

Intellectual Property Arrangements  
Productivity Commission Draft Report<sup>1</sup>  
April 2016  
Submission Dimitrios Eliades<sup>2</sup>

**Introduction**

Thank you for the opportunity to make a submission after the time appointed for submissions in the circulated draft. This submission is not made on a confidential basis.

This submission is limited to two areas:

- a) Innovation patents.
- b) The proposal to extend ‘safe harbour’ protection against copyright infringement.

In relation to the submission on innovation patents, the author has been involved in the enforcement of innovation patents since their inception in 2001 and with the enforcement of petty patents and standard patents. In relation to petty patents, the author was junior counsel between 2001 and 2008 when the litigation settled, in arguably the most reported IP litigation in Australian legal history, the *Stack v Brisbane City Council*<sup>3</sup> related determinations which spanned over thirty Patent Office and Federal Court decisions and two High Court Special Leave applications.

In 2007 the author made a submission to the Advisory Council on Intellectual Property (ACIP) in relation to its inquiry into patent enforcement strategies, that the Federal Magistracy (as it was then called), should have original jurisdiction in relation to trade mark and design infringement matters.

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<sup>1</sup> The Report.

<sup>2</sup> Dimitrios Eliades holds a Bachelor of Theology (ACT), a Bachelor of Laws (Syd), a Master of Laws (UQ); Doctor of Juridical Science (QUT). Recommendations in his doctoral thesis on patent entitlement were largely adopted in one of the recent 'Raising the Bar' amendments to the Patents Act. Dimitrios answered a call to the Brisbane Bar in October 1998 where he is now in private practice exclusively in the field of intellectual property. He is the author of the LexisNexis Butterworths update bulletins for patents, trade marks, copyrights and designs and confidential information. In addition, he writes for other IP publications including the IP Bulletin, Hearsay, the Queensland Bar Association publication and the Queensland Law Society's publication Proctor. He is a co-author with Professor Anne Fitzgerald of the Thomson Reuters Lawbook Co. publications 'Introduction to Intellectual Property' and the 'IP Nutshell'. He has been consulted by the Queensland State government on IP matters and the Federal government on IP law reform. Dimitrios has been a member of the Queensland Law Society Technology and IP Committee for more than five years having been involved in a number of submissions made the committee on IP developments.

<sup>3</sup> *Stack v Davies Shephard Pty Ltd* (1999) 47 IPR 525 (Trial Judge); *Davies Shephard Pty Ltd v Stack* (2001) 51 IPR 513 (Full Court).

The author at that time had been prosecuting trade mark enforcement proceedings in the Federal Magistrate's Court (FMC) and more recently the Federal Circuit Court (FCC) since at least 2006 on the basis of the associated jurisdiction power found in the *Federal Circuit Court of Australia Act 1999* and the prior named legislation.<sup>4</sup> In this regard, most trade mark infringement actions also raised claims of contravention of the consumer law protection provisions under the *Trade Practices Act 1974* (Cth) and its successor the *Australian Consumer Law* contained in Schedule 2 of the *Competition and Consumer Act 2010* (Cth).

The following ACIP observation is noted in relation to the extension of the jurisdiction of the then FMC, to patent matters:

'The Government decided not to implement ACIP's recommendation in relation to patents at that time, noting that patent cases are generally longer in duration than trade mark and design cases, and that the Federal Magistrates Court was intended to be a high volume jurisdiction established to deal with simpler and shorter cases. Instead, it recommended that further consideration be given to this option after the Court had gained experience with trade marks and designs cases.'<sup>5</sup>

As part of the recommendations made in this submission, it is put forward that the appointment of specialist IP practitioners could also undertake in the FCC, prosecution of enforcement or revocation proceedings relating to innovation patents as well as the extensions to jurisdiction given under the *Intellectual Property Laws Amendment (Raising The Bar) Act 2012* in trade mark, design and plant breeder's rights matters.

In relation to the submission directed to the proposal to extend of the 'safe harbour' protection, the author had previously made a submission in February 2016, to the Copyright Law and Policy Section Department of Communications and the Arts in response to the invitation to participate in commenting upon the Exposure Draft of the *Copyright Amendment (Disability Access and Other Measures) Bill 2016* (the 'Exposure Draft').

As the identity of all proposed beneficiaries of the extension were not clearly identifiable as a finite group in the Exposure Draft, the submission warned, from litigation experience, of the dangers in relation to such an extension to include e-commerce sites if indeed they were considered 'service providers'. The author identifies that such an extension is contrary to the authorisation laws developed in Australia and found in the *Copyright Act*<sup>6</sup> by placing the responsibility on copyright and trade mark owners to search for sites which may be using their IP whilst at the same time the site licensees reap a financial benefit at the stakeholder's expense.

The Report's consideration of an extension of this protection in relation to copyright raises, the author suggests, the same issues for consideration.

Dimitrios Eliades

13 June 2016

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<sup>4</sup> Section 18.

<sup>5</sup> 'Post-Grant Patent Enforcement Strategies' Interim Report' ACIP, August 2009.

<sup>6</sup> *Copyright Act* s 36(1A) and s 101(1A).

## ATTACHMENT A

### Summary

1. The submission in relation to innovation patents takes the position it did in relation to the ‘about face’ the Advisory Council on Intellectual Property (ACIP) did following the report of ‘The Economic Impact of Innovation Patents Research’<sup>7</sup> commissioned by IP Australia (Paper 05).
2. The submission is that the recommendation to abolish the innovation patent system is not founded upon a proper consideration of all of the relevant factors. Relevantly the Report states:

‘Australia’s IPS is little used. In 2014, innovation patents made up just over 5 per cent of patents in force. The vast majority of parties that use the IPS do so only once.’<sup>8</sup>

And further

‘There are very few innovation patents in force. In 2014 there were around 6000 active innovation patents in Australia, compared to over 120 000 standard patents.’<sup>9</sup>

3. Neither Paper 05, nor the ACIP Final Report on Innovation Patents in May 2014 identified as a practical factor in the low usage of innovation patents, that the cost to enforce these patents was not only higher than other forms of IP, but varies in practice very little from enforcement of a standard patent.
4. The little use of the innovation patent system by those it was intended to assist, small to medium enterprises (SMEs) is with respect not attributable to the second-tier model itself but factors including the cost to enforce an innovation patent.<sup>10</sup> In large part this is because notwithstanding innovation patents have a maximum of 5 claims, enforcement of standard patents does not often involve more than several claims.
5. In one current litigation in which the author is involved in the Federal Court, there are more than 10 citations in respect of the innovation patent and yet the author has been involved in patent cases where there are fewer citations in respect of standard patents.
6. The current consideration for the abolition of the innovation patent system, suffers in the opinion of the author, from a dominant focus on a second-tier model designed to appeal to SMEs and inventors of lower level inventions, without accommodating an equivalent appropriate platform for their enforcement.

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<sup>7</sup> Published September 2014.

<sup>8</sup> The Report p12.

<sup>9</sup> The Report p 209.

<sup>10</sup> ‘The petty patent system was little used, and in 1995 the Advisory Council on Intellectual Property (ACIP) was asked to assess the effectiveness and efficiency of the system. ACIP (1995, p. 5) identified what it saw to be a ‘gap’, arguing that the system did not protect incremental innovations and recommended that the petty patent system be reformed to provide “fast, limited monopoly protection for lower level or incremental inventions”’: The Report at p 210.

