

15 June 2016

Intellectual Property Arrangements Inquiry
Productivity Commission
GPO Box 1428
CANBERRA CITY 2601

By email only
intellectual.property@pc.gov.au

Dear Sirs

Re: Submission in response to Draft Report issued by the Productivity Commission in connection with its review of Australia's intellectual property arrangements

We refer to the Draft Report issued by the Productivity Commission in connection with its review of intellectual property arrangements and make the following submissions in response to the issues identified in that Paper.

About IPTA

The Institute of Patent and Trade Mark Attorneys of Australia (IPTA) is a voluntary organization representing registered patent attorneys, registered trade marks attorneys and student members in the process of qualifying for registration as a patent or trade marks attorney in Australia. The membership of IPTA includes over 87% of registered patent attorneys located in Australia and it is believed that its members make up more than 90% of registered patent attorneys in active practice in Australia. The membership of IPTA includes registered patent attorneys in private practice as well as patent attorneys working in industry, universities, research institutes and others that practice as barristers. IPTA members represent large local and foreign corporations, SMEs, universities, research institutes and individual inventors.

IPTA members not only work with local clients to assist them in developing strategies for protecting and enforcing their intellectual property rights in Australia and overseas, but they also represent overseas individuals and companies in their efforts to obtain and enforce their intellectual property rights in Australia. For this reason, IPTA members are well placed to assist the Productivity Commission in its consideration of intellectual property arrangements in Australia.

The Draft Report includes numerous questions relating to the intellectual property system in Australia. IPTA's detailed comments in response to those questions are set out in the **attached** Appendix. IPTA has not provided any comments in connection with the questions raised in relation to copyright issues, since copyright protection falls outside the normal field of work of our members. While copyright issues do arise in connection with some of the work carried out by our members, the questions raised in the Issues Paper are not generally directed to those areas.

While the attached Appendix sets out IPTA's detailed responses to the draft report and requests for information, where IPTA is in a position to supply such information, we would like to start by commenting on the draft report in more general terms as well as addressing what IPTA sees as some fundamental problems and/or failings in the report, particularly where it relates to patents.

Why patents exist

One theme running through the draft report appears to be that there should be a present net benefit to Australia in having a patent system. That is of course desirable from an economic standpoint, however such benefits are very difficult to measure with any degree of accuracy. While there have been attempts to value patents made over the years by academics and others, the science used is questionable and the results of such academic research should not be taken as gospel.

Most importantly, by focussing on the concept of economic benefit the report fails to appreciate the fundamental function and *raison d'etre* for the modern patent system. A patent is essentially a contract between an inventor and the state. In the contract, in return for disclosure of their invention, if the invention meets certain requirements including novelty, the government will grant a limited monopoly to the inventor or his successor in title. The original and fundamental function of the patent system is disclosure of inventions and this is particularly beneficial in those areas where the inventions could otherwise be kept as trade secrets, such as in manufacturing processes, complex formulations, software, complex products etc.

A secondary but equally important function is to act as a commercial tool for stimulating business and innovation.

Overseas governments recognise the Link between IP intensive areas and employment. The European Parliament paper "Overcoming Transatlantic differences on intellectual property", (by Carmen-Cristina Cirliug July 2014 – 140760REV1). Section 3.1 identifies that in the US the most IP-intensive industries directly employed 27.1 million persons with indirect employment adding 12.7 million. It refers also to an EPO/OHIM report which established that about half of EU industries are IP intensive and that 56.5 million jobs (or about 26% of all jobs in the EU) were generated directly by these industries in the period 2008-10.

The report goes on to states with regards to SMEs and IPRs "*The acquisition and management of IPRs are critical for start-ups and SMEs, for many reasons – signalling current and prospective value to investors, competitors and partners; protecting their innovations; gaining access to revenue, etc. A significant proportion of applicants for patents to EPO in 2013 were SMEs and individual inventors (29%) and, according to the OECD, the smallest firms (fewer than 25 employees) produced the greatest number of patents per employee in the US.*"

Is the "system" really failing?

The report indicates that the current IP/patent system is failing and that rights holders are responding in strategic ways. While one or two isolated examples are given of this, this statement is not supported by evidence.

Bringing overseas innovations to Australia

One of the functions of the IP system is to encourage overseas-based innovators to bring their innovations to Australia for the benefit of Australians. This economically vital support of foreign direct investment does not seem to be given sufficient weight in the draft report.

What is the “value” of a patent?

It is intrinsically difficult to accurately identify the value of a patent. The conclusion which is set out in the draft report that a significant number of patents in Australia are of “low value” is not justified based on the evidence presented in the report (although, if they were of “low value” then it follows logically that they should not significantly obstruct innovation as they would be easy to design around). Indeed it is noted that those listed Australian companies who value their Intellectual property tend to place a high value on intangible assets including patents, which suggests the opposite.

Quality of Australian Patents

The report suggests that Australian patents are “low quality”. Any analysis of the quality of patents granted by IP Australia following the recent “Raising the Bar” changes introduced in April 2014 is quite premature. It should be noted that IP Australia is still working through a backlog of patent applications, which, under the transitional provisions, are being examined under the old criteria. Indeed it is unlikely that any patents examined under the new provisions have been tested by the Courts. Suggesting further amendments to the patentability requirements before the effect of the recent changes has been determined is premature. It is also premature to consider introducing any further amendments to raise the bar for patentability, particularly in relation to the test for inventive step which has already undergone several significant changes over the last fifteen years.

The draft report makes several references to the principle that a scintilla of invention is all that is required for patentability. The way in which this principle is discussed in the draft report is misleading. The principle is to be understood as indicating that an invention either possesses an inventive step or it does not. Once a claimed invention has met the threshold of inventive step there is nothing to be gained by discussing how much the threshold is exceeded. This is analogous to a pole-vaulter clearing the bar. The pole-vaulter will be awarded the jump if the bar is cleared, regardless of by how much the height of the bar is exceeded.

Patent Thickets

The draft report suggests that patent thickets are a significant problem in Australia. This is not borne out by the evidence provided, or by any analysis of the patent landscape in Australia. The report cites one specific example only of a group of nine innovation patents relating to a child seat. Nine patents is a very small number to constitute a patent thicket, but even if it were a so-called patent thicket, the existence of a single patent thicket cannot be extrapolated to establish that there is a widespread problem of patent thickets in Australia.

