The Australian Government Productivity Commission
Level 2
15 Moore Street
CANBERRA CITY ACT 2600

6 June 2016

Dear Sirs

Submissions in Response to Productivity Commission draft Report on Australia's IP Arrangements

We refer to the above referenced draft report on Australia’s IP Arrangements and welcome the opportunity to make submissions on the recommendations, comments and options outlined in this paper.

About Shelston IP

Shelston IP is one of the largest and most respected Australian specialist IP firms with a rich history that can be traced back 155 years. We focus on the protection and enforcement of IP rights in all areas including by way of patents, trade marks, designs, plant breeder's rights and copyright.

Shelston IP is mindful of the stated focus of the review on providing IP systems that collectively advance the balance of interests in Australia’s IP arrangements and thereby enhance the wellbeing of the Australian community.

Introduction

While Shelston IP supports some of the Draft Recommendations, we are generally concerned with the fact that many of the recommendations appear to be inconsistent with Australia’s international treaty obligations. There is also concern that some of the conclusions drawn from various investigations are not adequately supported.

Detailed submissions

Our detailed submissions on various recommendations and findings listed in the report are set out below. We welcome a request for further information or clarification.
The Australian Government Productivity Commission

Please acknowledge receipt of this submission.

Yours sincerely

Shelton IP

Jacinta Flattery-OBrien
Practice Development Principal
Draft Recommendations, findings and information requests

Chapter 2: The analytical framework

**Draft Recommendation 2.1**

In formulating intellectual property policy, the Australian Government should be informed by a robust evidence base and have regard to the principles of:

- effectiveness, which addresses the balance between providing protection to encourage additional innovation (which would not have otherwise occurred) and allowing ideas to be disseminated widely;
- efficiency, which addresses the balance between returns to innovators and to the wider community;
- adaptability, which addresses the balance between providing policy certainty and having a system that is agile in response to change;
- accountability, which balances the cost of collecting and analysing policy–relevant information against the benefits of having transparent and evidence–based policy that considers community wellbeing.

**Draft Recommendation 2.1**

A significant part of the IP system is that the state offers a monopoly right in return for creative persons bringing forth their creative works in inventions, literature, artistry and designs.

By formulating an overriding objective of "maximizing the well being of Australians", the Productivity Commission sanctions the annexation of the creative output of individuals, and evidences little understanding of the purpose and operation of the IP system.

Of course, if Australia, as a society, does not wish to pay for the Intellectual Property of both its own citizens and of others, then the solution is to increase the difficulty of obtaining patent, copyright, designs and trade marks, and further shorten the term for which protection is obtained. Hence, the substantive recommendations of the report are directed to achieving this objective.

Further, the formulation by the Productivity Commission of its objectives for the IP system (section 2.2) results in a clouded judgment.
<table>
<thead>
<tr>
<th>Aims of the IP system according to the Productivity Commission</th>
<th>How reality may intervene</th>
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<tbody>
<tr>
<td>Providing some incentive for the innovation that would not otherwise occur</td>
<td>Innovation would occur without the Australian patent system. The question is whether the patent system is the most efficient means of encouraging innovation and whether, without a patent system, innovation will occur at a pace that does, indeed, ultimately maximize the well being of Australians.</td>
</tr>
<tr>
<td>The operation of the IP system should benefit both innovators and the public</td>
<td>At the core of the system is a balance of rewarding inventors by granting a monopoly right at the expense of the public. In the short-term this ensures the public obtain access to innovations earlier than they would otherwise because: companies can invest funds in development and distribution of the invention in the knowledge that they will be able to recuperate costs through the statutory monopoly; and the requirement for full disclosure of the invention in the patent application (published 18 months from the priority date of the application) provides “shoulders” for other innovators to build upon to which they would otherwise not have had access or to which they would only have had access much later. In the longer term a robust patent system allows the public to freely enjoy the full benefits of the invention after a limited period.</td>
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<tr>
<td>The IP system should not hinder competition in product or factor markets</td>
<td>The IP system fundamentally hinders competition, as is the nature of a monopoly right. This is the bargain a society accepts for encouraging innovation to proceed apace and for reaping the full benefits of the invention over time.</td>
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Overall, the Report evidences unhelpful linear thinking. Creativity and invention are often highly non-linear chaotic processes. The inventive process is frequently the result of chance, the random bringing together of disparate facts, just as much as it can be part of planned structured research.

Further, numerous significant inventions of the last 100 years would have occurred whether or not Australia had a patent system. For example, many block buster drugs, the transistor, integrated circuit, radio, television, fertilizers etc, were invented by foreign research groups. In their commercialization or their products, Australia would have represented about 1-2% of their potential market. It is likely they would have been invented, with or without Australia having a patent system.