7. The Economic Impact of Innovation Patents Research<sup>11</sup> commissioned by IP Australia ('Paper 05'), suffers from the same criticism.
8. In 1995, the report of the Advisory Council on Industrial Property (ACIP)<sup>12</sup> recommended the abolition of the petty patent system and the introduction of the innovation patent system, in order to assist SMEs and inventors obtain 'fast, limited monopoly protection for lower level or incremental inventions', not meeting the criteria of standard patents or petty patents at the time.<sup>13</sup>
9. Paper 05 is flawed in that it does not consider or evaluate the impact upon the results from which it has drawn its conclusions, of the fact that whilst entry into the innovation patent system is designed to be cheaper and faster, enforcement of an innovation patent is as expensive as the enforcement of a standard patent.
10. Such a factor, undermines the conclusion based upon the statistics of the number of SMEs who apply for innovation patents, those certify them and those who do not renew them.
11. The author, mindful of the constitutional basis upon which the Government rejected the establishment of a Tribunal to relieve post grant enforcement difficulties,<sup>14</sup> proposed a model utilising the existing Court structures through the adoption of a practice of appointing three (3) members of IP Australia as Court experts to advise on the validity of patents, standard or innovation patents.<sup>15</sup>
12. However, more recently, the author has had the benefit of reading the U.K. report entitled "Evaluation of the Reforms of the Intellectual Property Enterprise Court 2010 to 2013 issued 22 June 2015 (the "IPEC Report").
13. Reforms introduced in the U.K. in the period 2010 to 2013 to the Patents County Court (PCC), now the Intellectual Property Enterprise Court (IPEC), included a cap on recoverable costs, a cap on damages and active case management.
14. The author considers, considers that cost capping for the enforcement of innovation patents would give SMEs incentive to use a system, which presently cannot give any assurances as to the legal costs which will be incurred to enforce their innovation patent rights.
15. In the result, a cost predictable enforcement path, coupled with a simplified validity/infringement scrutiny by the Court, would give a more accurate assessment of the use and value to SMEs (and Australia) of the second-tier model.

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<sup>11</sup> Published September 2014.

<sup>12</sup> <http://www.acip.gov.au/> under "Reviews" and "Completed reviews". At the time of making this submission the author has noted that attempts to access the ACIP site have resulted in proxy errors.

<sup>13</sup> Noted at the Report as follows:

'ACIP (2015b, p. 1) then issued a corrigendum to its review, noting that in light of the evidence in IP Australia's report, the IPS is likely to 'result in a net cost to society'. ACIP concluded that the Australian Government should consider abolishing the IPS': The Report at p209.

<sup>14</sup> "Post-Grant Patent Enforcement Strategies" ACIP Final Report January 2010. The Government response is also available at <http://www.acip.gov.au/reviews/government-review-postgrant/>

<sup>15</sup> Published in two part June and September 2013, LESANZ publication Les Nouvelle.

16. The author notes the Commission's consideration of the IPEC model.<sup>16</sup> The author does not advocate a dedicated court for IP. The Federal Court initiatives to have specialist judges hear matters in their respective areas addresses this argument. However, innovations which for example are at an early stage of exploitation and their commercial return uncertain would benefit and be encourage with the system if enforcement were more accessible and had some certainty as to exposure as to adverse costs orders.
17. The author as a practitioner, holds the view that advisers in IP enforcement matters are likely to more readily initiate proceedings in the FCC if there were a specialist IP judge appointed to the Court.

## **Historical Overview**

### *ACIP review of the petty patent system*

18. In 1994, the Government decided to review the petty patent system, which had been introduced in July 1979. This decision was a response to the recommendations in a report to the Prime Minister's Science and Engineering Council (PMSEC), *The Role of Intellectual Property in Innovation* (the PMSEC report).
19. The PMSEC report recommended a 10-year term for petty patents and differentiation of the obviousness standard required for obtaining a petty patent compared with a standard patent.<sup>17</sup>
20. On 12 July 1994, the Minister for Small Business, Customs and Construction, Senator the Hon Chris Schacht, referred the petty patent system to ACIP for inquiry and report. The terms of reference required ACIP to have regard to:
  - a) the role of petty patents in Australia's industrial property system and their contribution to economic and technological development in Australia; and
  - b) the effectiveness and efficiency of a petty patent system in meeting its objectives with particular ward to small and medium business enterprises.
21. This was ACIP's first major report and the first review of the petty patent system since its introduction in 1979. ACIP recommended a new second tier patent system with significant differences from the petty patent system.<sup>18</sup>
22. ACIP identified the following benefits in a lower level second-tier system:
  - a) It filled the gap between designs and standard patents.
  - b) Was quick to obtain.

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<sup>16</sup> The Report at p 496.

<sup>17</sup> ACIP, "Review of the Petty Patents System", October 1995 at p 11 (the "ACIP Petty Patent review").

<sup>18</sup> ACIP Petty Patents review at p 5.

- c) Was cheap to obtain *and enforce* (Emphasis added).
  - d) Was reasonably simple.
  - e) It helped small/medium enterprises.
  - f) Had a measure of certainty.
  - g) Lasted for a sufficient time to allow.
23. It was a factor in ACIP’s recommendation, that in adopting the new model innovation patent system, Australia would be “in keeping with world trends” as over 40 countries had adopted a second tier system with more countries in the “process of introducing such a system.”<sup>19</sup>
24. The features of the innovation patent system which we have come to know are set out in the Executive Summary<sup>20</sup> and considered individually in the report.
25. Critically, the report advised that a major problem raised in the consultation process was the problem of providing a lower level tribunal for the enforcement of industrial property rights “at a cost commensurate with the likely value of the rights involved.”<sup>21</sup>
26. ACIP conceded that it was unable to provide a solution, particularly one which enabled the resources of the Patent Office to be utilised. However, ACIP did recommend that the Commissioner be given the power to revoke patents and that an avenue for the enforcement of innovation patent rights at a lower level than the Federal and State Supreme Courts is considered as a matter requiring “serious and urgent attention”.<sup>22</sup>
27. Relevant to the question under consideration presently by IP Australia, are the perceptions of the then user groups in the ACIP consultation process:

“We recognise that there is a strong perception among user groups that the present enforcement procedures are lengthy, complex and expensive. As the petty patent system<sup>23</sup> is designed particularly for smaller innovators an important element if it is to be effective, will be a less complex and less expensive enforcement process.”<sup>24</sup>

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<sup>19</sup> ACIP Petty Patents review at pages 5/6.

<sup>20</sup> Ibid.

<sup>21</sup> ACIP Petty Patents review p 6.

<sup>22</sup> ACIP Petty Patents review p8; Recommendation 13 at [5.9.1]

<sup>23</sup> Possibly intended as a reference to the innovation patent system.

<sup>24</sup> ACIP Petty Patents review at p 56.

28. ACIP considered that an attractive forum for innovation patent holders might be, if a Federal Magistracy were established and specialist magistrates appointed.
29. Alternatively, ACIP considered that cost penalties might be introduced to encourage innovation patent litigants to use State Courts within their jurisdictional levels. ACIP acknowledged that the difficulty with this approach was the fact that the State courts lacked the experience in patent cases with a likely result being workload delays and higher cost litigation.<sup>25</sup>
30. Relevantly, ACIP had considered but rejected the following proposals:

- a) In cases where there was a cross claim for revocation in response to an infringement action (which the author considers happens as a matter of fact in by far the majority of cases), the Patent Office would determine validity leaving the Court to determine infringement.

ACIP rejected this proposal on the basis that issues of validity and infringement were interdependent. Specifically, ACIP considered that:

“Matters of expert evidence and the construction of both the specification and claims and prior art documents are interrelated.”<sup>26</sup>

- b) As a preliminary to the commencement of infringement proceedings or at least at a very early stage of the proceeding, the Patent Office gives a non-binding ‘advisory opinion’ on the issue of infringement. ACIP considered this proposal had appeal but ultimately considered that it was not a “low cost umpire’s decision”. In this regard, ACIP considered the position of the Law Council on this issue had merit. The Law Council considered that unless the opinion was binding on the parties, it had the effect of adding another step in the process without achieving a final resolution.<sup>27</sup>

#### *ACIP Post-Grant Patent Enforcement Strategies*<sup>28</sup>

31. In early 2006, the Government gave ACIP the following terms of reference:

“Inquire and report on issues relating to post-grant patent enforcement strategies to benefit the Australian economy by assisting patentees to effectively enforce their patent rights.”

