

Response to the Productivity Commission Issues Paper, Intellectual Property Arrangements

**Submission by the Intellectual Property
Committee of the Business Law Section of the
Law Council of Australia**

1 December 2015

The Intellectual Property Committee of the Business Law Section of the Law Council of Australia (*IPC*) welcomes the opportunity to make a submission in response to the Productivity Commission Issues Paper: Intellectual Property Arrangements (*Issues Paper*). This submission addresses specific questions raised in the Issues Paper, as well as at the Productivity Commission's Economic Roundtable which took place in Melbourne on 21 October 2015 (*Roundtable*).

Although the IPC is not able to offer opinions based on statistically collected data (except where specifically identified below) or an econometric analysis, the members have cumulative experience in thousands of disputes and negotiations of commercial agreements relating to intellectual property (*IP*). As the most important innovations are by their nature most likely to be the subject of commercial agreement and disputes, these cases and agreements together cover many of the most commercially important innovations made or used in Australia.

Commercial negotiations, and particularly litigation, commonly involve obtaining evidence or instructions from inventors, independent experts (both scientific and accounting) and commercial decision-makers in relation to IP. Thus IPC members are required to have a good understanding of the process of innovation and commercial decision making processes relating to IP. Its members are involved on both sides of transactions - acting for IP rights holders and those challenging those rights and for licensors and licensees. In many ways they are in a unique position to provide this information.

The IPC considers that as a result it can make a useful input. The following observations deal with specific topics relevant to the questions raised and with matters raised at the Roundtable.

As a preliminary matter, the IPC wishes to make some observations about the scope of the Commission's terms of reference. There is a vast breadth of issues falling within the Commission's remit, in particular by comparison with IP law reform initiatives in the past, which have been more targeted in their approach. This, no doubt, has the advantage of encouraging consideration of overarching goals, but also gives rise to the risk that no one issue can be dealt with in sufficient detail and depth to produce concrete or specific recommendations, and consideration of any particular issue may not be able to be advanced beyond law reform previous efforts. In light of this, in many respects, it may be that the Commission will not in the first instance be in a position to provide a solution on a particular point, but rather will be in a position to identify issues for further consideration. This submission accordingly attempts to identify some of those areas; it does not purport to address any particular area in exhaustive detail.

1 Principles

The Issues Paper asks at page 15 if there are principles other than those set out in the Issues Paper that should be considered when assessing the IP rights system.

The IPC believes that the general principles outlined in the Issues Paper and arising in the Roundtable suffer from several apparent omissions and problems. We discuss these, and other principles that should be considered, below.

1.1 Terminology

There was discussion at the Roundtable as to whether IP is a right or privilege and whether it is proprietary in nature or a mere licence.

Whatever the philosophical analysis, the legislation in relation to each form of IP (other than moral rights) is express that IP is personal property¹ and that it confers a bundle of enforceable statutory rights.² The term "IP right" is therefore an accurate description, and IP rights have been specifically held to be property for the purposes of section 51(xxxi) of the *Commonwealth of Australia Constitution Act 1900* which prohibits the acquisition of property without just compensation.³

1.2 Proportionality to effort

The Issues Paper raises the question as to whether IP provides rewards that are proportional to the effort to generate IP (eg, at page 18). Trying to make IP protection proportional to innovative effort is an approach which long experience has shown to be unhelpful in a number of respects.

Innovation takes place in a number of ways – it can be a flash of genius, or incremental progress from applying effort to build on and improve existing knowledge. Market judgement and skill rather than mere effort and cost are almost always an important factor. A Harry Potter novel may be produced with less effort and cost than a worthy economics text which struggles to sell a few hundred copies, or a thesis which sits unread by anyone at all.

Aiming to calculate and compensate effort and cost that goes into the innovation rather than the value of the outcome also has the perverse effect of rewarding inefficiency, lack of talent, poor insight and poor market judgement.

As a matter of practicality lawyers have also observed the great cost and difficulty in obtaining evidence of effort going into the making of an innovation. Patent extension cases under the *Patents Act 1952* (Cth) routinely cost several million dollars (in 1980's dollars) much of which was directed to historical, accounting and economic inquiries about the effort that went in to making the invention. It would be a retrograde step to return to that world.