Adaptability of the patent system

The draft report suggests that Australia’s IP system is not sufficiently flexible. Again that is not borne out by the evidence. In particular the test for patentable subject matter, i.e. manner of manufacture

has stood the test of time and has allowed the Australian patent system to deal with new technologies as they are developed.

Which department should be in charge of IP Policy

In view of the very close relationship between IP rights, innovation and industry, it makes most sense for responsibility for the IP rights systems, particularly those dealing with patents designs and trade marks to remain with the Department of Industry Innovation and Science. It is noted that the UK IPO is part of the roughly equivalent Department for Business, Innovation and Skills. IP Australia also has a clear role in the development of IP policy. It is also important to ensure that stakeholders, including IPTA, have an opportunity to inform IP policy, particularly policy concerning patents, designs and trade marks. In some cases it will clearly be necessary for expert panels to be established to consider particular IP reforms. However it will be necessary to ensure that there is no bias or perception of bias in the appointment of individuals to such panels. It is arguably inappropriate for IP Australia to be solely responsible for setting IP policy as well as administering IP policy. However as the experts on intellectual property within the Government, clearly IP Australia should have input into IP policy.

“Evergreening”

The report makes reference to “evergreening” practices by pharmaceutical companies. However, no evidence is provided that current Australian patent law provides an opening for such practices. In particular, since the introduction of the Raising the Bar Act, the requirements for patentability and for patent specifications have been substantially increased. Accordingly, it is only patent applications directed to genuine follow-on inventions that will be able to achieve patent protection. It must be recognised that an important function of the patent system is to encourage follow on innovation through early publication of inventions. In the area of pharmaceuticals, for example, improved forms of active substances, improved formulations, synergistic combinations, second and subsequent medical uses, and new methods and processes for production (which would otherwise remain trade secrets) all act to lower the costs of medicines and improve therapeutic outcomes.

The draft report equates follow-on innovation in the pharmaceutical field with evergreening, and makes reference to a paper by Christie et al (2013) which included an analysis of fifteen of the costliest drugs in Australia. Although not mentioned in the draft paper, it is important to note that most of the follow on patents were filed by non-originators –i.e. not by the original patentee. Accordingly, this paper demonstrates that the patent system is doing its job in encouraging follow-on innovation by others, at least in the pharmaceutical area.

The innovation patent system (IPS)

The recommendation in the draft report to repeal the innovation patent system (IPS) seems to be at odds with the evidence. It appears to gloss over the objective of the system and fails to appreciate the fact that the IPS is overwhelmingly used by the SMEs it is intended for. Inappropriate criteria which are not related to the objective of the IPS are assessed – such as the “social value” of inventions.

No basis for suggesting lack of access to IP

There is a suggestion in the draft report that patents are preventing Australians from accessing inventions which are covered by patents and not worked in Australia. There does not appear to be any evidence supporting that proposition. The Patents Act 1990 provides for compulsory licences for inventions which are not being exploited in Australia, and these provisions are rarely if ever used suggesting that the Australian public can access patented inventions, should they wish to do so. There is also a lack of public interest litigation in this area which again is indicative that there is not a problem in this area.

Business methods and software patents

These are lumped together in the report as if they are one and the same thing. They are not the same and this is explained in more detail in the detailed comments in the appendix. It is generally accepted that business methods are not patentable. (RPL Data discussed in section 8 below). However other computer and software-implemented inventions have been found to fall within the area of patentable subject matter to date (and can be granted patent protection if those inventions are also novel and non-obvious). Examples of these include the inventions resulting from the significant investment businesses like Rio Tinto are putting into new technology related to smarter and more efficient mining involving the increased use of robotics. Such inventions include driverless trains, automated drilling and blasting, all operated by software which is not only more efficient but may also reduce the risk of injury to workers.

Conclusion

IPTA thanks the Productivity Commission for this opportunity to comment on the Issues Paper. If the Commission has any questions in relation to the observations above, or the comments set out in the Annex, please contact the undersigned.

Yours faithfully
FB Rice

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APPENDIX

6 Patent system fundamentals

6.1 Draft Recommendation 6.1

DRAFT RECOMMENDATION 6.1

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

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

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

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

IPTA believes that the *Raising the Bar* reforms remove any criticism that could be levelled at Australia's test for inventive step, which test now is comparable to the tests imposed under the laws of Australia's major trading partners. The criticisms levelled in the draft report levelled at the current test betray a misunderstanding of the way in which the inventive step test is applied, and how it sits with the other tests for patentability under the Patents Act 1990. Of course the Australian Government should, and does, consult with international partners on the ways in which inventive step and patentability are assessed, especially throughout patent examination processes. However, it is highly doubtful that such discussions would result in the specific "innovative" approach that the Commission has recommended. Again, the recommended change would result in further undesirable subjectivity in the patent system. How is "socially valuable" to be defined? Such a change would result in deadweight costs to the patent system which IPTA understands that the Commission wishes to avoid.

6.2 Draft Recommendation 6.2

DRAFT RECOMMENDATION 6.2

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

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

IPTA is not convinced that an objects clause is desirable and fears that introducing such a clause would create uncertainty. IPTA is not convinced there would be any value in such a clause and it should not be used as an examination guideline since this would introduce undesirable subjectivity. The success or otherwise of such a clause would depend on its wording.

The proposed objects clause would also introduce undesirable complexity for decision makers. What factors should be taken into account? How should they be balanced? How can a decision maker predict the direction of future innovation and the needs of future innovators? This recommendation would add to the deadweight cost of the Australian patent system introduced through implementation of Draft Recommendation 6.1.

6.3 Draft Recommendation 6.3

DRAFT RECOMMENDATION 6.3

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

The Australian Government should seek international co-operation on making greater use of patent fees to help ensure that patent holders are not over compensated and to limit the costs of patent protection on the community.

IPTA disagrees with the negative premise of this recommendation. Patent system costs have not been shown, by evidence, to be undue either in Australia or any other comparable country. IP Australia already takes care in setting fees such that a higher economic hurdle must be passed later in a patent's life. Most patents expire by about the eleventh year. With the exception of the PCT system, international co-operation on fee setting is highly unlikely to be seen as necessary barring significant anomalies in costs so the latter part of this recommendation is unrealistic.