32. The Options Report<sup>29</sup> circulated by ACIP in 2010, referred to several inquiries into the area of patent enforcement, specifically:

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<sup>25</sup> Ibid.

<sup>26</sup> ACIP Petty Patents review p 58.

<sup>27</sup> Ibid.

<sup>28</sup> ACIP, *Post-Grant Patent Enforcement Strategies – Final Report*, Australian Government (IP Australia) January 2010: <http://www.acip.gov.au/library/Final%20report%20dated%2016Jan2010.pdf> (the “ACIP enforcement report”).

<sup>29</sup> Issued August 2009.

- a) Practice and Procedures for enforcement of industrial property rights in Australia (Industrial Property Advisory Committee), March 1992.
  - b) Review of the Enforcement of Industrial Property Rights (patent enforcement) March 1999.
  - c) Review of intellectual property legislation under the Competition Principles Agreement, September 2000.
  - d) Consideration of extending the jurisdiction of the Federal Magistrates Service to patent, trade marks and designs matters, November 2003.
33. The ACIP enforcement report made a number of recommendations. In doing so it identified a consistent theme since the ACIP petty patents report – the reluctance of SMEs to approach enforcement due to the uncertainty and expense associated with patent enforcement.<sup>30</sup>
34. ACIP referred to a submission made in a qualitative analysis undertaken by the Intellectual Property Research Institute of Australia (“IPRIA”), which stated:
- “In my experience, small players playing Goliath will not take action. A small player will even be cautious about writing a letter of demand, knowing full well the big player will use the unjustified threat procedure to commence proceedings, and then it’s out of your control.”<sup>31</sup>
35. IPRIA’s survey of Australian inventors found that a significant number of inventors felt that they did not have the resources to pursue the matter through the courts or even send a letter of demand.<sup>32</sup>
36. Relevantly, ACIP recommended the establishment of a Tribunal to make non-binding decisions, but sought to encourage litigants to use the Tribunal by suggesting methods including recommending that a Court award costs against parties who:
- a) did not firstly obtain a ruling from the Tribunal before going to Court; or
  - b) obtained a ruling from the Tribunal but sought the Court’s decision thereafter.
37. The recommendation stated:
- “That an embodiment of the determination mechanism in the IP Dispute Resolution Centre is provided in the form of a Patent Tribunal along the following lines:

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<sup>30</sup> Above n 12.

<sup>31</sup> The ACIP enforcement report p26.

<sup>32</sup> IPRIA working paper 10/2009 referred to in the ACIP enforcement report p 26 footnote 49.



- a) each Tribunal hearing panel to comprise up to 3 people, integrating legal and technical expertise
- b) Tribunal hearing panel members to be drawn from the register of experts established under Recommendation 2;
- c) Patent attorneys to have a right to appear;
- d) The Tribunal to have more streamlined procedures and simplified evidentiary requirements than a court;
- e) The Tribunal to take a pro-active and inquisitorial role;
- f) Mechanisms be introduced to encourage parties to comply with the Tribunals non-binding determinations, and to discourage parties from using the courts instead of the Tribunal where it would be appropriate to do so; and
- g) that the effectiveness of the Patent Tribunal be monitored from its date of establishment.”

38. The Government did not accept the recommendation for a number of reasons including that:

- a) It offended section 71 of the Constitution in allowing a Tribunal to make ‘judicial decisions’;
- b) It added another layer of determination in an already complex and expensive process.

39. The Government’s relevant response was as follows:

“In its report, ACIP considered the [Tribunal] has the power to issue determinative judgements. However, this is not viable because judicial power may not be vested in a body unless it is a court within the meaning of s.71 of the Constitution.

ACIP recommends that a Patent Tribunal without the power to issue binding determinations be established as an alternative. The Government considers that this model has limited benefits. Both parties [would need to agree in order to go to the] Tribunal. Its decision would not be binding and mechanisms to encourage the parties to abide by its decisions would be limited. Such a body may therefore only add another layer of appeal.

Parties in dispute already have the option of agreeing to arbitrate in a form of ADR. ...

On balance, the Government considers that the costs of a Patent Tribunal to the parties in a dispute, in particular the potential uncertainty created by such a body, outweighs the potential benefits at this time.”<sup>33</sup>

*The Australian Innovation Patent Survey March 2013 – Verve Economics*

40. On a date not disclosed in the report, but sometime after the request of the then Minister for Innovation, Industry, Science and Research on 28 February 2011 to IP Australia, IP Australia engaged Verve Economics to undertake research to enable the possible economic impacts of innovation patents to be identified.<sup>34</sup>
41. Verve Economics is a Canberra-based economic consulting firm offering ex pert advisory services in the areas of competition policy, regulatory analysis, transport economics, agricultural economics, productivity analysis, economic modeling, economics of innovation, public policy analysis and business strategy.<sup>35</sup>
42. Verve Economics undertook a survey of 3195 inventors who had protected their inventions with innovation patents, ‘to gain a better understanding of the factors driving the use of innovation patents’.<sup>36</sup>(the author’s emphasis)
43. Over a period of 11 weeks 517 were received being a response rate of 16.2%.<sup>37</sup>
44. The survey its compilation and execution are the subject matter of Part 4 of the Verve Report.
45. The key findings of the Verve Report<sup>38</sup> were that:
  - a) Utility models were available in 90 countries including mostly developing countries and also some developed economies such as Australia, Austria, Denmark, Italy and Germany.
  - b) Utility models can account for well over a quarter of all filings in many countries;<sup>39</sup>
  - c) In Australia SMEs and individuals accounted for approximately 90% of the innovation patent filings, with the remaining 10% being attributed to large corporations;
  - d) The main reason inventors used innovation patents were:

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<sup>33</sup> <http://www.acip.gov.au/reviews/all-reviews/review-patent-enforcement/>

<sup>34</sup> “*The Economic Value of the Australian Innovation Patent:*” – *The Australian Innovation Patent Survey* “ 24 March 2013 at p 5 (the “Verve Report”)

<sup>35</sup> The Verve Report at p ii.

<sup>36</sup> The Verve Report p III.

<sup>37</sup> Ibid.

<sup>38</sup> The Verve Report p 1.

<sup>39</sup> The Verve Report p 9.

- a) To protect the invention;
- b) To enhance the reputation of their firm.
- e) There was only a minor use of innovation patents for strategic reasons such as building a patent thicket;
- f) The main reasons inventors preferred innovation patents over standard patents were:
  - a) The faster grant time; and
  - b) Lower cost.
- g) The lower inventive threshold was the least important reason for their use by inventors;
- h) The main alternate to innovation patents was being first to market;
- i) Trade secrecy and standard patents were also important alternatives for the inventors;
- j) Existing research suggested that the economic effect of utility models decreased with the rise of technological capacity in industries and countries. In this regard, it was noted that in the studies in the Republic of Korea, that firms used the knowledge acquired through utility models as a stepping stone to achieve higher level development, with early growth higher and reliance lower as economic development increased.<sup>40</sup>

46. It was further noted that:

- a) the share of utility models of total patents in 2010 in:
  1. Australia was 5%;
  2. China was 50%;
  3. Germany 20%.<sup>41</sup>
- b) As at 1 December 2012, 15,032 innovation patent applications had been filed in IP Australia:
  - a) with approximately 40% still active comprising:

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<sup>40</sup> The Verve Report p 29.