If, contrary to this view, an effort based approach is adopted, the approach would need to take into account the false leads and failed research of the inventor or author and also the effort of the many other inventors and authors in Australia and elsewhere in the world who have tried to create a valuable IP right (particularly one which was associated with a marketable product) and failed.

1.3 Technology-specific legislation

The Issues Paper raises questions about the desirability of technologically specific IP policy and legislation. The IPC would advocate the view that any ultimate approach should be as far as possible technology neutral, and that any technology based analysis, while it may be of academic interest, is likely to be rapidly outdated and of little value in driving sensible long term legislative approaches. An example of how technology specific provisions become rapidly outmoded is the videotaping exception in copyright law.⁴ Similarly, the current definition of "broadcast" in the *Copyright Act 1968* (Cth) is tied to the definition of a "broadcasting service" within the meaning of the *Broadcasting Services Act 1992* (Cth), effectively excluding many forms of audio and video streaming services. This has the effect of narrowing the exceptions to infringement available to streaming service providers, as well as the copyright protection available to audio and video content which is transmitted exclusively via the internet.

¹ See, eg, *Trade Marks Act 1995* (Cth) (**Trade Marks Act**), section 21; *Copyright Act 1986* (Cth) (**Copyright Act**), section 196; *Patent s Act 1990* (Cth) (**Patents Act**), section 13.

² See, eg, *Trade Marks Act*, section 20; *Copyright Act*, section 31; *Patents Act*, section 13.

³ See *Australian Tape Manufacturers Association Ltd v The Commonwealth* (1933) 176 CLR 480, 527; *Commonwealth v WMC Resources Ltd* (1998) 194 CLR 1, 70-71; *Attorney-General (NT) v Chaffey* (2007) 231 CLR 651, 664.

⁴ See section 110AA of the *Copyright Act*.

Secondly, technology specific provisions are almost always circumvented in ways which mean they do not achieve their purpose but simply add great complexity and expense to the system. For example, for some time methods of medical treatment were not patentable in Europe. In response, "Swiss style" claims directed to "using a compound to make a medicament to treat a condition" were developed.⁵ This provided the same protection but in a way which was less transparent and was costly to litigate.

Thirdly there is an innovative and commercial lifecycle affecting IP rights which means that attempts to legislate in a technology-specific way tend to follow the game, and then come into effect when the issue is largely resolved. That is because when technology is in a rapid transition phase, a number of factors converge to give rise to a surge in disputes. First, there is great scope for new innovation and for the leading researchers and businesses at the forefront of innovation to obtain wide patents and other IP rights, and to develop large portfolios. Secondly, many of the researchers in a new field may not be familiar with the patent system. This leads at one extreme to a reaction against patents being available in the field simply because they were not used in that field before. Other researchers at the other extreme may have unrealistically high expectations about the returns patent or other IP protection can provide. Because the technology is new, patents offices and courts take time to come to grip with new concepts involved and outcomes are less predictable. All of the factors tend to lead to a temporary upsurge in disputes and also often lead to special pleadings seeking technology-specific exceptions or rules.

Some examples, of fields where this has occurred are:

- Use of genetically modified organisms for biosynthesis.
- Genetic diagnostic tests.
- Software and business methods.

In an example which shows this is not limited to headline technologies, there was a surge in patenting and litigation in relation to rapidly changing technology in the field of self-loading garbage trucks in the 1990s.

Globally, governments have mostly resisted (or been restrained by international agreement) from intervening, and these matters have been resolved commercially or in the courts in the absence of legislative change.

In the IT area an example outcome is the FRAND system. When standards essential technology is adopted, it is a condition that the owner of the relevant IP must licence it to all on fair and reasonable terms. Whilst imperfect and whilst there are still disputes, the number of disputes in relation to IT innovation that have arisen in Australia is relatively small.

An exception is the patent troll issue in the US (and to a lesser extent in Australia) which is discussed further below. As noted there, it is suggested it represents a problem with the litigation system rather than the IP system.

1.4 Benefit of IP

The Issues Paper asks for evidence that patents provide rewards that are proportional to the effort to generate the related IP (page 18). As noted above, the IPC submits that the value of IP should be considered in terms of economic benefit of the innovation, not the effort of making the innovation. The methodology needs to consider the value derived by the Australian economy including end users.

