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Ms Karen Chester, Deputy Chair  
Mr Jonathan Coppel, Commissioner  
Productivity Commission

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Dear Commissioners

## PRODUCTIVITY COMMISSION DRAFT REPORT ON INTELLECTUAL PROPERTY REGIME

The Australian Industry Group (Ai Group) welcomes the opportunity to make a submission to the Productivity Commission's consultation on its draft report for its inquiry into the Australian intellectual property (IP) regime.

Our submission focuses on the following specific areas: the overarching objective of the inquiry; specialised IP court or tribunal; model international trade agreements; aspects relating to patents; trade marks; measures to inhibit product counterfeits, replicas and unauthorised copies; fair use and fair dealing; and safe harbour.

### 1. Overarching objective of the inquiry

As a general comment, the draft report covers a very broad array of IP issues. We encourage the Commission to provide a clear focus in the final report on the theme of IP policy reforms to promote greater innovation. Lifting innovation is the subject of wide political, business and public support, including through the Federal Government's recent National Innovation and Science Agenda. Innovation is important to supporting Australia's global competitiveness. International rankings for competitiveness and innovation show Australia has substantial room for improvement.<sup>1</sup>

The Commission's final report could propose practical reforms to improve the Australian IP regime to facilitate greater innovation. However, some aspects of the draft report do not appear to deliver this, and may instead restrain innovation and make Australia a less attractive destination for investment. These issues are addressed below.

### 2. Specialised IP court or tribunal

We recommend further investigation of whether specialised IP courts or tribunals with particular expertise and remedies, similar to those used overseas, could be adopted in Australia.

Some of our members have had a positive experience with the UK's Intellectual Property Enterprise Court. They report that: decisions are made consistently; cases are resolved faster through streamlined procedures; and the judiciary is more specialised in IP issues. This has significantly reduced the cost of IP protection rulings and levelled the playing field for SME businesses in the UK.

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<sup>1</sup> Australia is currently ranked 21st in the World Economic Forum's Global Competitiveness Index, and placed at 23rd for the innovation component. Other sub-indices of particular interest include Australia's relative performance on: the total number of filed patent applications at 21st place; and IP protection (including anti-counterfeiting measures) at 17th place. Australia was also ranked at 17th place on the 2015 Global Innovation Index. See: <http://reports.weforum.org/global-competitiveness-report-2015-2016/>;  
<https://www.globalinnovationindex.org/content/page/press-release/>.



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Not surprisingly, the draft report notes many other stakeholders support the introduction of a specialised IP court or tribunal as a model that could be adopted in Australia. Many other nations use such courts,<sup>2</sup> including some of our major trading partners.<sup>3</sup>

However, the Commission has rejected the notion of a specialised IP court or tribunal in Australia on the basis that: the case for doing so was weak; judicial decision making can be improved through exposure to a wider range of legal issues and commercial circumstances; and benefits from specialised courts overseas were largely due to procedural rules. Instead, the Commission proposes that more focus should be given to improving the current judicial system.

Our members consider that there is still a case for a specialised IP court or tribunal in Australia. Patent claims are increasing; this is a particularly complex and technical area of IP, and will place increasing pressure on the current judicial system and the IP regulatory framework.

A recent survey by the International Chamber of Commerce provided the following reasons why 19 countries decided to establish specialised IP courts or tribunals: to develop IP expertise in the judiciary and courts; to unify standards of trials; to simplify proceedings; to enhance the effectiveness, efficiency and accuracy of decisions; and to increase consistency and predictability of case outcomes.<sup>4</sup> The International Chamber of Commerce concludes that specialised IP courts or tribunals "present an advantage in the current economic and legal environment worldwide in jurisdictions where there is a sufficient body of IP litigation and can, in many circumstances, enhance the efficiency of IP enforcement".<sup>5</sup>

### 3. Model international trade agreements

In principle, we support any approach that facilitates greater transparency and industry input in developing international trade agreements. However, the practical challenge is whether the Federal Government will adequately engage with industry to gain an understanding of industry perspectives. This will greatly influence the practicality and use of any model agreement as part of international trade negotiations.

Ai Group has argued in a number of forums for greater transparency and consultation to better inform the negotiation of Australia's international trade agreements. This extends to our support of the Harper Recommendation that trade negotiations should be informed by an independent and transparent analysis of the costs and benefits to Australia of any proposed IP provisions, and more broadly to the entire agreement.

Hence, in our previous submission to the Commission, we recommended that bilateral and multilateral agreements should not introduce unnecessary complexity to IP arrangements. They should be negotiated transparently to allow greater input by industry. This will help ensure the full ramifications of agreements, including in relation to Investor-State Dispute Settlement provisions, are considered prior to their finalisation.