<sup>41</sup> The Verve Report at p II.

1. Certified 8.6%;
2. Sealed 32.8%;
3. Filed 0.3%.<sup>42</sup>

b) with approximately 60% inactive mainly due to non-payment of renewal fees (42.7% ceasing and 8.2% lapsing).<sup>43</sup>

47. An interesting reference in the Verve Report was the example of the rapid development of the pharmaceutical industry in India. India does not have a utility model however, in 1970 a new patent legislation was introduced which included a 7 year protected process patent. As almost any chemical could be the subject of a process patent, this had effectively removed product patents for pharmaceuticals in favour of process patents.<sup>44</sup>
48. The conclusion reached by the author of the Discussion Paper referred to in the Verve Report was that “even weak patent rights were effective ‘even in a poor country such as India.’”<sup>45</sup>
49. Although the Verve Report considered that the majority of responses saw innovation in apposite light, it was noted that the results did not imply that innovation patents were providing a net benefit to the Australian economy as a whole.<sup>46</sup>

*The ACIP Review of the Innovation Patent System (with Corrigendum)*

50. It may seem that it is unnecessary to consider or even state some of ACIP’s recommended changes in the light of ACIP’s subsequent statement issued 15 May 2015, that it was satisfied that the innovation patent system should be abolished. However, in circumstances where the author considers that the:

- a) Verve Report;
- b) Paper O5 and its reliance upon IGPOD’s data, and
- c) ACIP’s reliance upon the Paper 05,

all suffer from a fundamental failure to take into account a relevant factor, that indeed modifications addressing unintended uses of the system might prove to have some relevance.

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<sup>42</sup> The Verve Report p15.

<sup>43</sup> Ibid.

<sup>44</sup> The Verve Report p 27.

<sup>45</sup> Ibid.

<sup>46</sup> The Verve Report p IV and p 47.

51. As stated above, on 28 August 2011, the then Minister for Innovation, Industry, Science and Research requested ACIP to inquire, report and make recommendations to the Australian Government on the effectiveness of the innovation patent system in stimulating innovation by Australian small to medium enterprises and, if effective, have regard to:

- a) Any opportunities for enhancing its effectiveness and efficiency;
- b) Any unintended consequences arising from its implementation.

(the Terms of Reference)

52. The ACIP Final Report ‘Review of the Innovation Patent System FINAL REPORT’ as published in May 2014 came to several conclusions (the ACIP Final Report).<sup>47</sup>

53. The fundamental position it took in May 2014, was that it was unable to make a recommendation on whether to retain or abolish the innovation patent system due to its inability to identify any empirical evidence as to whether the innovation patent system does or does not stimulate innovation in Australian SMEs.<sup>48</sup>

54. Put another way, there was a lack of empirical evidence to assist in determining whether there was justification to grant low level inventions patent protection.

55. The issue raised associated questions:

- a) Whether innovation patents were a suitable reward for the investment made by the inventor; and
- b) Whether the innovation would have occurred regardless of the existence of the innovation patent system

56. ACIP did in its examination of the issues arising from the Terms of Reference, conclude that it did not support the continuation of the innovation patent system in the way it was presently configured and that the recommended changes needed to be addressed before a future date when the changes brought about by the *Raising the Bar* legislation<sup>49</sup>, settled.

57. It did consider that there was sufficient evidence available from submissions and the Verve Report, to identify some matters for which it recommended some changes be made, should the Government determine to retain the system.<sup>50</sup>

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<sup>47</sup> The title page of the ACIP Final Report is erroneously dated ‘May 2015’.

<sup>48</sup> The ACIP Innovation Patent report 2014 p 8.

<sup>49</sup> *Intellectual Property Laws Amendment (Raising the Bar) Act 2012 (Cth)*.

<sup>50</sup> The ACIP Final Report Recommendation 1 at p 8.

58. This first substantive recommendation was to raise the level of “inventiveness” from the current innovative step level, to a level still below the inventive step level for standard patents.

59. The test recommended was that the invention should be non-obvious to a non-inventive skilled worker in the field when compared to the common general knowledge anywhere in the world: *Minnesota Mining & Manufacture Co v Beiersdorf* [1980] HCA 9. <sup>51</sup>

60. Relevantly, ACIP in making this recommendation said at page 9:

“There is a growing awareness that robust, enforceable intellectual property rights, (IPRs) create incentive for innovation and contribute substantially to the economy ...”

61. In this regard, ACIP identified that in Australia, this robustness is directly tied to the level of innovation, which should not be measured in isolation from the level of innovation required for the equivalent protection in other jurisdictions.<sup>52</sup>

62. ACIP considered the proposed test in *Minnesota Mining* provided several advantages:

- a) The test was higher than the present innovative step test;
- b) There was considerable jurisprudence on the application of that test;
- c) The test was reasonably easy to understand as a scintilla of inventiveness above the relevant standard was sufficient.
- d) It would respond to concerns there was no reference to the CGK as the relevant modification would insert the CGK into the test.<sup>53</sup>

63. ACIP considered that raising the level addressed a number of concerns expressed, going to the question of lack of certainty which accompanied the system which had the lower threshold of inventiveness and in circumstances where there was no obligation to certify the granted innovation patents. <sup>54</sup>

64. A further recommendation to address the uncertainty arising from uncertified innovation patents, was to recommend the compulsory request for an examination of the complete specification upon the third anniversary of the filing date of the application.<sup>55</sup>

65. Recommendations 4, 5 and 6, addressing respectively:

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<sup>51</sup> The ACIP Final Report p 9.

<sup>52</sup> The ACIP Final Report p 10.

<sup>53</sup> ACIP Recommendation 2 at p 9 to 12.

<sup>54</sup> Ibid at p11 and 12.

<sup>55</sup> The ACIP Final Report p 12.

- a) A less confusing terminology for innovation patents;
  - b) Excluding method or process patents from protection under the second-tier system; and
  - c) The continuation of the remedies presently available,
- are simply noted in this submission at this stage.

*The Economic Impact of Innovation Patents- Paper 05*

66. The purpose of this research paper was to examine the economic impact of the innovation patent system in Australia.<sup>56</sup>
67. Paper 05 also identified difficulties associated with considering evidence in other jurisdictions which included the varying terms of protection, differences in patentable subject matter, the name of the right and the differing requirements for examination.<sup>57</sup>
68. Paper 05 considered that the scarcity of empirical evidence on second tier patent systems (as experienced by ACIP), could be overcome:  
“We were confident that we could overcome this issue by using our recently published IP Government Open Data (IPGOD) which includes the complete IP registry with each applicant from 1990 to 2013 linked to Australian Business Numbers, allowing us to link innovation patent applicants with firm characteristics. In addition, IP Australia’s Office of the Chief Economist worked with data from the Australian Bureau of Statistics, the Department of Industry and Science, the Australian Securities and Investment Commission and the Australian Business Register to build a comprehensive micro-dataset to allow detailed analysis of innovation patent applicants.”<sup>58</sup>
69. IP Australia drew a conceptual distinction. It sought to measure the effects on inventors of innovation patents being available - the existence of the system, “rather than the effect of obtaining an innovation patent.”<sup>59</sup>
70. Thereafter, Paper 05 sets out how it planned to implement the conceptual focus upon the effects on SMEs and inventors of the existence of innovation patents. IP Australia’s strategy was after developing a large dataset of information, to review the existing empirical literature on second

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<sup>56</sup> Paper 05 at p5.

<sup>57</sup> Ibid.

<sup>58</sup> Paper 05 at p 6; Paper 05 also identified difficulties associated with considering evidence in other jurisdictions which included the varying terms of protection, differences in patentable subject matter, the name of the right and the differing requirements for examination.