⁵ See G 05/83 EISAI/Second medical use OJEPO 1985, 64.

A technology specific example of this sort of methodology can be found in a report regarding the value resulting from the use of statins.⁶ This report concludes that US consumers have paid in the order of \$300 billion for statins (pre patent expiry much of this can be attributed to the value of the IP right) but the US economy has received \$1.3 trillion in benefit in terms of reduced strokes and heart attacks and consequential costs and medical expenses. Note that in this particular case (in common with pharmaceutical products broadly) there is evidence that patent protection was required for these products to be developed or brought to market at all. The IPC does not wish to endorse the details of the analysis, and whether the analysis or the \$1.3 trillion figure is precisely correct is not a matter on which the IPC is qualified to comment, but it is clear that the benefit figures can be very large. Pro rata, it would appear the Australian benefit figure from one innovative area alone, in the form of statins, would be in the order of \$40 billion.

This is but one example. The Australian economy gets the benefit of IP embodied in many imported products such as faster computers, improved software, new drugs, improved motor vehicles, aircraft and plant and equipment and so on.

1.5 Importing IP

The fact that Australia is a net importer of IP does not mean that Australia does not necessarily get good value for the IP it imports. Nor does it mean that Australian researchers and manufacturers do not benefit from export of Australian technology made possible by the global IP system.

As with many other goods and services it will often (given the relative size of Australia's economy) be much more economically efficient to import IP rather than to try develop it independently here. Ordinarily in a market which is reasonably informed people will not pay to import IP which is not good value at least to them.

A rule of thumb in many licensing negotiations, including in-licenses to Australia, is that 25% of the profits derived by a licensee as a result of the use of the IP goes to the IP owner and 75% to the licensee.⁷ Of course that calculation does not account for the additional benefit to the end consumer, or general economic benefits to the Australian economy flowing from improved efficiencies, but it is suggested that it can be assumed, at least, that that will ordinarily exceed the price paid for the IP. The 25% ratio will of course be different and higher for products like pharmaceuticals with very high costs to get to market and can be much lower for incremental improvements to existing IP or where multiple licences are required.

1.6 Parallel importation

The IPC has long supported empirical inquiry into and reforms in relation to parallel importation of trade marked and copyright goods.⁸

In particular, section 123 of the Trade Marks Act, relating to parallel imports, needs review.⁹ The onus is currently on the parallel importer to prove that the product was manufactured under licence from the trade mark owner.¹⁰ This is often impractical for someone who has merely purchased

⁶ Grabowski, David C., et al. (2012). "The Large Social Value Resulting From Use Of Statins Warrants Steps To Improve Adherence And Broaden Treatment", *Health Affairs*, 31; 10 2276-2285.

⁷ Goldschreiber R., Jarosz J., Mulhern C. "Use Of The 25 Per Cent Rule In Valuing IP", *les Nouvelles*, 2002; XXXVII: 123-33. See also Porter, S. and Rakiec, M. "Comparison of Risk-Adjusted Returns on Investment In Reasonable Royalty Analysis", *les Nouvelles*, September 2012; 184-187 and Salauze, D. "A Simple Method for Calculating A 'Fair' Royalty Rate", *les Nouvelles*, September 2011: 210-215.

⁸ Annexure A to this submission.

⁹ The IPC submits that patent protection is not amenable to permitting parallel importation because patents are geographic and the term varies from place to place. Compulsory licensing provisions also exist in many jurisdictions.

¹⁰ *Paul's Retail Pty Ltd v Lonsdale Australia Limited* [2012] FCAFC 130.

products in a foreign market to prove. The current drafting of section 123 is also the source of uncertainty where an overseas manufacturer or trade mark owner registers its trade marks in Australia in the name of a related entity or local distributor. In many cases, this will preclude the clear application of section 123, and is becoming more frequently used as a means to circumvent the statutory intention of the section and control parallel imports. A simpler test is whether the goods are genuine in that they have originated from the trade mark owner or its licensee. This would be consistent with the principle that a trade mark is a badge of origin, not of geographic control.¹¹

1.7 Designs

The Issues Paper asks if the designs rights system is cost effective for users (at page 22). The Issues Paper also refers to the review of the designs system undertaken by the Advisory Council on Intellectual Property (**ACIP**), and in particular to the conclusion in ACIP's Final Report that the current system 'is expensive for what it offers, and is, as a result, neglected by designers who find it does not offer the rights they need'. There are many useful proposals in this report that would improve the existing legislation, including some necessary amendments to bring the *Designs Act 2003* (Cth) into better alignment with the Copyright Act. Further, consideration of an unfair copying right might well ensure protection of lesser, but still important, design innovations.