7 The innovation patent system

The draft report notes that the objective of the innovation patent system (IPS) is to promote innovation by Australian small and medium sized enterprises (SMEs). It goes on to state that while the Commission has been mindful of this policy objective, *"in assessing the IPS it has considered the welfare of the whole community"*.

The Productivity Commission appears to focus on the policy objectives for all the other IP systems discussed in the report. It is unclear to IPTA why the Productivity Commission chooses to diverge from that focus in the specific case of the IPS and how the Productivity Commission justifies such a divergence. Why is the IPS being treated differently to other types of IP?

The report noted that Australia is not alone in having a second-tier patent system, and that second tier systems operate in around 60 countries including successful first world countries such as Germany, Japan and Spain. The second-tier patent systems appear to work well in those countries and are considered particularly suited for SMEs that, for example, make amendments to, and adaptations of, existing products.

Clearly a second-tier patent system can function in a first world country, and Australia should be capable of implementing a successful second-tier patent system. We should not be giving up on the IPS but seeking to introduce reforms.

There have been a number of sensible recommendations for reform of the IPS made by various groups including IPTA, including raising the level of innovative step and making examination compulsory. IPTA is not suggesting that the IPS should be retained in its present form without reform.

The draft report addresses so-called "strategic use" of innovation patents. If "strategic use" of a commercial tool such as an innovation patent is indeed something to be discouraged, which we dispute, this could be addressed by reforms such as those proposed in the initial report on innovation patents published by ACIP.

One very important function of the IPS which was carried over from the previous petty patent system was to provide a patent applicant with an ability to obtain a granted enforceable right quickly so as to allow for rapid enforcement before the courts. This function is quite independent and in some ways entirely unrelated and disconnected from the principal aim of promoting innovation by Australian small and medium sized enterprises. This function is necessary in Australia as the standard patent system has a pre-grant opposition process. Regardless of how quickly a patent application is filed examined and accepted for grant, an alleged infringer can delay that grant by filing an opposition. While IP Australia has recently introduced measures to speed up the progress of oppositions by making extensions of time in which to file evidence more difficult to obtain, the majority of oppositions will take one year to complete the filing and evidentiary stages, followed by the setting of a hearing and the issuance of a decision following the hearing. The decision may issue 6 to 9 months or more after the conclusion of the filing of the evidence. It is then possible for the alleged infringer to further delay the grant of a patent by filing an Appeal to the Federal Court, which proceedings will typically take a couple of years to conclude. During all that time, the infringer can infringe the patent applicant's rights in Australia with impunity. Although the patentee may seek back damages, if the patent is ultimately granted and found to be infringed, the infringer may have already significantly damaged the patent applicant's market.

IPTA notes that the IPS is overwhelmingly used by Australian applicants (66%), which contrasts strongly with the standard patent system which is overwhelmingly used by overseas based applicants (89%). That fact alone strongly suggests that the IPS is stimulating innovation in the Australian SME space which it is primarily aimed at.

DRAFT RECOMMENDATION 7.1

The Australian Government should abolish the innovation patent system.

IPTA strongly disagrees with that recommendation firmly believes that the IPS should be reformed to address its deficiencies and retained.

8 Business methods and software patents

IPTA strongly recommends against amending the *Patents Act 1990* to specifically exclude business methods and software as patentable subject matter. There is no need for a change in

the legislation, and any change will unnecessarily introduce uncertainty and discourage innovation.

The Productivity Commission has failed to acknowledge the important distinction between software that:

- Relate to standard operations in running a business, which could be described as “business methods”; and
- Software that can be used to perform a wide variety of technical tasks, including machine control.

The use of the terms “software” and “business methods” in the draft report is confused and further reliance on these terms in the legislation would only lead to more confusion.

Business methods themselves do not pass the current tests for patentability and therefore there is no need to create an additional codified scheme in an attempt to address a problem that already has a solution. The Productivity Commissions’ proposal risks damaging Australian industry for no good purpose.

For software inventions we fail to see how software can be distinguishable in merit, and perhaps content, from hardware inventions such as to justify distinct treatment under the Act. The rationale provided in the report is flawed as it only looks at a small subset of software inventions and confuses it with arguments that only apply to business methods.

We also consider that Australian case law provides the flexibility needed to address changes in technology and offers clear guidance as to what is and what is not patentable subject matter in the area of software.

The problem of low-value and obvious patents, if there is such a problem at all, is not specific to software inventions and therefore abolishing software patents will achieve no useful purpose.

Current tests for patentability

NRDC¹ has been Australia’s strongest authority on what is patentable subject matter since that case was decided in 1959. This seminal decision has proven insightful in its ability to address technology that was not yet in existence at that the time of the decision. NRDC makes it clear that this was very much the aim of that decision:

The purpose of s. 6, it must be remembered, was to allow the use of the prerogative to encourage national development in a field which already, in 1623, was seen to be excitingly unpredictable. To attempt to place upon the idea the fetters of an exact verbal formula could never have been sound. It would be unsound to the point of folly to attempt to do so now, when science has made such advances that the concrete applications of the notion which were familiar in 1623 can be seen to provide only the more obvious, not to say the more primitive, illustrations of the broad sweep of the concept.²

¹ *National Research Development Corporation v Commissioner of Patents* [1959] HCA 67

² Page 261, emphasis added

Yet the codification that the Productivity Commission is now recommending is the very “verbal formula” the High Court suggests would be folly, and, if accepted, would be dangerous to the software industry in Australia.

We consider that the current judicial tests³⁴ sufficiently define the requirements for software inventions to be patentable.

Importantly, the Full Court decision in *RPL Central*⁵ has now been accepted by the High Court⁵, removing much of the uncertainty referred to in the draft Productivity Report. In that sense the recommendations are now out of date.

The current Australia law, as it stands, excludes from patentability software inventions where the invention lies merely in a scheme, while allowing protection for software inventions that provide an observable improvement in computer technology and involve an inventive step. This already achieves what the draft report sets out as the objective and, accordingly, there is no need to codify these tests.

Further, we consider that there is no evidence that the current test for patentable subject matter in Australia is weaker or less useful than the current test, for example, in the United States, where the USPTO has relaxed the requirements for patentable subject matter significantly from the initially strict view taken following the *Alice* decision. The Full Court decision in *RPL Central* refers to both the matters considered by the US Supreme Court in *Alice* and in the UK in *Aerotel/Macrossan* as matters that can also be considered in Australia. *RPL Central* made it clear “a technical innovation is patentable; a business innovation is not”⁶

There is no reason to remove or weaken the good law provided by section 18(1) (a) of the Patents Act and Australian judicial authorities such as NRDC, Grant, and *RPL Central*.