<sup>59</sup> Paper 05 at p 5.

tier patent systems and replicate modelling done for other countries to estimate comparable effects in Australia.<sup>60</sup>

71. Relevantly, Paper 05 assessed the economic impact of innovation patents as follows:

“We investigated whether having innovation patents would encourage R & D and traditional patent applications that would not otherwise have occurred, particularly by SMEs. The evidence suggests that this does not happen.

Private inventors and SMEs do participate in the innovation patent system, but the vast majority, 74% of all applicants between 2001 and 2013, only ever file one innovation patent, and tended to allow their innovation patents to lapse early, rather than pay the renewal fee. This suggests that the vast majority of SMEs found little value in the system, or at least not enough value to use either the innovation or standard patent system again, or indeed pay the renewal fee of \$110 to \$220.”<sup>61</sup>

*The ACIP Statement May 2015*

72. This statement made by ACIP, which it is noted was abolished in April 2015,<sup>62</sup> simply refers to, repeats and relies upon Paper 05 in its recommendation to abolish the innovation patent system.

*The flawed premises of the Verve Report, Paper 05 and the ACIP statement*

73. The difficulty with the approaches of all these reports and recommendations, is that in seeking to measure the effects on SMEs and inventors of the innovation system, they have assumed that all the elements which can attribute to the statistics on use of the system and behavioural activity, have been taken into account.

74. In their enthusiasm to gauge the value of the system to SMEs, inventors, they have failed to factor in possibly the most important factor, which can explain in large measure the behaviour – information relevant to the enforcement of innovation patents. At the very least, this factor would have contextualised the empirical data.

75. The author considers it extra-ordinary that such undertakings have been commenced without even attempting to include as a potential factor impacting upon the very conduct being considered, practical difficulties associated with the enforcement of innovation patents.

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<sup>60</sup> Paper 05 at p 6.

<sup>61</sup> Paper 05 at p 30.

<sup>62</sup> The ACIP home page <http://www.acip.gov.au/> contains the following notation:

“The Advisory Council on Intellectual Property (ACIP) was abolished in April 2015. Reviews of IP Matters will be coordinated by IP Australia in the future.”



76. Dealing firstly with the Verve Report briefly.

77. In relation to enforcement of the innovation patents, the Verve Report noted that the expected enforcement costs were not as important as the quicker cheaper solution to protection with innovation patents.<sup>63</sup> However, the report does indicate that in asking the question which evinced that response, there was an expectation by Verve Economics that the enforcement costs of innovation patents would be lower than that of standard patents.<sup>64</sup>

78. Perhaps Verve Economics assumed this fact from the distinction drawn as to the breadth of innovation patents being narrower than standard patents:

“An innovation patent is likely to have lower breadth than a standard patent because the innovative step is lower and because a maximum of five claims is allowed, compared to unlimited claims in a standard patent application.”<sup>65</sup>

79. It is a fact which is not obvious in practice.

80. Now moving onto Paper 05 and the ACIP Final Review (with Corrigendum), which based its amended recommendation upon Paper 05.

81. It has been repeatedly noted in these papers that the innovation patent system was introduced to encourage SMEs obtain protection for low level inventions. However, the gymnastics undertaken with this data has omitted to factor in some practical matters that have not rated even a mention despite ACIP’s warning when it conducted its first review, the review of the petty patent system, that a major problem raised in the consultation process was the problem of providing a lower level tribunal for the enforcement of industrial property rights “at a cost commensurate with the likely value of the rights involved.”<sup>66</sup>

82. Innovation patents were introduced to accommodate and encourage SMEs and inventors to obtain some protection for lower level inventions, which might not satisfy the requirements of standard patents. Neither Paper 05 nor the ACIP review and final recommendation to abolish the innovation patent system, considered it relevant that an SME or inventor, when facing the option of certifying the innovation patent and spending (or be at risk of incurring if unsuccessful) costs of anywhere between \$100,000 and \$500,000 (or upwards), might not wish to pay \$110 - \$220 for the cost of renewal, when faced with the exposure of enforcing the rights.

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<sup>63</sup> The Verve Report p III and p 41.

<sup>64</sup> Chart 17 at p 41 identifies the enforcement response by the words “The lower expected cost of enforcing the innovation patent”.

<sup>65</sup> The Verve Report at p 20.

<sup>66</sup> ACIP Petty Patents review p 6.

83. It is not the cost of renewal which is prohibitive, it is the fact that there is no certainty that enforcement will not become a money pit from which the SME or the inventor will not recover.
84. Notwithstanding this practical position, Paper 05 seizes upon the failure to pay renewal fees as evidence as a litmus representing the SME's and the inventor's valuation of the worth of the innovation patent.:
- “Only 23 SMEs have become moderate users of the innovation patent system, filing at least 5 innovation patents, with at least one enforceable right, and entering the patent system via an application for an innovation patent. The average SME or private inventor files once and never again (74%) does not receive any enforceable right (83%), and lets their patent expire early because they see its value at less than the \$110-\$220 cost of renewal (78%).”<sup>67</sup>
85. That is a misconceived and a myopic interpretation of the data.
86. This approach suggests that possibly IP Australia is not the best party to be making these assessments given its understandable gravitation to one aspect of the patent system – the application process.
87. The conduct of SMEs and inventors in making applications, renewals and applications for examinations, cannot be considered away from some very practical considerations which are associated with the enforcement of innovation patents.
88. Firstly, there is no discernible difference in the cost of enforcing or defending innovation patents and standard patents.
89. Just as in the case of litigating petty patents, the costs of enforcement of innovation patents is not reflective of a difference commensurate with the aim of innovation patents providing patent protection for patents which are quicker, easier to obtain and which have a lower threshold of inventiveness.
90. Put simply, the differences in acquiring an innovation patent, as opposed to a standard patent, are not equally discernible in enforcement.
91. Infringement actions based upon innovation patents must be pleaded and particularised in the same way as standard patents. Expert evidence is almost always relied upon in the infringement action and/or in the invariable cross-claim for revocation which is associated with the overwhelming majority of patent infringement actions.
92. Secondly, the theoretical argument that innovation patents are cheaper to litigate based upon the fact that they are limited to 5 claims is fallacious.

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<sup>67</sup> Paper 05 at p 3 Executive Summary.

93. Notwithstanding there is no limit to the number of claims in a standard patent, the questions of validity and infringement for both innovation patents as with standard patents, usually centre around between 1 and 5 claims.
94. The author has no empirical evidence to support the statement, but relies upon the practice of being briefed in matters involving petty patents, innovation patents, standard patents and reviewing for legal publications since 1999, patent decisions of the High Court, the Federal Court and State Courts.
95. In summary, in considering the question of whether innovation patents have satisfied the policy objective of encouraging innovation among Australian SMEs and inventors, the impact of the practical difficulties associated with enforcement of these innovation patents cannot be divorced from the conduct identified in the data and focussed on the actions of applying for protection, renewing the protection or requesting examination.