On other hand, the system is holistic and we are part of a comity of nations that together provide a platform for the encouragement and reward of such research endeavors.

Of course one nation can decide to forge a different path, and follow a different ideology. Examples include the Soviet era inventor’s certificates, the historical compulsory licensing of food and drug patents in Canada, and the compulsory licensing of drug patents in India. Such divergences do provide a sense of the divergent country “free riding” on the collective of nations.
The purpose of the patent system is not to “enhance the well being of Australians by providing patent protection to socially valuable innovations that would not have otherwise occurred”. If this was adopted as an objects clause, then perhaps no inventions should be patented in Australia.

Rather, a more useful object clause that recognizes Australia’s membership of a global economic community might read “to enhance the well being of Australians by providing a valuable limited monopoly right to those bringing forward socially valuable innovations”.

As a consequence of setting the wrong objectives, the Productivity Commission appears to have adopted the view, with which we strongly disagree, that almost all IP rights should be severely curtailed.
Chapter 6: Patent system fundamentals

Draft Recommendation 6.1
The Australian Government should amend ss. 7(2) and 7(3) of the Patents Act 1990 (Cth) such that an invention is taken to involve an inventive step if, having regard to the prior art base, it is not obvious to a person skilled in the relevant art.

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

the intent of this change is to better target socially valuable inventions

the test should be applied by asking whether a course of action required to arrive at the invention or solution to the problem would have been obvious for a person skilled in the art to try with a reasonable expectation of success.

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

As a consequence of formulation of a restricted view of the purpose of the patent system, the Productivity Commission naturally proposes a significant restriction on patent rights.

This can also be viewed as the recommendation that the balance proposed amounts to setting the levers in favour of Australia “free riding” on the ingenuity of its own citizens and that of the citizens of other nations.

Draft Recommendation 6.1 Obviousness/Inventive Step
The Productivity Commission has recommended the adoption of at least a European Standard on inventive step. Again, this behoves the intent of restricting patent access.

The European standard is a wholly artificial creation. Normally, it involves an initial identification of the closest prior art to the invention. This process is entirely artificial and relies on a strong bias towards hindsight reasoning. Additionally, there is no hurdle requirement that at least the prior art is within the orbit of the hypothetical researcher. Indeed, the closest prior art material may even be in a foreign language not comprehensible to the inventor.

Australia did have a long history of jurisprudence that attempted to define the term “obvious” in a reasonable manner. However, the recent amendments to the Patent Act have developed a Europe-centric trajectory. This makes it more difficult to obtain a granted patent and it would appear that the Productivity Commission has adopted it. The Productivity Commission, in seeking to adopt such a standard, is moving away from any notion that the hurdle requirement is one of “non-obviousness”. Aligning with the European obviousness test is a convenience of adopting a test under which patent applicants face a very difficult and unique hurdle to obtaining patent protection.

Admittedly, the notion of obviousness is always a perplexing subjective measure. The “scintilla of invention” test is at least one test that is directed to the common notion of what the word means. Australia has a long line of jurisprudence in trying to identify the common notion of obviousness. Australian historical authorities, such as 3M v. Beiersdorf [1980] HCA 9 were directed to trying to flesh out what a common notion of obviousness might be.

Additionally, the main US authorities, in Graham v. John Deere 383 U.S. 1 (1966), KSR v. Teleflex 550 U.S. 398 (2007) have also directly dealt with this issue and pose a more suitable structure for defining what is obvious or non-inventive. Further, the US test is not the same as the European test. As outlined
in KSR and Graham, this test is more directed to what would normally be connoted by the word “obvious”, directed at being beyond the skill of the norm.

However, recent amendments to the Australian legislation seek to adopt a pro-European position and move away from the general notion of obvious to adopting the particular “problem-solution” approach of a major trading partner.

Philosophically, the test should be what is “Beyond the calling of the objective person skilled in the art”.

Draft Recommendation 6.2
The Australian Government should incorporate an objects clause into the Patents Act 1990 (Cth) (Patents Act). The objects clause should describe the purposes of the legislation as being to enhance the wellbeing of Australians by providing patent protection to socially valuable innovations that would not have otherwise occurred and by promoting the dissemination of technology. In doing so, the patent system should balance the interests of patent applicants and patent owners, the users of technology — including follow—on innovators and researchers — and Australian society as a whole.

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

Draft Recommendation 6.2 Objects Clause
To reiterate the discussion above, the Productivity Commission through their object clause proposal is subverting what should be the dominant purpose of the IP system.