Patent thickets

The draft report in section D.3 identifies patent thickets by using a measure called a ‘triple’. The report identifies 37 thickets in digital communication but none in software. However, the report recommends abolishing software patents.

Further, the draft report mentions the area of mobile devices and networking as an example where a dense thicket has developed. The fact that mobile phones are covered by many patents is evidence that the patent system is working. Mobile phones are incredibly complex devices and have thousands of inventions in them that relate to different aspects of their operation, ranging from battery chemistry, structural stability, to bandwidth-efficient communication protocols and application software. The complexity and technology associated with the different layers of the touch screens themselves is also the subject of considerable research and development. Further, the revenue currently achieved in manufacturing and selling mobile phones is immense. To stipulate that the existence of a large number of patents on such a complex product is a negative outcome is not logical.

We submit that the finding of the draft report is based on an overly broad definition of technology sectors. Further, a thicket is not determined by the ownership of the patents but by the number of patents for one particular area. A large number of patents in one specialised

³ *Research Affiliates LLC v Commissioner of Patents* [2014] FCAFC 150

⁴ *Commissioner of Patents v RPL Central Pty Ltd* [2015] FCAFC 177

⁵ *RPL Central Pty Ltd v Commissioner of Patents* [2016] HCASL 84

⁶ *Commissioner of Patents v RPL Central Pty Ltd* [2015] FCAFC 177, at para 100.

field of technology does not intrinsically make it difficult for an Australian company to innovate in that sector. In fact publication of the patents allows competitors to determine expertise, avoid investment in work that has been completed and determine possible collaborators.

There is no evidence for patent thickets in Australia. On the other hand, there are many Australian innovators who have used their Australian patent applications to increase the bottom line of their business and/or to enable them to enter new markets. As a consequence, abolishing software patents would not reduce thickets (there are none) but would take away business opportunities for Australian innovators.

Patent system is self-regulating

We consider that the costs of the patent system are sufficient to ensure that only valuable patents survive. If a patent was of low value it would simply not be worth pursuing at a high monetary cost.

On the other hand, if a patent is to an invention that is so incremental that it has no social benefit but nevertheless proceeded to grant, it would be easy to circumvent this patent by a workaround so that this low value patent would not be a problem for an Australian innovator. The Commission's hypothesis that most patents are 'low value' suggests that workarounds, i.e. fresh innovations, are possible and that patents do not create an obstacle to innovation in the vast majority of cases.

Therefore, based on market observations, there is no problem of too many low-value patents. Simply considering the number of years it takes to develop patentable subject matter is unhelpful as inventions in other technologies than software can have similarly short time frames.

Infringement not the main concern

For most Australian SMEs or start-ups infringement is not a major concern. At the beginning of a new invention, there are years of negative cash flow until the "valley of death" is finally crossed. During this time, there is no profit and therefore, there is little incentive for a patent holder to restrict or take action against a start-up. Later, when the start-up has a significant client base and a working technology, it is very rare that the best commercial decision by a patent holder is court proceedings. Instead, a patent holder would typically increase his profit by engaging with, licensing or acquiring the start-up. The position of the start-up is also improved if they have their own patent assets. The question of whether the start-up's technology infringes a patent is not the main concern.

Adding value, fund raising, and creating jobs for Australians

Almost all of the new jobs created in Australia over the past three years have been created in SME's including young firms and start-ups as is established in the research paper 4/2015 by the Office of the Chief Economist "The employment dynamics of Australian entrepreneurship" "Start-ups are one area of the economy where jobs are being created. Start-ups particularly in the software space require funding which may come from Angel investors, venture capital and other sources, in order to grow. Start-ups that have identifiable IP, particularly in the form of patents, give comfort to the potential investors that they are buying a stake in a business that has some protection against competition, and may be more likely to raise capital and grow. In this sense, patents are a very real encouragement to investment in SMEs.

Australian software innovators

Many local Australian software companies employ inventors in Australia to innovate by developing new products for Australian people. These inventors have identified a market need for their inventions, which means at that stage, all inventions have necessarily a social benefit.

A good Patent Attorney would ask how a patent application would fit into a client's business model. Ultimately, filing a patent application is only recommended if the patent application will help the client in bringing their invention to market and this way recouping their investment into conceiving their invention. This way, inventions with no social benefit would not be subject to patent applications since there would simply be no business case for spending the Attorney's service fee.

International context

If software patents are abolished, Australian start-ups, which almost always plan globally, will be significantly disadvantaged by not being able to patent their software innovations in Australia, and use that as a basis for obtaining protection overseas. Further, without patent protection, many Australia start-ups will struggle to find investors or get their invention to market without it being copied.

Conclusion

Business methods as such are already not patentable, and we are strongly against the abolishment of software patents by codification. We can see many commercial benefits of software patents and cannot agree that the problem put forward in the draft report exists at all.

Therefore, we support the maintaining of the legal status quo.

What is really needed is a positive message from the government to Australian software innovators that their clever products are indeed patentable.

DRAFT RECOMMENDATION 8.1

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

IPTA strongly disagrees with that recommendation. Business methods are already unpatentable. Software should not be excluded for the reasons set out above.

9 Pharmaceuticals – getting the right policy prescription

Before commenting on the recommendations relating to the patenting of pharmaceuticals we need to draw attention to the fact that the Productivity Commission has made at least 30 references to the Pharmaceutical Patents Review Report 2013. In fact, on page 254 of the Draft Report the Commission has acknowledged that it has drawn upon this report as a source of "evidence". It is important to note that this report has been widely criticised and that the make-up of the panel conducting the review was not considered to be balanced, in the sense that the panel was biased towards the generics industry. As with the current review of intellectual property arrangements by the Productivity Commission, the pharmaceutical patents review was carried out in a very short time period, and, in the view of IPTA, the review failed to fully appreciate the complexity of the research-based pharmaceutical industry and the factors which contribute to and encourage innovation in Australia in this sector. In IPTA's

view, the extent of reliance on the Pharmaceutical Patents Review Report by the Commission in this draft report substantially reduces the value of the recommendations and findings made.