Specifically, while IPC considers that the registered designs system is a suitable means for protecting a large number of designs, there is a concern on the part of the IPC that the registered designs system may not be a suitable means for protecting all designs worthy of protection. Thus the IPC considers that Australia may benefit from the introduction of an unregistered design right (**UDR**) somewhat similar to such a right existing in the United Kingdom and Europe. Such a right may be of relevance to industries where designs are plentiful, have a short commercial life and in which unauthorised copying is said to be prevalent. For these reasons, IPC has previously supported and continues to support an inquiry to determine whether Australia should introduce UDR protection and, if so, what kind of UDR protection.¹²

1.8 Trade Marks

The Issues Paper asks if trade marks are operating as an effective and efficient method for firms to protect their brand and reputation (at page 23).

As a general rule, apart from the question of parallel importation and a number of technical issues under review, trade mark legislation is operating effectively. One issue is whether a unified Australia-New Zealand trade mark system should be adopted. This would reduce filing and enforcement transaction costs by eliminating duplication, as well as facilitating trans-Tasman trade which would otherwise be restricted by different trade mark ownership statuses. At a more broad international level work to further develop international mechanisms such as the Madrid protocol would also reduce transaction costs and enhance trade.

A more specific issue is whether the legislation deals adequately with technical non-trade mark use. For example persons other than the trade mark owner may register business names or web domains using the trade mark. This can lead to deception of consumers or loss or diversion of trade in circumstances where there is no technical infringement.

Further, an area in which Australian trade mark law differs from some major trading partners (notably the US and Europe) is in the absence of any anti-dilution norm. The IPC submits that consideration should be given to whether Australian law in this respect appropriately places limits on unfair competitive practices or whether it presently draws the boundary adequately. Given that this has

¹¹ *Scandinavian Tobacco Group Eersel BV v Trojan Trading Company Pty Ltd* [2015] FCA 1086 (9 October 2015).

¹² Annexure B to this submission.

become a significant aspect of trade mark law internationally, while this has not previously been the subject of specific legislative consideration in Australia, it would be appropriate to give detailed consideration to whether an anti-dilution norm should be introduced on the one hand, or rejected after proper analysis on the other.

1.9 Importance of IP to development and marketing decisions as well as initial innovation

At page 8 of the Issues Paper, the question is asked whether IP rights "encourage genuinely innovative and creative output that would not have otherwise occurred".

This is a relevant but incomplete question because it ignores the importance IP has, in addition, to the development and marketing of products based on new innovative and creative output. Typically the making of an innovation has been described as contributing in the order of 1% of the cost of getting a new product to market. IP protection is important not only to the innovation process but to the development and marketing of new products. This is of course most starkly illustrated with pharmaceuticals, where there is no incentive for a manufacturer to take a new drug which is not patented through the expensive process to get it to market. But it is true in principle of any innovation where there is a significant cost of getting to market, but the product is relatively easy to copy and others can free ride on the innovators work in developing the product and creating a market.

The existence of saleable IP rights are also important to the ability of researchers such as universities to licence or sell their innovation to a third party who may have expertise in developing and marketing it.

1.10 IP is global

The Issues Paper raises a number of questions in relation to Australia's international IP obligations and principles that should be used to guide decision making for future international negotiations (page 30).

The fact that IP is global in nature is starkly exemplified by the fact that most IP in Australia is owned by foreigners and most IP owned by Australians exists outside Australia. To try to isolate Australia's position from global commerce is inappropriate in many ways. In particular any assessment needs to allow for the benefits to the Australian economy flowing from the global IP system, including the fostering of innovation in other countries which subsequently comes to Australia.