The traditional charter of the Patents Act is to bring forth “the things which are worth to the public the embarrassment of an exclusive patent” (Thomas Jefferson). It is a reward or inducement to bring forth new knowledge. Further, “innovation, advancement and things which add to the sum of useful knowledge are inherent requisites in a patent system” (per US Supreme Court, Graham v. John Deere).

The Productivity Commission definition of an object conveniently is directed to its end purpose. “The enhanced well being of Australians by providing protection to socially valuable innovations that would not have otherwise occurred.”

To repeat the discussion of the introductory section, a criticism of the objects clause is that it evidences unhelpful linear thinking. Creativity and invention is often a highly non-linear chaotic process. The inventive process is often the result of chance, the random bringing together of disparate facts, just as much as it can be part of planned structured research.

Further, numerous significant inventions of the last 100 years would have occurred whether or not Australia had a patent system. For example, many block buster drugs, the transistor, integrated circuit, radio, television, fertilizers etc, were invented by foreign research groups. In their commercialization of their products, Australia would have represented about 1-2% of their potential market. It is likely they would have been invented, with or without Australia having a patent system. On other hand, the system is holistic and we are part of a comity of nations that together provide a platform for the encouragement and reward of such research endeavors.

Of course one nation can decide to forge a different path, and follow a different ideology. Examples include the Soviet era inventor's certificates, the historical compulsory licensing of food and drug patents in Canada, and the compulsory licensing of drug patents in India. Such divergences do provide a sense of the divergent country "free riding" on the collective of nations.

The purpose of the patent system is not to "enhance the well being of Australians by providing patent protection to socially valuable innovations that would not have otherwise occurred". If this was adopted as an objects clause, then perhaps no inventions should be patented in Australia.

Rather, a more useful object clause might read "to enhance the well being of Australians by providing a valuable limited monopoly right to those bringing forward socially valuable innovations".
Draft Recommendation 6.3

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

The Australian Government should seek international cooperation on making greater use of patent fees to help ensure that patent holders are not overcompensated and to limit the costs of patent protection on the community.

Draft Recommendation 6.3 Renewal Fees

Renewal fees are a tax on innovation. Renewal fees should only be directed at cost recovery for the patent office operations. The Productivity Commission calling for higher renewal fees and higher claim fees to discourage applicants naturally flows from the incorrect position that the system should be circumspect in allowing patents.
Chapter 7: Innovation patents

Draft Recommendation 7.1
The Australian Government should abolish the innovation patent system.

Draft Recommendation 7.1
Shelston IP strongly favours retention of the second tier Innovation Patent System as an important tool for stimulating innovation and providing IP protection for Australian SMEs.

Shelston IP accepts that the present regime has a number of flaws. However, the view is that these flaws can all be addressed through amendment to provide an improved regime that will meet the original objectives of stimulating local innovation. Further, it will do this in a manner that is simply not possible with the standard patent system.

In terms of innovative step threshold, Shelston IP supports setting the threshold at the same level as that applied under the Patents Act 1990 as originally enacted, accepting that this threshold will capture a large range of useful and commercially valuable inventions to local SMEs.

The draft Report concedes that: amendments to the regime to reintroduce arrangements for mandatory examination processes at say the three or four year anniversary; limiting back claiming as per standard patents; and limitation of damages period and remedies for infringement; would address most of the shortcomings of the present regime in terms of deterring or limiting the scope for strategic use.

The amended regime as described above, will properly and fairly fill the gap between registered designs and standard patents, with any uncertainties during pendency being less than exists in the current standard patent system, where patent applications may not be finalised for five to six years. Further, the remedies and term will be more closely commensurate with the slightly lower inventive threshold.

The draft Report suggests that the described initiatives currently being progressed by IP Australia, may represent other and better ways of achieving IPS policy goals. While these initiatives may help to streamline the standard patent application and enforcement processes, and thereby help to reduce costs, we fail to see how these actions address the need for a system that Australian SMEs and start ups can use to kick start their businesses and obtain funding in those critical early stages.

In this regard, the existing and proposed improved innovation system, provides a lower cost option for local SMEs, particularly when filed at first instance, rather than claiming priority from an earlier provisional patent application. As noted in the joint IPTA and FICPI Australia response to the Consultation Paper regarding ACIP’s recommendation that the Government consider abolition of the Innovation Patent System, only around 15% of non-divisional innovation patents claim priority from a provisional patent application. Where innovation patent applications are being filed instead of provisional patent applications, a high rate of abandonment would be expected and is no more a reflection on the effectiveness of the innovation patent regime, than lapsing provisional applications reflect the perceived value of standard patents.