The draft report acknowledges that the development costs and times in relation to pharmaceutical products are significant. In fact, the costs and times are so significant that Australian firms and research institutes in carrying research in connection with pharmaceutical related inventions currently require the support of large pharmaceutical companies in order to bring their products to the market. In fact, investment in the early stages of research is often contingent upon there being interest from one or more of the larger multi-national pharmaceutical companies. In order to foster research and development in the pharmaceutical sector in Australia it is critical to foster an environment in which large pharmaceutical companies are prepared to invest in local innovation. However, strong intellectual property protection is an important factor in encouraging this investment, but there are other factors, including tax incentives and pharmaceutical reimbursement policies that also impact on this investment.

The draft report notes that Australia is a net importer of inventions, but makes no recommendations as to how the proportion of local inventions can be increased. In fact, if many of the recommendations contained in the draft report are accepted the proportion of local innovations is unlikely to increase, and could possibly decrease.

The draft report acknowledges that the stakes are high for the Government and the Community. The Australian pharmaceutical market represents a small percentage of the international market for pharmaceuticals and, accordingly, Australia needs to ensure that its health policies and intellectual property policies are such that pharmaceutical companies are willing to bring their pharmaceutical products to Australia for the benefit of Australians. Encouraging research-based pharmaceutical companies to make their products available in Australia by obtaining the necessary regulatory approval also ensures that, upon patent expiry, generic companies are able to offer generic versions of these products. Without the originator's products there would be no generics available in Australia.

The draft report refers to the automatic statutory price reduction of 16% under the PBS, but does this in isolation, without reference to the potential adverse consequences for research-based pharmaceutical companies that can be caused by this reduction. In this regard, the automatic price reduction can be triggered by a generic company launching a product which infringes valid claims of a granted Australian patent. Entry into the market by multiple infringing generic companies can drive the price down even further than 16%. Even if the pharmaceutical company takes action against the generic companies and the patent is found to be valid and infringed, there is no mechanism for restoring the price of the pharmaceutical product to the price enjoyed prior to infringement of the patent, and it is difficult for the pharmaceutical company to recover all damages or lost profits during the period of infringement. In contrast, if the pharmaceutical company relies on the patent granted to it by IP Australia, and obtains an injunction preventing generic companies from launching their products, the pharmaceutical company exposes itself to a damages claim by the Government in respect of savings not achieved through the automatic price reduction. This policy by the Government of claiming against the pharmaceutical company unsuccessful in enforcing their patent, yet failing to restore prices and compensate pharmaceutical companies who are successful in enforcing their patents, represents a double standard that acts to significantly devalue Australian pharmaceutical patents. Unfortunately the existence of this double standard is not referred to or discussed in the draft report of the Productivity Commission.

Extension of Term

The draft report correctly points out that extensions of patent term are relatively common. This is not surprising since it is unusual for pharmaceutical products to be included in the Australian Register of Therapeutic Goods within 5 years of the filing date of the patent.

Although the intention of the current pharmaceutical patent term extension provisions was to provide 15 years of effective patent life for pharmaceutical inventions, this objective has not been achieved. In this regard, it is evident that as of January 2013 only about half of the patent term extensions granted provided the patentee with 15 years of patent term following inclusion in the Australian Register of Therapeutic Goods. The remainder achieved less than 5 years. It is also important to note that this period may end up being effectively shorter in circumstances where there are delays in achieving an agreement on price with the Pharmaceutical Benefits Advisory Committee (PBAC), a situation which is becoming increasingly common.

The Report indicates that there is evidence, presumably in the Pharmaceutical Patents Review Report mentioned above, to suggest that extension of term policies have been ineffectual in attracting R&D investment to Australia. However neither the report of the Pharmaceutical Patents Review Panel nor the draft report contains such evidence. IPTA does not believe that information in the Pharmaceutical Patents Review Report supports this conclusion.

It is also important to note that pharmaceutical patent term extensions, while important for encouraging R&D investment and activities in Australia, is not the only policy tool for encouraging such investment and activity. In more recent times there have been a number of policy decisions made which, despite the existence of the patent term extension provisions, have made Australia a less attractive place for investing in R&D in the pharmaceutical sector. Current mechanisms for obtaining pricing for a pharmaceutical product through the PBAC not only act to discourage investment in R&D in the pharmaceutical sector in Australia, but also act to discourage pharmaceutical companies from bringing their products to Australia for the benefit of the Australian public. In some cases, pharmaceutical companies do not even bother obtaining registration for their products on the Australian Register of Therapeutic Goods due to the problems in obtaining fair pricing. This is particularly unfortunate because this will also mean that Australia will miss out on generic versions of these products.

It was recently reported in the publication, Pharmacy News that a leading Melbourne endocrinologist from the Baker IDI Heart and Diabetes Institute said that sponsors have "walked away" from PBS negotiations as a result of the Government's approach to price negotiations.

The Government action to claim damages from unsuccessful patentees who have obtained preliminary injunctions is another example of a policy which devalues Australian pharmaceutical patents and provides a disincentive to invest in research and development in the pharmaceutical sector in Australia. With policies such as these, which have already led to reduced clinical trial activity in Australia, it would not be surprising if the full benefit of the pharmaceutical patent term extension provisions in attracting R&D investment and activity in Australia has not been realised.

The report suggests that provision of extensions of term, and resultant patent duration in Australia, may not be significant in encouraging a pharmaceutical company to bring a drug to a jurisdiction like Australia. However, the report does not contain any evidence to support this statement. Given that Australia represents a small percentage of the overall international pharmaceutical market, incentives, such as the pharmaceutical extension of term, are

important for encouraging pharmaceutical companies to bring their drugs to Australia. In fact, for pharmaceutical inventions, the duration of the patent term is of critical importance. The cost vs benefit equation in relation to decisions to take drugs through expensive phase III clinical trials depends very much on the amount of patent term that would be available following completion of those trials. There have been several instances where drugs developed in Australia have not made it to phase 3 clinical trials because of delays in taking the drug from the laboratory to phase 1 or phase 2 clinical trials. Equally, decisions made to take a new drug through phase 3 clinical trials will factor in the availability of sufficient patent term should the trials be successful.