There appears to be an implicit suggestion that Australia should provide as little IP protection as it can get away with because it is such a small part of the global economy that it does not matter to global innovation whether Australia provides adequate IP protection or not. It should be considered what the consequences would be if every country took that view. It should also be considered whether it is realistic or desirable in terms of international relations. For example, in recent negotiations it appears, at least from media reports, that Australia relied on a relatively strong IP system to obtain concessions in other areas.¹³

1.11 IP and competition

The Issues Paper asks at page 12, "What are the longer term effects of the IP system on competition and innovation?"

There was a view expressed by some at the Roundtable to the effect that competition policy is an end in itself and that everything must be viewed through a competition prism. However, competition policy is, no more or less than IP protection, a means to an end, namely the promotion of economic growth, prosperity and wellbeing. In the case of IP protection, that is through promoting innovation.

¹³ Kehloe, John (2015) "US, Australia drug dispute is holding up settlement of the Trans Pacific Trade Deal", *Australian Financial Review*, October 4. Available online at <http://www.afr.com/news/politics/national/us-australia-drug-dispute-is-holding-up-settlement-of-the-trans-pacific-trade-deal-20151003-gk0r65>.

That is ultimately a major driving force of economic growth. Indeed, historically the existence of a functioning IP system appears to have been fundamental to rapid development of innovation, during the industrial revolution and subsequently.¹⁴ A competition framework came much later.

IP rights are expressly and deliberately anti-competitive to the extent that others are shut out of a particular competitive act but they are not, however, anti-competitive in that people can compete to acquire IP rights first (e.g. by being first to file a patent). They can compete by developing alternative technology and, of course, on patent expiry they can compete including by using the whole of the patentee's invention.

If a person is given an expressly anti-competitive right it should not be anti-competitive to licence it rather than to exercise it directly (s51(3)). As submitted by the IPC in its Submission in Response to the Competition Policy Review Final Report,¹⁵ "[a]n intellectual property owner can only obtain a return on their investment by commercialising the innovation themselves, or by permitting a third party to do so on their behalf... [I]t is inconsistent to use IP laws to stimulate innovation and then subject any dealing in commercialising that innovation to the competition test. Doing so will in all likelihood reduce post innovation returns and at worst, result in market failure."¹⁶

1.12 Small versus large

A suggestion raised at the Roundtable was that large players simply crush small players who acquire IP rights. This can occur but it is not consistent with IPC experience or logical business practice that it is what usually occurs. A strong patent or other IP right protecting an important innovation is a valuable asset. There will usually be someone who will acquire and defend it.

Many large corporations have large patent portfolios, and sometimes an important innovation is protected by a "patent thicket". These portfolios can be and are deployed against competitors. A well-known example is the international legal battle between Apple and Samsung regarding the design and technological features of their respective smartphones and tablets.

However, this should not always be seen as an unequal battle. In the generic drug area there are many generic companies which are well funded and active in trying to break patent protection. In the IT space major cases have been between giants.

Importantly the patent system provides one of the few ways for a small player to get into these markets either by taking on the major players or by selling or licensing their IP.

There have been historical cases where corporations with a heavy capital investment in an existing technology fight disruptive technologies including by trying to crush competitive IP or to "buy and bury" competitive IP. Historical examples are the music industry in relation to internet distribution and Kodak in relation to digital photography (in fact invented by Kodak). This business model usually works poorly in the longer term as can be seen by the fate of Kodak (insolvent)¹⁷ and the record houses of the 1980s which no longer exist or have a shadow of their former importance.¹⁸ In

¹⁴ See North, D. et al (1976), *The Rise of the Western World: A New Economic History*. (Cambridge University Press.) See also Bottomley, S. (2014) *The British Patent System and the Industrial Revolution 1700-1852: From Privilege to Property*. (Cambridge Intellectual Property and Information Law: Cambridge University Press.)

¹⁵ Annexure C to this submission.

¹⁶ Ibid, at [12]-[13] of the detailed response to the Draft Report.

¹⁷ McCarty, D. et al (2012) "Kodak files for bankruptcy as digital era spells end to film", *Bloomberg*, January 20. Accessed online at <http://www.bloomberg.com/news/articles/2012-01-19/kodak-photography-pioneer-files-for-bankruptcy-protection-1->.