*The UK 2015 evaluation of the Intellectual Property Enterprise Court*

96. Between 2010 and 2013, the Intellectual Property Enterprise Court (IPEC), formerly known as the Patents County Court (PCC), underwent a series of comprehensive reforms.
97. On 22 June 2015, an evaluation of the performance of those reforms was published.<sup>68</sup>
98. The UK IPEC Evaluation noted the aim of the reforms as follows:
- ‘The aim of the reforms was to improve access to the court, especially for small and medium enterprises (SMEs), primarily through streamlining the court’s procedures, lowering the costs of litigation, and speeding up the resolution of claims ... The objective was to ensure that the IPEC hears less complex claims than those heard at the [High Court]/Patents Court (PHC), while offering those litigants a speedier resolution system within which both recoverable costs and damages awards are limited.’<sup>69</sup>
99. The evaluation identified the result of certain procedural shortcomings in these terms:

‘The cumulative effect of these three shortcomings was that litigation could be undertaken at the PCC and the HC/PHC ‘with the same procedures and the same price’ – a situation that was perceived as blurring the lines between the types of cases heard at the

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<sup>68</sup> “Evaluation of the Reforms of the Intellectual Property Enterprise Court 2010-2013” 22 June 2015, Santa Clara University, Toulouse School of Economics and Cardiff University at [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/447710/Evaluation\\_of\\_the\\_Reforms\\_of\\_the\\_Intellectual\\_Property\\_Enterprise\\_Court\\_2010-2013.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/447710/Evaluation_of_the_Reforms_of_the_Intellectual_Property_Enterprise_Court_2010-2013.pdf) (the “UK IPEC Evaluation”)

<sup>69</sup> The UK IPEC Evaluation at p 2.

PCC and the HC/PHC, and which did little to encourage SMEs to enforce their IP rights at the court.<sup>70</sup>

100. The reforms relevantly included:

- a) A total recoverable costs cap of £ 50,000 (with an additional cap of £ 25,000 relating to hearings concerning damages);
- b) A damages cap applicable to all IP claims of £ 500,000.<sup>71</sup>

101. The evaluators undertook a methodology between May and December 2014, of collecting and analysing the views of lawyers with IPEC experience, litigants who had used the IPEC and PHC in pre and post-reform environments.<sup>72</sup>

102. In determining the most important reform, the evaluators asked the following question:

‘Which of the reforms – costs cap, damages cap, ACM (active case management), SCT (small claims track) had the biggest impact?’

103. The evaluation noted:

‘Overall, the majority of interviewees – 53% - stated that the decision to cap the costs at a ceiling of £ 50,000 at IPEC MT has proven to be the most important reform with respect to attracting litigants to court. The reason for this is that post reform the litigant knows what his or her exposure to costs will be in the event of loss. In other words, the existence of the cap gives litigants confidence that the costs of litigation - either as a claimant or defendant – will not outweigh the benefits.’<sup>73</sup>

104. It was noted that the cap on damages was the least relevant reform based on the emphasis for injunctive relief to stop the conduct rather than the damages which often is difficult to prove in IP cases:

‘It is interesting to note that the IPEC MT damages cap of £ 500,000 is perceived as the least influential reform – in fact, 82% of all interviewees stated that the cap is either ‘irrelevant’ or ‘of little significance’, largely because the central remedy sought at IPEC MT is an injunction.’<sup>74</sup>

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<sup>70</sup> The UK IPEC Evaluation at p 4.

<sup>71</sup> The UK IPEC Evaluation at p 5.

<sup>72</sup> The UK IPEC Evaluation at p 6

<sup>73</sup> The UK IPEC Evaluation at p 8.

<sup>74</sup> The UK IPEC Evaluation at p 9.

*The author's observations*

105. The introduction of the costs cap and to a lesser extent the damages are a reform most suitable to application to the litigation of innovation patents.
106. They would provide a certainty for innovation patent owners which would encourage them to seek to enforce their rights associated with the innovation patent. It would introduce a certainty as to exposure not present at the moment.
107. The response in the UK to the damages cap is in the author's experience, a response which would be expected in Australia. The principal relief sought is that of restraining the alleged infringer from infringing the patent. The damages cap is not insignificant in any event.
108. There could be introduced some streamlining measures for innovation patents to respond to the perception:
- ‘...among user groups that the present enforcement procedures are lengthy, complex and expensive’ and provide a system which is ‘less complex and less expensive’<sup>75</sup>,
- commensurate with the intent to support SMEs.

*The author's recommendations and resultant steps*

109. The innovation patent system not be abolished without further consideration and implementation of the following recommendations.
110. Certain recommendations of ACIP in the ACIP Final Report in the circumstances where the government chooses to retain the innovation patent system be adopted, namely:
- a) Strengthening innovation patents by raising the level above the current innovative step level consistent with the ACIP recommendation 2 in the ACIP Final Report.<sup>76</sup>
  - b) Requiring that the patentee must request examination of the complete specification relating to their innovation patent before the third anniversary of the lodgement of their innovation patent consistent with the ACIP recommendation 3 in the ACIP Final Report.<sup>77</sup>

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<sup>75</sup> ACIP Petty Patents review at p 56.

<sup>76</sup> ACIP Final Report at p 9.

<sup>77</sup> ACIP Final Report at p 12.

- c) That due to the strengthening of innovation patents as recommended, confusion arising from the circumstance that an uncertified innovation patent may import the impression of a strengthened certified innovation patent, that ‘innovation application’ be the terminology adopted for uncertified innovation patents consistent with the ACIP recommendation 4 in the ACIP Final Report.<sup>78</sup>
  - d) That protection under an innovation patent not be extended to a method, process or system and amend the *Patents Act* consistent with the ACIP recommendation 5 in the ACIP Final Report.<sup>79</sup>
111. The *Patents Act* 1990 be amended to reflect a limit upon damages which may be awarded in innovation patent infringement actions to a figure to be set.
112. The *Federal Court Rules* be amended to reflect a costs cap to be applied in cases involving the enforcement and/or revocation of innovation patents.
113. Consideration be given to appoint to the Federal Circuit Court specialist practitioners in Intellectual Property matters who might on his or her docket take the copyright, trade mark and design cases. The author in this regard speaks to ‘Information request 18.1’ in the Report.<sup>80</sup>
114. Upon the adoption of the preceding recommendation, to extend to the FCC jurisdiction in relation to the enforcement of innovation patent rights and/or applications for their revocation.
115. If the two preceding recommendations are adopted, to amend the Federal Circuit Court rules accordingly on the question of costs and any case management procedures adopted for the proper conduct and disposal of innovation patent litigation.
116. The author anticipates statistical information being presented that the FCC does not have sufficient throughput of intellectual property cases to justify such appointments. However, this position fails to take into account a practical response.
117. As a user of the system, the author considers that if there were such specialists appointed to the FCC, that the number of matters directed to the FCC knowing that an IP specialist would be hearing the matters, would attract more litigants seeking to enforce not only innovation patent rights but trade mark, copyright and design rights.

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<sup>78</sup> The ACIP Final Report at p 14.

<sup>79</sup> The ACIP Final Report at p 15.

<sup>80</sup> The Report at p 500.

118. This is not a reflection on the judges of the FCC but an acknowledgement that their Honours have a wide jurisdiction, a heavy workload and that intellectual property is a complex and specialist area, which will require their Honours to become familiar with an area in which they do not have a regular throughput of matters.
119. Finally, the author raises a practice method raised by the author with IP Australia in 2013 and published in the LESANZ publication Les Nouvelles in two parts. The paper recommended the use of the existing power to appoint a Court expert for the purpose of an opinion on validity of the patent.
120. The model recommended that IP Australia allocate the reference for an opinion on validity to three such officers of IP Australia as qualified to provide the expert opinion.
121. The use of an existing power of the Court, avoids issues associated with the ACIP recommendation of 2010 to establish a tribunal. IP Australia would generate a fee and the Court would benefit by an objective opinion on validity. The parties were neither precluded from obtaining their own experts, but SMEs a favourable opinion would only be incurring a portion of the expert opinion of the panel and would not likely seek to incur the cost of a reinforcing opinion.
122. Unlike the model recommended by ACIP in its review on patent enforcement strategy, the proposed model does not offend s 71 of the Constitution as the opinion of the proposed three persons is an opinion by three experts appointed under the existing power to do so as opposed to a 'decision'.
123. The proposed practice model also did not require set up costs of a separate tribunal as recommended by ACIP.
124. A copy of the Les Nouvelles publications are **attached** with this submission.