DRAFT RECOMMENDATION 9.1

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

This draft recommendation is not appropriate because it does not provide any compensation for patent term lost as a result of taking a pharmaceutical product through extensive clinical trials. There is no evidence whatsoever that pharmaceutical companies intentionally delay obtaining approval to market their drugs in Australia. In fact, any delay beyond 5 years from the filing date of the patent provides no particular advantage because patent term extensions are capped at 5 years, and any delay beyond 10 years results in an effective patent term of less than 15 years. The suggestion on page 266 that patent holders may choose to delay filing a request for marketing approval to obtain more patent term extension does not make sense, particularly since such delays would not provide any additional patent term. The only way to get more than 15 years effective patent term is to obtain marketing approval within the first 5 years after filing the patent application. As explained above, such a rapid approval would be unusual.

It is also clear from the wording of the AUSFTA and the TPP that Australia is required to provide compensation for loss of patent term as a result of the marketing approval process itself, not simply the delays caused by the processing of an application before the Therapeutic Goods Administration. For example, referring to the TPP, it is clear that Article 18.46, which relates to patent term extensions to compensate for delays in granting patents, is directed to delays caused by the "granting authority" of the party, and not delays in obtaining patent grant caused by other factors. In contrast, Article 18.48 refers broadly to delays caused by the marketing approval process, without reference to the regulatory authority. As with the AUSFTA, it is clear that the TPP requires Australia to provide compensation for patent term lost as a result of the marketing approval process. Accordingly, IPTA believes that any move towards the proposal recommended in the draft report would bring Australia into breach of the AUSFTA and the TPP.

DRAFT RECOMMENDATION 9.2

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

This recommendation ignores the fact that the right to manufacture a patented product is an important right granted by a patent, and an important right granted to the patentee during the extended term. Given that obtaining an export listing in the Australian Register of Therapeutic Goods is sufficient to define the period of delay for the calculation of the term of a patent term extension, it would be inconsistent with the current patent term extension scheme to allow generic pharmaceutical companies to manufacture for export during the extension period. In any event, Australia has a specific agreement with the United States as part of the AUSFTA that export of patented pharmaceutical products will only be permitted during the term of an extension in circumstances where the exported material to be used for the purpose of obtaining regulatory approval. This agreement is embodied in Section 119A(2) of the Patents Act 1990.

DRAFT RECOMMENDATION 9.3

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

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

The commission has provided no evidence to support these recommendations. In fact, under the TPP Australia has agreed to provide protection for biologics that is additional to the 5 year period currently applicable to non-biologic drugs. The report also fails to provide any evidence that there is a problem in connection with the publication of clinical trial data, which data are often published in peer reviewed scientific papers.

DRAFT RECOMMENDATION 9.4

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

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

The draft report does not provide any evidence that pay-for-delay agreements are a problem in Australia.

DRAFT RECOMMENDATION 9.5

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

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

This draft recommendation should be removed from the report. Not only is the recommendation based on a false premise, but it does not take into account complexities of relationships between all the parties involved in bringing a drug to market.

10 Registered designs

The draft report recognises that there are concerns with Australia's design rights system including low uptake, lack of adaptability and lack of harmonisation amongst others. The draft report recognises however that there is no clearly superior alternative other than improving the existing system.

The draft report notes that there is an absence of strong evidence that joining the Hague Agreement would be in Australia's interests. The draft report notes that the benefits from reduced administration may be small. The draft report refers to "costs associated with the requirement to extend Australia's term of protection from 10 to 15 years. While IPTA is yet to be convinced of the merit of joining the Hague Agreement, it does note that the term of protection of Registered Designs in Australia at only ten years is the shortest term of any of Australia's major trading partners and considerably shorter than that of Europe which offers a twenty five year term.

Further it is recognised that Registered designs provide a very limited monopoly focussed on the appearance of a product and it is not at all clear that, nor is there any evidence provided that, extending the term would in fact result in "costs to Australia", given the relative ease with which a Registered design can be circumvented. Further, the draft report notes that only a small number of registered design owners renew their designs to receive the maximum possible term. One would expect therefore that even fewer than that small number would renew if there was an optional further five year term available. There is no evidence provided to suggest that this would result in significant "costs to Australia".

IPTA concurs with the view set out in the draft report that measures should be taken to address poor public perception of designs law.

The draft report states that there is a lack of evidence to support the case for extending the scope of protection to virtual and partial designs. The vast majority of overseas jurisdictions, with the only notable example being China, allow partial designs. The draft report appears to regard the design of new products holistically, assuming that an entire new product is always designed with each product re-design. That is not the case. As with patents, in some cases designs can be incremental improvements on existing designs in which parts of the design may be unchanged and only part of the design may be novel. In such cases the possibility of partial design protection would be an incentive to designers to invest in improvements to the design of existing products.

IPTA is therefore in favour of the case for registering partial designs.

As regards virtual designs, there is no logical reason which an image such as an icon on a phone screen should be registrable if a permanent fixture but not registrable if it only appears when the
Phone screen is switched on.

IPTA is therefore in favour of allowing registration of virtual designs.

DRAFT RECOMMENDATION 10.1

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

IPTA generally concurs with that recommendation to the extent that the case for joining the Hage Agreement is not yet made out.

DRAFT Finding 8.2

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

IPTA agrees with that finding.

CHAPTER 11 – Trade Marks and GIs

Before commenting on the recommendations relating to trade marks we need to point out a number of errors or omissions in the report. We believe it is important to highlight these as certain assumptions are based on the errors or omissions. In particular:

- i) On page 324 it is stated that a trade mark can only be removed by third parties for reasons of non-use or when an initial trade mark application was made in bad faith. While it is true that following registration, a mark may only be challenged through the Trade Marks Office on the grounds of non-use, a third party can apply to court to have a trade mark cancelled on any of the grounds of available at opposition or on the grounds that a mark has become misleading or deceptive or generic under Section 88 of the Trade Marks Act 1995 (Cth). This is an important check and balance in the trade mark registration system and provides a mechanism for third parties to remove a mark which was registered in error or which, for reasons that arise after registration, mean that the continued registration is no longer appropriate.
- ii) On page 326, 334 and 336 it is stated that the number of trade mark applications made in Australia has grown rapidly since the introduction of the presumption of registrability following the introduction of the Trade Marks Act 1995. It is stated at page 334 that this change appear to name significantly increase the likelihood of successfully registering a trade mark and that the introduction of the presumption has led to the increased number of filings.