As the Commission's draft report notes, other stakeholders have expressed similar concerns that the current institutional and governance settings around IP policy development, particularly in relation to international trade agreements, often lack transparency, meaningful consultation and supporting

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<sup>2</sup> For example, the International Chamber of Commerce's report "Adjudicating Intellectual Property Disputes" identified 19 (out of 24) countries that it surveyed as having specialised IP jurisdictions: Belgium, Brazil, Chile, China, France, Germany, India, Japan, the Republic of Korea, Mexico, Peru, Portugal, Russia, Spain, Sweden, Switzerland, Thailand, the United Kingdom and the United States. See: International Chamber of Commerce, "Adjudicating Intellectual Property Disputes: An ICC report on specialised IP jurisdictions worldwide" (29 April 2016), <http://www.iccwbo.org/Advocacy-Codes-and-Rules/Document-centre/2016/Adjudicating-Intellectual-Property-Disputes-an-ICC-report-on-specialised-IP-jurisdictions/>.

<sup>3</sup> Department of Foreign Affairs and Trade, Monthly trade data, April 2016. See: <http://dfat.gov.au/about-us/publications/trade-investment/Pages/trade-and-investment.aspx>.

<sup>4</sup> International Chamber of Commerce, "Adjudicating Intellectual Property Disputes: An ICC report on specialised IP jurisdictions worldwide" (29 April 2016), p. 28.

<sup>5</sup> Ibid, p. 30.



evidence. The Commission's proposed model agreement on IP may help increase transparency, but its impact will depend on adequate engagement by the Federal Government with industry throughout the international trade negotiations process.

#### 4. Patents

##### General

In light of the high national priority of enhancing innovation, we recommend that the Commission revisits its draft findings and recommendations on patents.

The Commission's draft report considers that Australia's patent system grants protection too easily, allowing a proliferation of low-quality patents, frustrating the efforts of follow-on innovators, stymieing competition and raising costs to the community. Its draft recommendations include: increasing the degree of invention required to receive a patent; abolishing the innovation patent system; and limiting business methods and software as patentable subject matters.

While we appreciate the Commission's goal to raise the quality of patents, we consider that the Commission has not given sufficient weight to the broader benefits of increasing rewards for innovation, including past research efforts and incremental advances. As we previously stated, patents may be granted at various stages of research and development. Some will be granted at the earliest stage of the creation of an innovative idea, where it is far from commercialisation. Others will move rapidly from patentable idea to the marketplace.

A robust patent system enables handoffs between each stage of innovation, and underpins further investment to move from a breakthrough to the market. For example, research institutions such as the CSIRO and the University of Queensland have relied on the current system to create extensive licensing programs and spin-off companies to extend Australia's scientific advances far beyond their laboratories and into the market.<sup>6</sup>

##### Innovation patents

Our members have expressed mixed views about the Commission's proposal to abolish the innovation patent system. Some have found them to be a useful and accessible tool that encourages smaller businesses to innovate. Others have been concerned that the lack of initial scrutiny of innovation patents creates the potential for abuse, and can make it challenging to determine which genuine inventions need to be designed around, or licensed, in order to operate in the market.

While there is no consensus on the proposed abolition of the innovation patent system, there is wide agreement that if the system remains, the threshold for granting these patents should be raised.

In those circumstances, we recommend that the Commission considers the previous recommendations by the Australian Council on Intellectual Property for improving innovation patents, including:

- raising the threshold for innovation protection after careful examination of the costs and benefits of doing so;
- adjusting the design of this type of patent – this could be by changing the period of operation of the patent; and
- improving the level of engagement with SMEs on IP.

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<sup>6</sup> See CSIRO Top Ten Inventions: <http://www.csiro.au/en/About/History-achievements/Top-10-inventions>; CSIRO Spin-off companies at: <https://csiropedia.csiro.au/companies-arising/>; Uniquest Track Record (University of Queensland): <https://www.uniquest.com.au/our-track-record>.



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### **Inventive step**

The current Australian legislative test for granting a patent was previously amended in 2013, with the aim of raising the quality of granted patents.<sup>7</sup> Our members consider that there is still room for improvement. In particular, the inventive step is overly complicated and has been described by members as “a nightmare” to interpret and apply in practice.<sup>8</sup>

We therefore support the Commission’s recommendation that the definition of inventive step in the *Patents Act 1990* (Cth) be replaced with the simpler definition used by the European Patent Office.

### **Socially valued innovations**

We do not support the Commission’s proposal that the condition for patents, including the inventive step, be assessed according to “socially valued innovations”.

There may be some merit in considering an objects clause to better clarify the purpose of patents, as proposed by the Commission. However, the proposed reference to “socially valued innovations” in such an objects clause raises questions about the determination of “socially valued innovations”. This provision could potentially exclude a large proportion of innovation in research and development, which has incremental value but not (or not yet) clear social benefits.