The proposed improved procedure would provide SMEs with a much needed three-year hold on local application expenses between the date of filing and the need to pursue the compulsory examination process we are supporting, while holding pending rights crucial to securing funding and investor support. Naturally it won’t suit all SME inventions or commercialisation strategies. However, we have to accept that many inventions to date may not have been developed without the existence and benefits of the innovation patent, and future inventions may be lost to Australia and Australian SMEs if the system is abolished.
Chapter 8: Business methods and software patents

Draft Recommendation 8.1

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

Draft Recommendation 8.1

The Productivity Commission recommends, in Section 8, that software and business methods be specifically excluded from being patented. Shelston IP strongly believes that such action would cause harm to Australia's technology start-up sector, and create issues for SMEs whose competitive advantage resides in innovative software interfaces and processes.

Without an ability to secure patent protection, there is nothing to prevent a business’ innovative software technologies from being copied, at the concept level, by competitors. This is a greater problem for smaller enterprises, whose ability to operate commercially in a successful manner would be obliterated in the event that competitors were to copy and replicate significant distinguishing technology.

Without software patent protection, technology companies face at least the following struggles:

- Raising capital - investors want to know that a business can protect its core value-add software technologies from being replicated by competitors.
- Remaining innovative - here innovation can be copied freely at a functional level, focus turns to being a “copy economy” rather than an innovative market.
- Implementing exit strategies - Without patent protection, there is limited incentive for acquisitions. A potential acquirer has an option to simply engage their own programmers to replicate innovative software functionalities developed by what would formerly have been acquisition targets.

It is important to remember that software patents are not there to protect code; they protect functionality. Functionality is often client-facing, observable, and susceptible to being replicated without any need to access the underlying code.

Considered below are hypothetical use cases, based on real-world concerns affecting our local patent applicants/innovators:

1. An Australian innovator devises a new software technology, seeks investment or collaboration with a third party to enable actual development. The third party refuses to sign a confidentiality agreement (as is quite usual, given the risks involved). Innovator must then rely on an existing patent position to protect disclosed technology from being copied by third party. Without patents, approaching potential investors and collaborators becomes risky at this stage. There is no incentive to work with innovators to develop their devised technology; it is cheaper to simply steal the idea and develop the technology in-house.

2. An Australian innovator launches a successful new online auction platform utilising innovative new user interface technology. This takes market share away from the market giant eBay. With liberal software patent protection, the innovator is able to negotiate a license or sale to eBay. Otherwise, eBay is able to replicate the innovator’s user interface technology in-house, release it themselves, and run the innovator out of business.

3. An Australian innovator developed a new iPhone app which provides a consumer goods advertising and sale platform, which due to innovative functionalities is extremely successful. Currently, an Australian innovator can use software patents to prevent others from releasing...
imitation apps. Without software patents, numerous imitation apps are launched by competitors (more easily funded as commercial success has been proven by the Australian innovator), and the innovator loses all competitive advantage stemming from being innovative.

4. An Australian innovator developed a new word processing functionality which will revolutionise the market. Microsoft is interested in the technology. Due to lack of software patent protection, Microsoft is free to copy the revolutionary innovation, and the innovator is left with no commercial avenues.

The Productivity Commission has been focussed at the macro level, which does not demonstrate the importance of software patent protection to (Australian) SMEs and start-ups. The biggest users of software patents might be larger software companies, but the strategic relevance is very different in the case of smaller software companies. For larger companies, a patent portfolio is primarily to advance negotiation positions with other similarly-sized market players, and often patent rights play second fiddle to other commercial tools. For the smaller companies, obtaining robust protection over core software functionality can be a matter of life or death. The importance of liberal and robust software patent rights to smaller innovative businesses in the context of capital raising, commercialisation, and exit strategy implementation cannot be understated.

More broadly, the Productivity Commission’s recommendations against software patents demonstrate a fundamental failure to appreciate the purpose of patents. Commercially, patents are intended to allow innovators a limited-time monopoly to exploit innovative products; an opportunity to benefit from innovation to the exclusion of competitors. If an innovative product, software or otherwise, could provide a business with a path to commercial success, but that success is contingent on the innovation not being copied by competitors, then the patent system should be available to assist.

For at least these reasons, we are concerned that, if the Productivity Commission’s recommendation to abolish software patents is followed, resulting challenges to local software companies would be sufficient to hinder new product development and commercialisation across the majority of start-ups and SMEs.

Further, practitioners skilled in the area of computer science and drafting patents, know that

1. There is no substantive distinction between what is hardware and what is software

2. A succinct definition of a business method is unlikely to ever be available as patents to business methods can be redrafted (with considerable effort), to include significant real world components.

Firstly, software is basically indistinguishable from hardware. For example, most CPUs are designed using VHDL type languages, which are then compiled by various software tools to a final tapeout on a targeted technology. The distinction between software downloaded into an FPGA and a corresponding ASIC is minimal. Further, Turing machine arguments often equate the two. Further, digital hardware is actually implemented in an analog form, with the digital hardware merely being an abstraction.