¹⁸ Busch, R. (2012) "Major record labels as dinosaurs?", *Forbes*, March 27. Accessed online at <http://www.forbes.com/sites/richardbusch/2012/03/27/major-record-labels-as-dinosaurs/>.

retrospect both would have better embraced rather than tried to crush new IP. IBM narrowly avoided the same fate by a belated and sharp change of policy.¹⁹

Many initially small players use IP to leverage themselves into rapidly growing business (e.g. Atlassian)²⁰ and many large businesses acquire or take licenses from small innovators.

A significant factor influencing the power balance between small and large competitors is the cost of litigation, rather than the substantive IP laws themselves. This is addressed further below. It may also be noted that litigation funding is available for the smallest player to take on a strong case. And litigation insurance is also available for potential defendants.

Patent non-practising entities

There are issues which have been seen in the United States with patent non-practising entities (**NPEs**; sometimes called "patent trolls"). Some of these issues may be seen as a failure of the United States litigation system rather than a problem of the patent system, driven by factors including:

- lack of costs orders against unsuccessful parties
- contingency fees (used in almost all NPE cases); and
- trial procedures (such as jury trials) which appear to favour plaintiffs.

These issues need to be borne in mind in the context of consideration of changes to the litigation system.

There is also patent NPE litigation in Australia, which the Federal Court is finding challenging to deal with, however this is also more a litigation management issue than a patent system issue.

It is important to bear in mind that an acceptance of IP rights as property rights, as enshrined in Australian IP legislation, means that freedom of property and freedom of contract principles permit free dealing in IP rights as property rights, and this carries with it the consequence that the owner of an IP right is free to exercise the full extent of those rights, including by enforcing those rights against others. An IP owner may gain a return on its innovation on selling or licensing its IP rights. It would be undesirable to interfere with rights of freedom of property or freedom of contract to attempt to solve a potential problem, which has largely not been realised in Australia.

1.13 Moral rights

Moral rights legislation imposes a substantial transaction cost in copyright assignment and licensing contracts. All prudently drafted licensing and assignment agreements need to deal with this issue. Because the right is not assignable indemnities and waivers are required. The purchaser of copyright works is still at risk of being unable to use the asset it has acquired without restraint.

However provision for moral rights is now embodied in multiple layers of international treaty and it does not appear to be likely to be useful to review those rights.

1.14 Copyright term

The term afforded copyright (the life of the author plus 70 years) is on any rational basis too long in terms of providing an incentive for the creation, development or marketing of works. Again, however, this term is required by international treaty.

¹⁹ Mills, D. (1996) "The decline and rise of IBM", *MIT Sloan Management Review*, July 15. Accessed online at <http://sloanreview.mit.edu/article/the-decline-and-rise-of-ibm/>.

²⁰ Powell, R. (2015) "Startup War Story: Atlassian ignored bad advice, avoided sales staff and grew fast", *Australian Financial Review*, August 10. Accessed online at <http://www.afr.com/technology/startup-war-story-atlassian-ignored-bad-advice-avoided-sales-staff-and-grew-fast-20150809-giv9s0#ixzz3ppdsymx6>.

1.15 The institutional landscape

IP matters are most commonly dealt with at first instance in the Federal Court. With the Federal Court's recent adoption of the National Court Framework and related reforms, the Federal Court has recently committed to facilitating prompt and consistent determinations of IP cases by Judges experienced in the area. With many procedural elements currently under review, the IPC considers it premature to comment further in this regard.

More broadly, the possibility of a second court level or alternative dispute mechanisms for patent cases has been ventilated in the Advisory Council on Intellectual Property's final report of its review of post-grant patent enforcement strategies²¹ and the proposals may warrant consideration. One example of a successful second tier court for IP matters has been the Intellectual Property Enterprise Court in the United Kingdom which has a maximum cap of £500,000 recovery for damages/profits, a maximum costs exposure of £50,000, a two day limit on the length of the trial and active case management. We understand that this court has been successful in providing access to justice, especially for SMEs, in circumstances where the costs associated with a proceeding in the High Court would otherwise be prohibitive.

In copyright and trade mark matters, the Federal Circuit Court acts as a second court tier, but has been only partly effective and is not frequently utilised, largely because it has adopted procedures that are essentially the same as the Federal Court, rather than simpler procedures. In patent cases there is no second tier court system at all.