There is no evidence to support this claim and we submit the conclusion is incorrect. Rather we submit that the increase in filings since 1996 is explained as most countries throughout the world amended their trade mark legislation in the period 1994-1996 to ensure compliance with the TRIPS Agreement following the Uruguay round of GATT negotiations. As a result, the registrability of new types of signs was introduced into legislation as well as allowing multi-class applications. The movement to harmonisation of international laws at that time led to an increase in trade mark filings throughout the world and this filtered through to Australia. In addition the rise of the internet at or around this time also led to an increased number of filings to cover the provision of goods and services online.

In our experience the presumption of registrability had no impact on filings or the success rate of filings at the Trade Marks Office at the initial stages, if at all. In particular, it was not until some years after 1996 that the courts gave some guidance on how the presumption should be applied and even now, the presumption is only relevant in a very small percentage of cases.

iii) The economic rationale for trade marks at page 330, does not account for the inherent value of trade marks for protecting business goodwill, the characterisation of trade marks as business assets, the nature of trade marks as a proprietary right, and the capacity of businesses to trade in trade marks, e.g. by licensing use of those trade marks to third parties. The reliance on the Carter 1990 article as setting the scene for evaluating the economic value of trade marks for maximising societal welfare does not account for the significant changes to trade mark theory over the course of the last 30 years. Indeed, as Maskus 2000 (which is post TRIPS) concludes, IP is a public good (at page 28) contrary to Carter's conclusion and goes on to state (at pages 48 and 49) that the balanced view is that the trade marks have a positive impact which offsets the market power they may generate, including by:

- reducing consumer search costs;
- incentivising firms to improve quality over time to avoid erosion of trade mark rights;
- increasing overall quality of products in the market;
- Inducing entrance of new and distinctive products; and
- Creating incentives for orderly distribution of goods and providing an outlet for consumers who desire exclusivity of consumption.

Maskus goes on to conclude the monopoly costs to society in respect of trade marking are limited as:

- there is virtually an unlimited supply of trade marks;
- the legal structure is aimed at preventing misleading conduct and passing off which have adverse economic effects; and
- of quality of goods is not consistent consumers will discount the value of the relevant trade mark.

Accordingly in IPTA's submission a broader consideration of the value of trade marks should be accounted for in the basis for assessing the economic efficiency of the Australian Trade Mark system.

Turning then to the draft recommendations in Chapter 11:

DRAFT RECOMMENDATION 11.1

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

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

repeal part 17 of the *Trade Marks Act 1995* (Cth) (Trade Marks Act)
amend s. 43 of the Trade Marks Act so that the presumption of registrability does not apply to the registration of marks that could be misleading or confusing
amend the schedule of fees for trade mark registrations so that higher fees apply for marks that register in multiple classes and/or entire classes of goods and services.
IP Australia should:
require the Trade Marks Office to return to its previous practice of routinely challenging trade mark applications that contain contemporary geographical references (under s. 43 of the Trade Marks Act). Challenges would not extend where endorsements require goods and services to be produced in the area nominated
in conjunction with the Australian Securities and Investments Commission, link the Australian Trade Mark On-line Search System database with the business registration portal, including to ensure a warning if a registration may infringe an existing trade mark, and to allow for searches of disclaimers and endorsements.

Please note we have added numbering to each of the bullet points above for easy reference:

11.1 DRAFT RECOMMENDATION 11.1(i) – Mandatory Disclaimers

IPTA supports this recommendation.

IPTA has consistently supported compulsory disclaimer endorsements dating back to its submission to the Working Party to Review the Trade Marks Legislation in 1992. In our submission compulsory disclaimer endorsements provide certainty and clarity of rights arising from registration, thus assisting in the resolution of conflicts and allowing clear definition of the scope of protection afforded by trade mark registration.

11.1 DRAFT RECOMMENDATION 11.1(ii) – Abolition of Defensive Registrations

IPTA does not support this recommendation.

It is alleged that defensive trade mark registrations may hinder competition and prevent entry of new firms to a market however, no evidence is provided to support any adverse effect of the defensive registration system. While it is noted that defensive marks are not subject to removal for non-use, the report notes that since the introduction of the Trade Marks Act 1995 approximately 50% of defensive registrations have been allowed to expire. There are currently only around 300 defensive marks on the register. This hardly supports the view that defensive registrations are contributing significantly to cluttering the register.

IPTA submits that defensive registrations perform an important function to assist in the efficient operation of the trade mark system. Indeed, an important point which is omitted from the background to defensive registrations on page 338, is the fact that in order to be registered the trade mark applicant must show that, because of the extent to which the registered trade mark has been used, it is likely that use in relation to other goods or services will be taken to indicate that there is a connection between those other goods or services and the registered owner (Section 185 Trade Marks Act 1995). Only if this element is satisfied should a defensive trade mark be registered. This high threshold explains why so few defensive marks have been registered.

With the above background, we submit that defensive trade marks have an important role to facilitate the prevention of consumer confusion by serving to block trade mark applications

which, but for the defensive registration, could give rise to consumer confusion. By performing this blocking function, defensive registrations avoid costly and unnecessary opposition actions and also potentially reduce the likelihood of litigation in relation to use of marks in relation to goods or services which would otherwise not infringe.

11.1 DRAFT RECOMMENDATION 11.1(iii) – Amendment Section 43 so that the Presumption of Registrability Does not Apply in Relation to Marks that are Misleading and Confusing

IPTA does not support this proposal.

Section 43 provides that a trade mark must be rejected if, because of some connotation that the mark or sign contained in the mark has, use of the mark in relation to those goods or services would be likely to deceive or cause confusion. If an Examiner finds a connotation to exist then an objection must be raised. As noted earlier, the report grossly overestimates the effect of the presumption of registrability on the examination practices at the Australian Trade Marks Office. We have not encountered any instances where a Section 43 objection has not been raised on the basis that an Examiner was persuaded by the presumption of registrability in Section 43.

Regulation 4.8(1) of the Trade Mark Regulations 1995 (Cth) provides:

4.8(1) For the purposes of Section 31 of the Act (which deals with examination and reporting), if in the course of an examination of an application, the Registrar reasonably believes that:

- (a) The application has not been made in accordance with the Act or these Regulations; or
- (b) There are grounds under Division 2 of Part 4 of the Act for rejecting it; the Registrar must report that belief in writing to the applicant.