It is therefore close to impossible to distinguish software from hardware, or to formulate a definition of software. And further, why should one. Software is just as worthy of protection as hardware. The exclusion of software is therefore arbitrary.

Further, software is so pervasive in technology. The Productivity Commission has used a proxy of one IPC class G06F for the whole area. This is unduly restrictive. For example, it is unlikely to include medical imaging software or advanced algorithms in other domains.

Examining the philosophical underpinnings of the patent system, leads one to conclude there is no reason for distinguishing software from any other form of technology. Further, business method patents are again arbitrarily excluded. The historical indicia of excluding schemes and plans is arbitrary. In the
era before digital technologies, I believe any field of technology should be open for patent protection. Further, frontier research in these areas is at least as valuable as other areas.
Chapter 9: Pharmaceutical patents

Draft Recommendation 9.1
The Australian Government should reform extensions of patent term for pharmaceuticals such that they are calculated based only on the time taken for regulatory approval by the Therapeutic Goods Administration over and above one year.

Draft Recommendation 9.1 – Extension of term based only upon delay by TGA.
The Productivity Commission Report recommends only an extension based upon “unreasonable” regulatory delays within the TGA.

The rationale for the current extension of term provisions is not based upon delays obtaining final regulatory approval, but rather upon the uniquely extensive lead time required for development of pharmaceuticals and the way those delays interplay with the patent system.

As explained in the Productivity Commission Report, early phase research, pre-clinical and clinical trials usually take at least 10 years, and in some cases 15 years or longer. The Productivity Commission Report asserts that other industries also have regulatory barriers; however, no other industry faces regulatory delays anything like those experienced by the pharmaceutical industry.

One factor not addressed by the Productivity Commission Report is that the semi-public nature of even pre-clinical trials means that for pharmaceuticals the patenting process is forced to commence at a very early stage in the product lifecycle. It is often not possible to keep information about new products in-house. Thus, unlike most other industries, pharmaceutical companies do not have the opportunity to defer patent filing until they are closer to product release.

The pharmaceutical industry is also quite unique in its failure rate (as high as 93% according to the Productivity Commission Report) and perhaps in no other industry is the disparity between high development costs and low copying costs so great.

The concept of petitioning for extension of patent term on the basis of inadequate remuneration is a longstanding one in patent law, established as early as the 1830s and present in the Australian Patents Act 1953 until limited to pharmaceuticals. The current framework for the extension of pharmaceuticals has been refined over many years and is broadly consistent with many of our major trading partners. Should Australia wind back the extension provisions (not withstanding any obligations to the contrary), it will be the first significant developed country to do so.

For these reasons, Shelston IP does not agree with this recommendation.
Draft Recommendation 9.2
Regardless of the method of calculating their duration (Draft Recommendation 9.1), extensions of term in Australia should only be granted through a tailored system which explicitly allows for manufacture for export in the extension period.

Draft Recommendation 9.2 – Manufacturing for export allowed during extension period.

The conflicting rights between innovator companies and generic manufacturers in Australia are well understood. However, in the case of manufacture for export, the rights in conflict are also between Australian generic manufacturers and foreign generic manufactures.

Prohibiting manufacture in Australia solely for export during the extension period has the effect of restraining Australian generic manufacturers from entering patent expired markets, and allowing foreign generic manufacturers (from non EoT jurisdictions) to enjoy early market entry.

This recommendation appears to be a sensible one.
Draft Recommendation 9.4
The Australian Government should introduce a transparent reporting and monitoring system to detect any pay-for-delay settlements between originator and generic pharmaceutical companies. This system should be administered by the Australian Competition and Consumer Commission.

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

Draft Recommendation 9.4 – Monitoring and detection of pay-for-delay agreements.

The patent system by its very nature creates monopolies, which in turn creates the possibility of misuse by anticompetitive agreements. Recommendation 9.4 appears to be sensible. The monitoring and enforcement of actions in this area would appear to reside with the ACCC.
Draft Recommendation 9.5
The Australian Government should reform s. 76A of the Patents Act 1990 (Cth) to improve data collection requirements. Thereafter, extensions of term should not be granted until data is received in a satisfactory form.

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

Draft Recommendation 9.5 – Clarify S76A

Ambiguity in language of s76A
We agree that the language of s76A is not clear. Dr Jacinta Flattery-O’Brien highlighted Shelston IP’s concerns in relation to this section of the Patents Act in her appearance before the PPR. We also agree with the Commission that Australia’s current system for data collection is flawed, cumbersome and ineffective.