A particular issue is how to deal with a minor infringement case in a quick and cheap but fair way without putting a potentially very valuable asset such as a patent or trade mark at risk in the absence of full and detailed consideration. Part of the solution might be to allow invalidity to be raised as a defence but without giving the tribunal a right to revoke.²²

Drawing on the European system, it could also be considered whether the procedural option available could include technology expert members on a second tier tribunal to avoid the need for expert evidence, which may again reduce cost and complexity of litigating smaller IP matters.

1.16 Review of IP legislation

Patents

The patent system has recently been subject to a detailed review under the Raising the Bar reforms.²³ This had the intention of aligning Australian requirements to those of other countries – thus reducing transaction costs – and increasing the bar to patentability in order to reduce the number of invalid patents which are granted, by extending the scope of prior art that can be considered for obviousness purposes and by narrowing the scope of permitted claims by increasing the requirements for support. The importance of these factors should not be underestimated and the IPC submits that these reforms have achieved a sensible balance. A further general review at this time is therefore unnecessary and premature as this balance appears to have been achieved, but – to the extent that it takes time to assess the full benefits of the Raising the Bar reforms – may be required at a later stage.

Particularly in recent years, the review process by IP Australia has been consultative and deliberative and has included consideration of economic issues (including the appointment of an economist).

²¹ Advisory Council on Intellectual Property (2010) "Post-grant patent enforcement strategies: Final report". Accessed online at http://www.acip.gov.au/pdfs/ACIP_Final_Report_Post-Grant_Patent_Enforcement_Strategies_Archived.pdf.

²² An example of this is the Canadian *Patented Medicine Notice of Compliance Regulations* SOR/93-133.

²³ *Intellectual Property Laws Amendment (Raising the Bar) Act 2011* (Cth).

Unfinished steps include compulsory licensing, notification procedures for generic TGA applications and potential for harmonisation of Australian and New Zealand Patent law including the option of a single trans-Tasman patent which would reduce transaction costs and enhance trade in patented goods. Continued progress to more general international harmonisation warrants consideration, although the IPC notes that Australia has already joined the Global Patent Prosecution Highway and only last month signed a Memorandum of Understanding with the European Patent Office regarding bilateral cooperation.

Copyright

In the field of copyright, the ad hoc process of copyright law reform has led to an unsatisfactory patchwork legislation with outmoded provisions relating to outdated technology which requires a more general review. Further the procedures for amendment of copyright law require review.

Legislation such as the *Copyright Amendment (Online Infringement) Act 2015* (Cth) was introduced directly into parliament without any prior review process. To the best of the IPC's knowledge there was no economic analysis of the effect of that legislation despite relevant concerns about the extent to which such legislation imposes costs on intermediaries such as ISPs and places burdens and restrictions on non-infringing consumers and web site hosts rather than being directed at the true parties, namely the IP owner and the alleged infringer, as well as concerns about excessive breadth and potential for abuse.

At the same time there have been multiple reviews of copyright law which appear to have been ignored.²⁴ It would be desirable if the government would respond to considered reform recommendations that have been made.

As an institutional matter it may be worth considering the implementation of a single IP Office under a single Minister responsible for IP, as is the case in the UK, so as to ensure greater coordination between the different IP systems, for example as between copyright and designs, trade marks and copyright, or copyright and patents (especially in relation to IT matters). This would provide more opportunity for policy and review to be undertaken in a more holistic way and would assist in overcoming the gaps that presently arise between having these matters deal with by different (and changing) departments of government. The IPC regretfully notes the recent demise of ACIP and the earlier dissolution of the Copyright Law Reform Committee.

Regardless, the IPC submits that all legislative changes in the IP area, including copyright, be subject to a prior review process before being introduced into parliament. In any event, consideration should be given to the need for a comprehensive review of the whole of the Copyright Act (see further below at section 2.2).

2 Areas that require consideration and change

Contributors to the review have been asked to identify specific areas that should be considered in light of the Productivity Commission's goals for increased efficiency and balance. Specific areas are dealt with below. It is important to recognise that each of the areas below involves complex interactions and potential for unintended consequences if dealt with in isolation from the legislative landscape as a whole as well as international obligations. Neither this submission, nor it is submitted any recommendation by the Productivity Commission, should go further than identifying areas for detailed review.