Investing in innovation is already a risky endeavour under the best of circumstances. However, given the near impossibility of predicting an invention’s ultimate contribution, requiring patents to meet the “socially valued innovations” test would add to the uncertainty, and increase the cost of investments in innovation. The patent system helps overcome the challenges of capital allocation to support Australian innovation. A social value reference could lead to a sub-optimal use of the patent system.

### **Business methods and software patents**

We do not support the Commission’s proposal to exclude software as a patentable subject matter, or its categorisation of software as hard to distinguish.

Software patents will become more important with the increased use of software technology as a form or expression of innovation. In line with recent Australian case law,<sup>9</sup> our members support the established position that: business methods and software are not the same patentable subject matters; software is a patentable subject matter; business methods are not patentable; and there exists a robust test to determine patentability.

Accordingly, we recommend that Australia adopts an approach similar to those of our major trading partners, including in China, the US and parts of Europe: namely that software inventions remain eligible for patentability, whereas business methods should remain ineligible for patentability.

## **5. Trade marks**

We support the Commission’s proposed reintroduction of mandatory disclaimers for trade marks, and linking separate databases of registered business names and trade marks. However, we do not support the Commission’s recommendation to abolish defensive trade marks under Part 17 of the *Trade Marks Act 1995* (Cth).

We support a practical approach which provides certainty to businesses in applying for trade marks and reduces red tape. The Commission’s first two proposals are consistent with these principles. As the Commission states, mandatory disclaimers can increase transparency to help clarify what is and what is not registrable as a trade mark and to some extent reduce cluttering of trade marks. Similarly,

<sup>7</sup> *Intellectual Property Laws Amendment (Raising The Bar) Act 2012* (Cth).

<sup>8</sup> *Patents Act 1990* (Cth) sections 7(2)-(3).

<sup>9</sup> *Commissioner of Patents v RPL Central Pty Ltd* [2015] FCAFC 177.



linking separate databases of registered business names and trade marks will reduce red tape, confusion and the costly impact on businesses who may inadvertently infringe on trade mark.

However, there is little basis for the proposal to repeal defensive trade marks. The Commission argues that these trade marks have not been extensively used and they may act as a barrier to competition. However, there is insufficient evidence that defensive trade marks are acting as a barrier to competition. And despite a smaller uptake of this form of trade mark, the Commission reports that 300 such trade marks exist – this is not an insignificant number.

#### **6. Measures to inhibit product counterfeits, replicas and unauthorised copies**

Industry is deeply concerned about product counterfeits, replicas and unauthorised copies. This could be addressed in the final report or potentially entail a separate review, including the consideration of enforcement mechanisms.

Our manufacturer members have reported that products which infringe upon their trade mark (product counterfeits, replicas and unauthorised copies) have been imported and sold in Australia.

We provided examples of this in a recent submission to Senate Economics References Committee inquiry into non-conforming building products:<sup>10</sup>

- Products have been sold that are apparently perfect replicas of original products, including identical design and branding, but are made with inferior materials that are not fit for purpose. One manufacturer discovered the existence of such replicas after a spike in returned products. They alerted regulators, but the response against the offending seller was completely inadequate. In another case, a manufacturer was unable to identify the offending parties.
- Copied products have also been sold which incorporate minimal changes from the original design in order to avoid infringement upon copyright or patents. One manufacturer suggested this problem had been minimised in New Zealand by the automatic copyright protection it grants for industrially applied 3D designs. This provides a longer term of protection for designs and a lower threshold for the rights holder to claim originality in design.

The above issues could be addressed through improvements to the enforcement regime, which includes increasing resources for the Australian Border Force and other relevant enforcement authorities.

#### **7. Fair use and fair dealing**

Our members have expressed mixed views with respect to the Commission's proposal to amend the *Copyright Act 1968* (Cth) (Copyright Act) by replacing the current fair dealing exceptions with a broader exception through fair use. Digital service providers support the introduction of fair use provisions; publishers support the current fair dealing regime and oppose fair use. The lack of consensus suggests that there are complex issues that remain unresolved and further consideration is required.

#### **8. Safe harbour**

We support the Commission's recommendation to expand the safe harbour scheme to cover the broader set of online service providers intended in the Copyright Act.

In our view, this could be achieved through the introduction and passage of the *Copyright Amendment (Disability Access and Other Measures) Bill 2016*, which extends the safe harbour

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<sup>10</sup> Ai Group submission to Senate Economics References Committee Inquiry into Non-conforming Building Products, 27 January 2016.



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provisions to all online service providers under the Copyright Act. Ai Group recently made a submission to the Australian Government supporting this Bill.

Should the Productivity Commission be interested in discussing our submission further, please contact me directly or Charles Hoang, Adviser - Public Policy

Yours sincerely,

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