It is our view that pharmaceutical innovators should not have to provide financial/commercial information to the Government when other patentees do not have to do so.

The Commission indicates that “More systematic collection and analysis of data on EoTs and pharmaceutical R&D in Australia would aid policy makers in monitoring whether there is an ongoing case for programs (like the EoT scheme) that positively discriminate between industries”.

The EoT system compensates innovator companies that are unable to benefit from the full 20-year term of a patent due to the lengthy, industry-specific requirements of the pharmaceutical regulatory regime. The delay in entering the market is due to the extensive clinical trials required by the TGA as well as the time required for the TGA to assess the innovator’s submission. Hence, the EoT system acknowledges the unique challenges facing innovators and compensates them for time spent complying with a Government-imposed regulatory regime.

Hence it is our view that the Commission has mischaracterised the EoT system as a scheme that “positively discriminates” between industries since this subtly suggests that the pharmaceutical innovators receive benefits that are not available to other patentees. In fact, the opposite is the case. The EoT merely contributes to a partial levelling of the playing field for pharmaceutical innovators relative to innovators in other industries (in other industries, a product can get to market, in some instances, even before the complete patent application is filed). Specifically, in cases where a “full” five-year EoT has been granted, the innovator will only have had effective access to the market (after TGA approval) for a maximum of 15 years and the pharmaceutical patentee is therefore still at a disadvantage vis-à-vis patentees in other industries who enjoy the full benefits of a 20-year term.

Given that the pharmaceutical innovator that avails of an extension of term is, de facto, at a disadvantage compared to patentees in other industries (in that they will only have access to a competition-free market for a maximum of 15 rather than 20 years), the Productivity Commission’s justification for requesting data from pharmaceutical innovators dissolves.

Pharmaceutical innovators do not benefit more than others from the patent system. In fact, due to the regulatory requirements, they benefit less than others from the patent system in terms of the years of access to a competition-free market, and this is the case even when they are granted an EoT. Therefore pharmaceutical innovators should not have to provide financial/commercial information to the Government when other patentees do not.
No logical rationale for collecting data on a company level

The Commission indicates that the collection of data “was intended to assist in evaluating whether EoTs were achieving their stated objective, namely encouraging pharmaceutical R&D in Australia”. No other objective is stated.

It is suggested that rather than attempt to collect data based on a product covered by a patent, data should be collected “on a company (or business) level”. It is unclear how collecting data relating to the entire suite of medicines sold by Global Company X (there may be hundreds of medicines and they may be spread over a number of different classes) is justified on the basis that the Company received an EoT for a single patent (which may or may not have delivered revenue). It is further entirely unclear as to how this general information, which is not broken down into the revenue derived from a product covered by the patent on which the EoT was obtained, would be determinative of whether or not the EoT encouraged pharmaceutical R&D in Australia. It appears that there is no nexus between the rationale for requesting information and the suggestion that “company level” data should be provided.

Definitions

Companies attempting to comply with the suggested reporting requirements are likely to find it onerous and an unnecessary, costly and time-consuming administrative impediment without any discernible benefit to the Australian Government. It is suggested that “definitions” should be linked to other existing pieces of legislation, for example “in Australia R&D could be defined by reference to the term ‘core and supporting R&D activities’ as used in s355.25 of the Income Tax Assessment Act 1977 (Cth)”. It is unclear as to which words would need to be defined. On the assumption that the definition of R&D is intended, it is unclear as to whether the proposal is that global companies use the Australian definition, the relevant definition in their jurisdiction or a mixture of both depending on where the funds were spent.

In many instances, licensees will benefit from an EoT. If information is requested only from the patentee, then this will not reflect the revenue obtained from the EoT in all cases and it certainly will not answer the question as to whether EoTs are encouraging R&D in Australia.

Consultation welcomed

If a new system is to be implemented, we welcome the Commission’s suggestion that there should be consultation in the development of the data requirements, production of detailed guidelines and the development of a standardised pro forma to facilitate compliance.

Proposed Review Period

We would also welcome a review of the system after five years but would suggest three years would be more appropriate. We have had to deal with a poorly drafted provision (that is frankly unworkable) for almost two decades now and more swift action to iron out any difficulties with a new provision, should they occur, would be useful.
Chapter 10: Registered designs

Draft Recommendation 10.1

Australia should not join the Hague Agreement until an evidence-based case is made, informed by a cost–benefit analysis.

Shelston IP agrees with the general recommendation that Australia defer accession to the Hague Agreement for the present time. This is primarily on the basis of the current problems identified in the report arising from the lack of harmonisation in filing requirements which, as noted, not only makes any gains arising from a single application process illusory and confusing, but may also result in filing errors which cannot be corrected further down the track resulting in irrevocable loss of rights.