2.1 Patents

As discussed above at section 1.16, the patent system has recently been subject to a detailed review under the Raising the Bar reforms and the IPC submits that these reforms have achieved a

²⁴ See, eg, Australian Law Reform Commission Report 122, 13 February 2014.

reasonable balance. There are some technical problems that are the subject of separate submissions which do not relate to the substance of this inquiry.²⁵

The Issues Paper also asks if the patent system is sufficiently flexible to accommodate changes in technology and business practices (at page 18). The patents system does not presently suffer from technology-specific issues, as outlined in section 1.3 above. Moreover, the current patent system is consistent with Australia's international treaty obligations, so any proposed changes are constrained in this regard.

There are, however, some outstanding issues within the patent system that should be resolved.

(a) Compulsory licensing

The unfinished compulsory licence and Crown use provisions. These laws have recently been amended to give effect to Australia's obligations under the Trade-Related Aspects of Intellectual Property Rights (*TRIPS*), including by incorporating mechanisms by which compulsory licences for patented pharmaceutical inventions may be sought and granted to enable the manufacture of a pharmaceutical product in Australia for export to an eligible importing country.²⁶ Other proposals that should be considered are the clarification of the Crown use exception in the Patents Act.²⁷

(b) Notice of generic applications

In its submission in relation to the Pharmaceutical Patents Review, the IPC submitted that the patent system would benefit from provisions stipulating that notice is to be given to pharmaceutical patent owners as soon as a generic application is filed so as to bring forward any potential litigation and minimise the risk of generic launch being unnecessarily delayed by injunctions.²⁸ It appears this may now be required by the TPP in any event.²⁹

Developing a trans-Tasman patent and continued alignment with international principles and procedures are matters warranting consideration.

2.2 Copyright

(a) Technology-specific provisions

The Issues Paper asks if current copyright laws remain 'fit for purpose' (at page 20). The IPC submits that the technology-specific provisions of the Copyright Act, as discussed in section 1.3 above, warrant a rewrite of the Act, as far as possible in a non-technology specific way.

(b) Policy review and reform

As discussed above at section 1.16, the process of copyright law reform has been reactive, particularly as industries lobby for reforms. There should be a proper, contextual review of any proposed reform and a coordinated policy process.

(c) Fair use exception

²⁵ The IPC is developing a submission on technical issues with the 'best method' requirement.

²⁶ See Annexure D to this submission.

²⁷ Ibid.

²⁸ See Annexure E to this submission.

²⁹ Trans Pacific Partnership Agreement, Chapter 18, Article 18.51(1)(a). Accessed online at <http://dfat.gov.au/trade/agreements/tpp/official-documents/Documents/ch18-intellectual-property.pdf>.

The Copyright in the Digital Economy Report³⁰ recommended sensible changes with regards to implementing a new fair use defence to copyright infringement. These changes should be considered by government.

We also refer to IPC's earlier submissions in this regard.³¹

(d) Parallel importation

The IPC submits that the Commission should consider the issue of parallel importation in relation to copyright including in relation to software, and corresponding digital circumvention provisions such as geographical coding which indirectly reinforce restrictions on parallel importation.

Any decisions on any of these matters should, however, be made on the basis of proper consideration and empirical evidence.

2.3 Trade Marks

Apart from the parallel import issues discussed above at section 1.6 and issues as to non-trade mark use at section 1.8, the Trade Marks Act is generally operating effectively.

However, the cost of the trade mark system for users could also benefit from consideration of the establishment of a trans-Tasman registration system and the simplification and expansion of international registration options such as the Madrid procedure.

2.4 The institutional landscape

The Issues Paper asks for submissions in relation to reforms to public institutions involved in defining, allocating and enforcing IP rights in Australia (at page 27). It also asks what improvements could be adopted from overseas approaches, how Australian firms can enforce their rights internationally and what features of the current enforcement system could be improved (at page 28).

Proposed changes to the court system and the legislative review framework are discussed above at sections 1.15 and 1.16.

Greater efficiency could be achieved by considering an increased alignment with international norms so as to reduce the burden of specific registration requirements peculiar to Australia and facilitate international trade in IP and products and services protected by IP. In the shorter term, the IPC suggests that consideration should be given to establishing a common patent and trade mark systems with New Zealand.

³⁰ Australian Law Reform Commission Report 122, 13 February 2014.

³¹ See Annexure F to this submission.