## ATTACHMENT B

### 1. Introduction

1.1. The submission herein addresses the same issue as that raised by Draft Recommendation 18.1 and responds to the Information Request 5.1. The issue being, the extension of safe harbour protection to potentially include e-commerce web sites.<sup>81</sup>

1.2. The author is concerned that if it is proposed to allow e-commerce sites to become the beneficiaries of ‘safe harbour’ protection, that it is anticipated that there will be ‘unintended impacts’. Specifically, if the onus shifts to the copyright owner to police the internet in search for site infringing copyright, it is against the Australian laws on authorisation and is inequitable, particularly if the site licensee is obtaining a financial benefit from the infringement.

### 2. Scope

2.1. The submission is directed to one area of concern, specifically in relation to the proposed limitation on remedies available against ‘service providers’ contained in Schedule 2 of the Exposure Draft.<sup>82</sup> The Exposure Draft is **attached** as an aide, however the substantive considerations in the Report as to extending safe harbour protection, the author submits, remain relevant.

2.2. For completeness, the author has no comment regarding the practical assistance provided by the ‘fair dealing’ extensions in Schedule 1 of the Exposure Draft or in the Commission’s Report.

### 3. *Online Copyright Infringement – the Governments approach*

3.1. The Government considers that online copyright infringement poses a significant threat to the incentives and rewards afforded by copyright protection, due to the ease in which copyright material can be copied and shared through digital means without authorisation.<sup>83</sup>

3.2. Pursuant to this concern, it introduced in 2015 unique legislation, the *Copyright Amendment (Online Infringement) Act 2015* (Cth) (the *Online Infringement Act*). The purpose of this Bill was to introduce a key reform to reduce online copyright infringement.<sup>84</sup>

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<sup>81</sup> The term ‘e-commerce’ is used as meaning the buying and selling of goods and services, or the transmitting currency or information, over an electronic network, notably the internet.

<sup>82</sup> The Exposure Draft of the *Copyright Amendment (Disability Access and Other Measures) Bill 2016*.

<sup>83</sup> The Explanatory Memorandum to the *Copyright Amendment (Online Infringement) Bill 2015* (the *Online Infringement EM*): the *Online Infringement EM* at [8].

<sup>84</sup> The *Online Infringement EM* at [1].



- 3.3. The legislation is directed to carriage service providers, by extending the jurisdiction of the Federal Court of Australia to enable the Court to grant injunctive relief in certain circumstances, requiring the carriage service provider to take reasonable steps to disable access to an online location outside Australia, which the Court is satisfied has as its the ‘primary purpose’, to infringe, or to facilitate the infringement of, copyright.<sup>85</sup>
- 3.4. The *Online Infringement Act* is directed to online locations outside Australia, however the Government’s sentiment against online copyright infringement by an online location within Australia must be assumed:

‘It is possible to take direct action against an online location within Australia under the Act (section 115), but it is difficult to take action against the operator of an online location that is operated outside Australia.’<sup>86</sup>

- 3.5. The term ‘primary purpose’ is not defined in the *Online Infringement Act*. Some guidance is given by the Explanatory Memorandum to the *Online Infringement Act*:

‘The provision would only capture online locations that have the primary purpose of infringing copyright or facilitating the infringement of copyright. This excludes online locations that are mainly operated for a legitimate purpose, but may contain a small percentage of infringing content...’

And:

‘The Court must also be satisfied that the primary purpose of the online location is to either infringe copyright, or facilitate the infringement of copyright generally. This is an intentionally high threshold for the copyright owner to meet as a safeguard against any potential abuse. For example, the ‘primary purpose’ test would prevent an injunction to disable access to an art gallery website operated outside of Australia that may contain an unauthorised photograph. Thus, a website such as [www.youtube.com](http://www.youtube.com) or [www.blogger.com](http://www.blogger.com) would not prima facie satisfy the test as being an online location that infringes or facilitates infringement of copyright. Technology and technological change is not to be chilled or targeted by this amendment.’

And further:

‘The primary purpose test would also prevent an injunction to block an online location operated overseas that provides legitimate copyright material to individuals within another geographic location, but are not licensed to distribute that copyright material in Australia. For example, the United States iTunes store does not operate with the primary purpose of infringing copyright or facilitating the infringement of copyright and therefore access to this online location would not be disabled under an injunction.’<sup>87</sup>

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<sup>85</sup> The *Online Infringement Act* s115A.

<sup>86</sup> The *Online Infringement* EM at [21].

<sup>87</sup> The *Online Infringement* EM at [20], [38] and [39] respectively.

- 3.6. The examples provided in the Online Infringement EM seems clear, however if we apply some copyright principles utilised in determining copyright infringement, the results will give a greater practical insight into what may be an online location's 'primary purpose'.
- 3.7. In considering whether there is copyright infringement, the Courts consider both the quantitative and qualitative use made of the original work. For example:

'If it is a vital or material part, even though quantitatively it may be only a small part, it may nevertheless be sufficient.'<sup>88</sup>

- 3.8. In accordance with these principles, assume an e-commerce website offers products bearing both infringing and non-infringing works uploaded by independent designers, for which it claims a commission or service fee. If 90% of the products sold on this online marketplace were products bearing non-infringing works (so that only 10% of its products offered bore infringing works), one would think its primary purpose is not to infringe copyright and therefore not caught by the online infringement legislation.
- 3.9. However, if such a website earned service fees for hosting the online marketplace and made 90% of its total income from the 10% infringing products of all products offered, then in my opinion, it is very arguable that that online store has as its primary purpose, copyright infringement.

#### 4. *Schedule 2 – Limitation on remedies available against service providers*

- 4.1. The author has identified that this submission was directed to the Exposure Draft but that the substance of the submission remains relevant. In this regard it would be expected that any extension proposed for safe harbour protection, would necessarily deal with the treatment of "carriage service provider" in the *Copyright Act*.
- 4.2. In general terms, the proposed amendment in Schedule 2 has the effect of extending the safe harbour provisions currently limited only to a "carriage service provider", defined by reference to the *Telecommunications Act 1997* (Cth), to a wider range of persons.
- 4.3. The issue is whether by the removal of the requirement that the beneficiaries of the safe harbour provisions will no longer need to have the nexus with the telecommunications legislation, the use of the same terminology for the activities carried on, will inadvertently encompass a wider group than actually intended. Specifically, whether e-commerce locations using a business model identified later in this submission will obtain the benefit of the safe harbour provisions.

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<sup>88</sup> *EMI Songs Australia Pty Limited v Larrikin Music Publishing Pty Limited* [2011] FCAFC 47 (31 March 2011) per Emmett J at [54]; see "Some Legal Principles" at [45] to [57] and [58].

- 4.4. The gist of the concern in this submission therefore, is that the safe harbour provisions are not extended to e-commerce websites. Such concern is not assisted or clarified by the definition proposed to be inserted for the term “service provider”<sup>89</sup> or the “Guiding Questions”.<sup>90</sup>
- 4.5. The concern is heightened in that this amendment might be seen as part of a harmonisation process with the United States.<sup>91</sup> Whilst the Guiding Questions state that the definition of ‘service provider’ is adopted from the Australia-United States Free Trade Agreement (“AUSFTA”) and Article 18.81 of the Trans Pacific Partnership Free Trade Agreement, the definition reflects the definition introduced by the US *Digital Millennium Copyright Act* 1998.<sup>92</sup>
- 4.6. The *Digital Millennium Copyright Act* Title II: Online Copyright Infringement Liability Limitation creates a safe harbour for service providers, which includes business models of e-shopping or e-commerce sites.<sup>93</sup>
- 4.7. As the High Court identified, sections 116AA to 116AJ, the "safe harbour" provisions, which correspond with cognate provisions in the United States, were introduced into Pt V (headed "Remedies and offences") by the *US Free Trade Agreement Implementation Act* 2004 (Cth) and the *Copyright Legislation Amendment Act* 2004 (Cth).<sup>94</sup>
- 4.8. The proposed amendments in the Exposure Draft were:

4.8.1. remove the term “carriage” from relevant provisions; and

4.8.2. Insert the following definition of the term “service provider”:

**“service provider:**

(a) *in relation to an activity mentioned in section 116AC—*

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<sup>89</sup> The Exposure Draft at Schedule 2 item 4 proposed s 116AB.