On 6 May 2016, shortly after the present draft report issued, the Government issued its response to the ACIP report Review of the Designs System (ACIP Final Report) accepting the majority of recommendations that ACIP had made.

Government response - ACIP Review of the Designs System

In the meantime Shelston IP notes that the only recommendation presented in the present report is limited to comment on the Hague Agreement. However, the report in its current form acknowledges in draft finding 10.1 below, that there is no superior alternative to the present registered designs system, and in the Key Points section at page 293 notes there is no better option than improving the existing system. In terms of future improvements to the present system, the report also agrees at least that amendment of terminology would be beneficial in terms of addressing poor understanding of designs law and rights. Shelston IP supports these observations.

Shelston IP believes that the report should also specifically recommend continued work with Designs Law Treaty (DLT) with a view to accession as soon as it is finalised, as clearly harmonisation in filing requirements will address a lot of concerns regarding the Hague Agreement in its current form, without any downsides. Currently, Australian designers are disadvantaged by needing to prepare multiple sets of design drawings when wanting to seek protection overseas. Conversely, IP Australia accepts most of the design drawing formats used around the world, meaning that many foreign applicants filing in Australia do not incur the same cost and administrative penalty that Australian applicants would incur filing in those foreign jurisdictions.

Shelston IP notes that the Government also accepts this recommendation to continue active involvement in promoting harmonisation of international filing requirements through development of the DLT.

Shelston IP submits that there are a number of serious deficiencies and ambiguities in the current regime that need addressing urgently and which should not be delayed while protracted economic investigations are underway. The Productivity Commission acknowledges that Australia has to have a registered design system and that there are no alternatives to improving the existing system. In the government’s response to ACIP Designs Review, it agrees that the Designs Act should be amended, as soon as practicable, to address anomalies and bring the designs law into better alignment with equivalent laws of, and agreements with, major trading partners. Shelston IP supports this proposal for urgent reform and suggests that observations within the draft report that align with this proposal be formulated as recommendations. This is on the basis that the majority of these changes will result in benefits to the Australian community by making the system clearer and easier to understand.

Shelton IP also supports the following changes that are either not accepted, or only noted, in the Government’s response to the ACIP Final Report.
• Automatically defer publication (publishing) to the point of registration i.e. at six months (with the possibility to request publication earlier if desired) or leave as is and provide option to request deferred publication. This is on the basis that Australian applicants are often put off filing a design application and establishing an early priority claim knowing that the design will be published soon after;

• Extend the maximum term of protection to 15 years now, with renewals at 5 and 10 years, on the basis that system is self regulating as most designs have a short product life, but provision needs to be made to protect highly valuable iconic designs with a much longer product life;

• Require filing of a request for examination of the design before the first renewal (5 years), if the term is to be extended;

• Introduce a system of opposition following certification, if the term is extended;

• Introduce border measures to allow for the seizure by Customs of alleged infringements but only those which are identical or substantially identical to Registered Designs. As noted Customs already has power to seize goods which infringe registered shape marks. This involves an assessment of whether the imported article is of a shape which is substantially identical or deceptively similar to the registered shape mark.
Chapter 11: Trade marks and geographical indications

Draft Recommendation 11.1
In order to improve the effectiveness of the trade mark system, the Australian Government should:

- restore the power for the trade mark registrar to apply mandatory disclaimers to trade mark applications, consistent with the recommendation of the Advisory Council on Intellectual Property in 2004
- repeal part 17 of the *Trade Marks Act 1995* (Cth) (*Trade Marks Act*)
- amend s. 43 of the *Trade Marks Act* so that the presumption of registrability does not apply to the registration of marks that could be misleading or confusing
- amend the schedule of fees for trade mark registrations so that higher fees apply for marks that register in multiple classes and/or entire classes of goods and services.

IP Australia should:

- require the Trade Marks Office to return to its previous practice of routinely challenging trade mark applications that contain contemporary geographical references (under s. 43 of the *Trade Marks Act*). Challenges would not extend where endorsements require goods and services to be produced in the area nominated in conjunction with the Australian Securities and Investments Commission, link the Australian Trade Mark On-line Search System database with the business registration portal, including to ensure a warning if a registration may infringe an existing trade mark, and to allow for searches of disclaimers and endorsements.

Draft Recommendation 11.2
The Australian Government should amend s. 123 of the *Trade Marks Act 1995* (Cth) to ensure that parallel imports of marked goods do not infringe an Australian registered trade mark provided that the marked good has been brought to market elsewhere by the owner of the mark or its licensee. Section 97A of the *Trade Marks Act 2002* (New Zealand) could serve as a model clause in this regard.

