significant for several reasons. Not only was this the first time the Constitutional Court decided on the subject of patent prosecution; the considerations of the five Justices on each "side" (i.e. five upholding the appeal and five dismissing the appeal) provide pointers as how public interests should inform patent prosecution policy in South Africa. Since South Africa allows challenges to patent validity to be made in both revocation applications and in infringement proceedings, it behoves on the courts to ensure that the outcome of the two proceedings where patent validity is in issue is not contradictory. Another important lesson from the decision relates to the need for substantive patent examination to help ensure that patents are granted on surer claims. As noted by Justice Khampepe et al., in the absence of substantive patent examination systems to balance the monopoly conferred by patents, patent validity challenges should be encouraged as they offer an avenue for patents to be tested.[17]

Regrettably, the Court did not consider the cumulative purport of the patentability requirement under s.25 of the Patents Act, which is linked to s.61 of the Act.[18] Given that all the patentability requirements (novelty, non-obviousness and utility) must be complied with before a patent may be granted, it appears reasonable to conclude that each invalidity ground would constitute a separate cause of action. Otherwise, a patent that is new and non-obvious but does not lead to the claimed result may be held valid. Also, it is to be noted that even though there was no majority decision from the Constitutional Court and the High Court's res judicata decision stands as the default position, the policy considerations made by the Justices can guide and inform arguments and approaches in future patent litigation and for South Africa's patent policy.

1 The author is also a Postdoctoral Research Fellow in Intellectual Property, Innovation and Development at University of Cape Town and acknowledges the financial assistance of the National Research Foundation ("NRF") of South Africa towards this work. Opinions expressed and conclusions arrived at are those of the author and are not to be attributed to the NRF.

2 See ss.168-169 of the South African Constitution.

3 Act No. 108 of 1996.

4 *Patent Act* No. 57 of 1978.

5 Leave to appeal was required in terms of s.17 of the *Superior Courts Act* No. 10 of 2013.

6 *Ascendis Animal Health (Pty) Limited v Merck Sharp Dohme Corporation and Others,* Judgment of the Constitutional Court of South Africa of 24 October 2019, [2019] ZACC 41, paragraph 54.

7 *Ascendis Animal Health (Pty) Limited v Merck Sharp Dohme Corporation and Others,* Judgment of the Constitutional Court of South Africa of 24 October 2019, [2019] ZACC 41, paragraphs 54 and 55.

8 *Ascendis Animal Health (Pty) Limited v Merck Sharp Dohme Corporation and Others,* Judgment of the Constitutional Court of South Africa of 24 October 2019, [2019] ZACC 41, *paragraphs* 47, 68, 74 and 75.

9 *Ascendis Animal Health (Pty) Limited v Merck Sharp Dohme Corporation and Others,* Judgment of the Constitutional Court of South Africa of 24 October 2019, [2019] ZACC 41, paragraphs 87–89.

10 *Ascendis Animal Health (Pty) Limited v Merck Sharp Dohme Corporation and Others,* Judgment of the Constitutional Court of South Africa of 24 October 2019, [2019] ZACC 41, paragraphs 43–47.

11 Justice Cameron disagrees with this point. *Ascendis Animal Health (Pty) Limited v Merck Sharp Dohme Corporation and Others,* Judgment of the Constitutional Court of South Africa of 24 October 2019, [2019] ZACC 41, paragraphs 115, 121.

12 *Ascendis Animal Health (Pty) Limited v Merck Sharp Dohme Corporation and Others,* Judgment of the Constitutional Court of South Africa of 24 October 2019, [2019] ZACC 41, paragraph 110.

13 *Ascendis Animal Health (Pty) Limited v Merck Sharp Dohme Corporation and Others,* Judgment of the Constitutional Court of South Africa of 24 October 2019, [2019] ZACC 41, paragraph 108.

14 *Ascendis Animal Health (Pty) Limited v Merck Sharp Dohme Corporation and Others,* Judgment of the Constitutional Court of South Africa of 24 October 2019, [2019] ZACC 41, paragraph 125.

15 *Ascendis Animal Health (Pty) Limited v Merck Sharp Dohme Corporation and Others,* Judgment of the Constitutional Court of South Africa of 24 October 2019, [2019] ZACC 41, paragraph 126.

16 *Ascendis Animal Health (Pty) Limited v Merck Sharp Dohme Corporation and Others,* Judgment of the Constitutional Court of South Africa of 24 October 2019, [2019] ZACC 41, paragraph 128.

17 *Ascendis Animal Health (Pty) Limited v Merck Sharp Dohme Corporation and Others,* Judgment of the Constitutional Court of South Africa of 24 October 2019, [2019] ZACC 41, paragraph 100. Justice Cameron et al. also pointed out in paragraph 130 that South Africa's Companies and Intellectual Property Commission ("CIPC"), is in the process of establishing a Substantive Search and Examination Office.

18 Section 61(1)(c) provides: "Any person may at any time apply in the prescribed manner for the revocation of a patent on any of the following grounds only, namely … that the invention concerned is not patentable under section 25".

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