<sup>90</sup> Guiding Questions at <https://www.communications.gov.au/have-your-say/updating-australias-copyright-laws> [23].

<sup>91</sup> The Guiding Question at [23] states:

“The proposed definition of a service provider reflects the definition of a service provider in Article 17.11.29(xi) of the Australia-United States Free Trade Agreement...”. The reference should be to Article 17.11.29(xii) of the Australia-United States Free Trade Agreement.

<sup>92</sup> the *Digital Millennium Copyright Act* 1998 Title II: Online Copyright Infringement Liability Limitation under the heading “Eligibility for Limitations Generally”.

<sup>93</sup> The Executive Summary Digital Millennium Copyright Act at:

[http://www.copyright.gov/reports/studies/dmca/dmca\\_executive.html](http://www.copyright.gov/reports/studies/dmca/dmca_executive.html) : Introduction as to “electronic commerce”; background as to the congressional determination to promote electronic commerce; B. The Effect of Electronic Commerce and Technological Change On Sections 109 And 117.

<sup>94</sup> *Roadshow Films Pty Ltd v iiNet Ltd* [2012] HCA 16 (20 April 2012) at [25] (“iiNet”).

*means a provider of transmission, routing or connections for digital online communications without modification of their content between or among points specified by the user of material of the user's choosing; and*

*(b) in relation to an activity mentioned in section 116AD, 116AE or 116AF—means a provider or operator of facilities for online services or network access.”*

4.9. Accordingly, the definition of the term “carriage service provider” which is linked to the *Telecommunications Act 1997*, is not in this regard relevant, and the safe harbour provisions may extend to the proposed wider group.<sup>95</sup>

4.10. It is noted for example, the activity currently described in s 116AC is reflected in that part of the definition of ‘service provider’ for the benefit of those formerly described as “carriage service providers”.

## 5. *The clarification of the term ‘service provider’*

5.1. The Consultation Information seeking submissions on this issue relevantly states that the changes are designed to “[E]nsure that search engines, universities and libraries have ‘safe harbour’ protection if they comply with conditions aimed at reducing online copyright infringement.”<sup>96</sup>

5.2. The Guiding Questions deal with the subject at [23] only and provides an inclusive statement as follows:

“...including educational institutions and other online services (such as online search engines, bulletin boards and cloud storage services).”

5.3. The lack of a clear statement as to the persons to whom the safe harbour provisions are extended by the amendment, does not rule out in my opinion, e-commerce sites, particularly if they adopt a business model as set out below under the heading of “*An Actual Case*”.

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<sup>95</sup> *Copyright Act 1968* (Cth) s 10(1).

<sup>96</sup> See the URL in footnote 89.

## 6. *An Actual case*

- 6.1. The following scenario is a current issue in practice. No reference is made or intended to the parties.
- 6.2. The author is briefed by a party entitled to take enforcement proceedings in Australia in respect of copyright infringement of identified artistic works and trade marks embodying those works.
- 6.3. This party (“A”) has identified works infringing its copyright on a .com website (“the website”) offered to persons including persons residing in Australian.
- 6.4. The licensee of the website (“B”) is an Australian corporation and resists allegations of copyright infringement relevantly, on the basis that its business model does not amount to an authorisation of the infringing conduct.
- 6.5. The model is the subject of the attached schematic and may be described as follows:
  - 6.5.1. B promotes on the website, independent artists (“designers”) to upload their designs and to nominate a range of products to which the design may be applied. These include T-shirts, mobile phone covers, pillows, posters and a wide range of other products.
  - 6.5.2. The designers join the site through a process which entitles them to upload their various works or designs. The process includes a ‘tick the box’ feature that they have read the terms of membership to the site, which include not to infringe copyright.
  - 6.5.3. B’s model does not allow it to scrutinise designs before the designer uploads them and they appear on the website without prior approval or scrutiny by B, however B accepts its technology permits it to remove offending works when it has been advised.
  - 6.5.4. A buyer goes to the website and identifies by B’s promotion, that it has the works of 350,000+ independent artists on the site. The buyer sees a design they like and choose for example, to have a mobile phone cover made in that design. The buyer adds the item to their cart, pays for it and the order is made.
  - 6.5.5. The website contains substantial parts of the artistic works of many iconic brands including Louis Vuitton, Vegemite, Versace, Dora the Explorer, the Wiggles, Usain Bolt and many more.
  - 6.5.6. Products such as mobile phone covers, t-shirts and many others carry images substantially the same if not exactly the same as famous brands in which there is copyright, apart from any trade mark rights.

- 6.5.7. In the case of Louis Vuitton for example, it does not sell its merchandise through any outlets in Australia, other than through its own stores.<sup>97</sup>
- 6.5.8. Neither B nor the designer have the authority to reproduce or communicate the artistic work utilised on any products.
- 6.5.9. B states however, that at the point of purchase (refer to schematic), when the order is made following payment, the order is redirected or re-routed (my words) to its US principal, who completes the order by on-sending the order to manufacturers located in and out of Australia.
- 6.5.10. The manufacturer sends the product to the buyer direct or sends it to B who then completes delivery.
- 6.5.11. B describes itself as the agent of the designer and charges a service fee for the provision of the on line market.
- 6.5.12. B adopts the approach that it will remove any offending works after notification by the copyright owner, but does not accept liability by reason of it having on its website products which bear infringing works.
- 6.5.13. A argues that B has control of the website and provides the mechanism by which the works may be infringed and relies upon the principles set out in the milestone decision of *University of New South Wales v Moorhouse* (1975) 133 CLR 1 which formed the basis of the *Copyright Act* s 36(1A) as they relate to works.<sup>98</sup>
- 6.5.14. B argues inter alia, that it has no control over the designs the designers upload and further that its software re-directs, deflects or on-sends (my words), buyers' orders rather than processing them through the website.
- 6.5.15. In addition, it claims that unless told of the infringing work, it cannot check all the designs on its website. Accordingly, B considers that it requires to be advised of the infringement rather than taking its own action to police the website. It presumably assumes liability if it fails, perhaps repeatedly, to remove the infringing works after notification.

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<sup>97</sup> *Louis Vuitton Malletier SA v Toea Pty Ltd* [2006] FCA 1443 at [4] in which the author was junior counsel for the applicant Louis Vuitton.

<sup>98</sup> The Explanatory Memorandum to the *Copyright Amendment (Digital Agenda) Bill* 1999 at Schedule 1 item 39; *iiNet* at [22] regarding subject matter other than works.

7. *Conclusion: The effect if 'service provider' covers e-commerce websites*

7.1. If these amendments permit the model described above as an 'actual case', to benefit from the safe harbour provisions, the onus would then shift from the licensee of the website to control content on its site to the copyright owner, who would be obliged to:

7.1.1. continually trawl the internet to locate sites using their copyright;

7.1.2. Continually keep monitoring a particular site to ascertain if:

7.1.2.1. The copyright material has been removed;

7.1.2.2. Further infringement.

7.2. In the case where the site operator financially benefits from such unauthorised use, a protection for e-commerce sites through safe harbour seems unconscionable.