Having regard to the above, if the Examiner reasonably believes that a ground for rejection under Section 43 exists, the Examiner must issue an objection under this ground. The presumption of registrability would only apply in a very rare number of cases where the Examiner, on the balance of probabilities remains uncertain as to whether a mark contains a connotation which is confusing. In our experience, this arises rarely in practice.

The report also cites the example that there are 700 registered marks using the term “HEALTHY”, around 200 using the term “SUSTAINABLE” and around 100 using terms similar to “GOOD FOR YOU”. With respect, we do not see the relevance of these statistics. Judged in the context of the goods applied for, registration of these marks may be entirely appropriate and not give rise to any confusing connotations. The fact is that many of these marks would, but for the presence of stylisation or other distinctive features, not qualify for registration as being lacking in inherent distinctiveness. Removing the presumption of registrability will have no impact on the allowance of these cases.

In this section of the report (at page 340) a problem is identified in that examination occurs at one point in time and so does not consider whether a mark that is found to be confusing today may become confusing in the future. It is then stated that rectification in this scenario is left to the Australian Consumer Law’s misleading and deception conduct provisions.

IPTA agrees that a trade mark registration can become misleading or deceptive post registration. However, as mentioned earlier, such registrations can be attacked under the Rectification Provisions in Section 88(2)(c) of the Trade Marks Act 1995 (Cth). In addition, the registered owners always run the risk of contravening Sections 18 and 29 of the Australian Consumer Law through use of trade marks in a manner which would be misleading or deceptive in the terms of the quality or the characteristics of the goods.

DRAFT Recommendation 11.1(iv) – Amend the Schedule of Fees for Trade Mark Registrations so that Higher Fees Apply for Trade Marks that are Registered in Multiple Classes and/or in Entire Goods and Services

Applying higher fees for trade marks that are registered in multiple classes could simply encourage applicants to file multiple separate applications rather than a single application in multiple classes which would be undesirable. Charging higher fees for entire classes would be impractical. IP Australia is best placed to make decisions on fees.

DRAFT Recommendation 11.1 – Require the Trade Marks Office to return to its previous practice in routinely challenging trade mark applications that contain contemporary geographic references. Challenges would not succeed where endorsements require goods and services to be produced in the area nominated.

IPTA supports this proposal.

DRAFT Recommendation 11.1(v) – Link the Australian Trade Marks On-line Search System Database with the Business Registration Portal, including to ensure a warning if a registration may infringe an Existing Trade Mark and to allow for searches of disclaimers and endorsements

IPTA supports the first limb of this proposal but not the second. Also caution needs to be exercised in how this information is communicated to users of the system.

The assessment of infringement is complicated and subjective. This assessment must be made on a case by case basis depending on the particular circumstances. We do not believe a reliable assessment could be made by ASIC or the ACCC as part of an automated process. At best, an applicant should be provided with details of the results of the search together with a recommendation that they seek advice from a qualified professional.

IPTA also supports greater education on the interplay between company and business name registrations and trade mark registrations. It has long been the case that there is great misunderstanding of many uses of the system of the interplay between these types of registrations and in particular, that a company or business name registration provides no proprietary rights.

DRAFT RECOMMENDATION 11.2

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

The conclusion that trade marks should not have a role in regulating the quality in goods, differences in formulation between products distributed in different jurisdictions or addressing safety concerns is, in IPTA's view, flawed.

One fundamental economic function of a trade mark is to allow consumers to make decisions regarding quality of goods. As Maskus (2000) states at page 49, consumers will penalise trade mark owners if quality is not consistent, undermining the value of the brand. Indeed, it is universally accepted that a key function of a trade mark is to identify quality.

Moreover trade marks are regularly used for purposes other than mere product identification. A case in point is the regulation of branding for plain packaging of cigarettes which aims to use trade mark laws to effect consumer behaviour to meet socially desirable outcomes.

Accordingly the conclusion that the only reason for restricting parallel imports is to address free-riding simplifies the economic paradigm and IPTA considers the parallel importation should be able to be restricted through private action by a trade mark owner where there is a legitimate non-financial related reason for demarcating distribution of goods on geographical grounds.

Reference:

Maskus, Keith - *Intellectual Property Rights in the Global Economy*, Institute for International Economics, 2000

18 Compliance and enforcement of IP Rights

We note with interest the Commission's comments that Australia's court based system appears to work well for IP disputes between large firms but SME's have difficulty with high risks and costs.

This is primarily the case with patent disputes - trade mark and copyright cases tend to be resolved more quickly and with far less exposure to risks of high costs.

Accordingly, we agree that if some aspects of the UK's Intellectual Property Enterprise Court (IPEC) could be introduced into the Australian court system that would be of benefit to smaller litigants, particularly for trade mark litigation.

The Federal Circuit Court (FCC) would appear to be the most attractive venue to introduce these aspects of the IPEC but in order to do so there would need to be the introduction of judges with the necessary IP experience onto the bench of that court. Presently, the FCC is not favoured as a venue for patent disputes (and, indeed, other more complex IP related disputes)

because of the lack of relevant expertise in the court. We stress that IPTA is not confident that such a system would be suitable for more complex patent disputes.

Further, if the FCC was seen as a venue for resolving "lesser value IP disputes" then, while there are cost savings on issuing proceedings in that court (as against the Federal Court) there would need to be some limit on costs introduced perhaps by imposing a two day limit on proceedings as is the case with the IPEC. In that way some degree of certainty would be given to litigants about costs, provided that pleadings and interlocutory steps were also subject to time limitations and close management by the court.

As discussed above, IPTA does not think the FCC would be a suitable venue for more complex patent disputes. The lessons learnt in the UK from the Patents County Court (PCC) and the IPEC are that patent disputes should be resolved in a venue that commands respect, otherwise the decisions run the risk of being overturned on appeal, as was a common problem with the PCC in the UK.

Further while IPTA notes that recent self-initiated reforms of the Federal Court aim to lower costs and this may be a step in the right direction, particularly for trade marks, IPTA doubts that such voluntary reforms will result in the same quantum of significant cost savings for patent litigants that would result from the establishment of a dedicated IP Enterprise court. IPTA is concerned that if there is no dedicated IP Enterprise Court with hard and fast rules and strict limits on recovery of costs and damages, those costs will inevitably blow out, as lawyers will tend to always try to do the best for their clients and push the boundaries.

IPTA is therefore disappointed that the Productivity Commission is not recommending the setting up of a Court along the lines of the UK's Intellectual Property Enterprise Court.