Draft Recommendation 11.1 and 11.2
It is claimed that trade marks can be used in ways that “can limit competition and the welfare of the community” and this seems to be the rationale for most of the proposed changes, but there is little evidence of this occurring. It is acknowledged that the system needs to balance rights and interests and there are ways in which systems can be improved, but in a number of areas we query the basis for the proposed changes and whether they will result in any overall benefit.

When assessing issues, we also question whether appropriate consideration has been given to the interests of businesses that should be able to protect the very considerable amount of time and money they invest in generating goodwill in their trade marks. It should be acknowledged that a key feature of the trade marks registration system is to allow businesses to register and protect their trade marks.

- The report states that “evidence suggests that legislative changes resulted in an imbalance, with a greater number of trade marks being registered than was previously the case”. We do not understand the basis for the proposition that a greater number of registrations cause an imbalance. Indeed, the changes introduced were intended to improve an applicant’s prospects of achieving registration for reasons of commercial efficiency and improved productivity by (i) acknowledging that trade marks are valuable intellectual property and that trade mark owners should not be unreasonably obstructed in their efforts to obtain protection for their valuable IP; (ii) reducing the
time, cost and effort for businesses involved in arguing objections to registration with examiners; and (iii) reducing the number of instances whereby trade mark owners simply abandon their efforts to secure protection because of the need to convince examiners of their entitlement to registration.

- In relation to changes causing an imbalance by allowing more marks to be registered, it is worth bearing in mind that Australia has, internationally, some of the strongest restrictions on securing registration. In a number of countries marks filed are simply accepted and registered, in other countries there is only examination on the basis of inherent registrability not prior rights, and in most countries the level of distinctiveness required for a mark to be inherently registrable is lower than it is in Australia. It is not a bad thing that Australia has careful examination on grounds of inherent registrability and prior rights, as this gives added confidence and value to the registrations granted, avoids conflicts that would otherwise arise by way of oppositions or disputes between competing owners, and limits the number of marks on the Register, but the small changes that have been implemented have in no way caused an imbalance, particularly when viewed in an international context. If anything they have increased efficiency and productivity.

- The statistics provided do not seem to justify the claims made. They show that the United States has a higher annual average growth rate in percentage, and the United States and the United Kingdom both having higher growth rate per capita. The Australian figures are not disproportionate to those of other countries graphed. Further, if an economy is strong, a higher level of growth in trade mark applications would be expected as a positive indication, rather than a problem. The state of the economy and public awareness of intellectual property are among other factors that may contribute to increased growth rates.

- We also note that the number of marks on the Australian Register is lower than the numbers in other jurisdictions.

- We are unaware of any evidence that the entry of disclaimers has a significant impact in improving the system. It does not mean that less marks will be registered, it merely adds a step and means that some marks are registered with disclaimers.

Where an element is clearly descriptive it will likely be understood by most that monopoly rights are not granted in that element. The state of the Register is also an indicator of descriptiveness, which can be recognised when there are numerous marks that co-exist and contain a corresponding descriptive element. Further, trade marks that seek registration for a descriptive element alone generally fail.

Problems can arise when the system requires the entry of disclaimers but some marks, with an apparently or arguably descriptive element, proceed to registration without disclaimers. The rights granted in those circumstances are very unclear, and the absence of a disclaimer suggests that the owner has rights in what might otherwise be viewed as a descriptive element.

Further, the entry of disclaimers lowers productivity by adding cost and time to the registration procedure because argument will often be entered into as to when it is or isn't appropriate to enter a disclaimer on the Register. While we are aware that some people prefer disclaimers to be entered on the Register for the sake of clarity, we do not view the arguable benefits as justified in light of the additional cost and complexity it adds to the system, and the uncertainty that can arise in cases where there are no disclaimers. Moving from a system where no marks on the Register have disclaimers to one where some new marks do presents its own issues in terms of the rights granted to existing registrations without disclaimers.
• We strongly disagree with the view that abolishing defensive trade marks would assist the system. The report itself acknowledges that there are very few defensive registrations being around 10 applications per year. We do not think that this has any significant negative impact on competition. Indeed, we think that there are benefits in retaining defensive registrations.

Defensive registrations are only granted in circumstances that justify the granting of such registrations. They are not easy to obtain and involve substantial cost and effort on the part of the applicant in preparing suitable evidence to establish their claims and justification. Defensive registrations are only granted if it is likely that use of the trade mark in relation to the relevant goods or services would be taken to indicate a connection between those goods or services and the registered owner of the trade mark. This requires the applicant to demonstrate a relevant and substantial reputation. Further, it has an important part to play in consumer protection and deterring third party mistakes. If use of the mark would be likely to be taken as indicating a connection with the owner, it is beneficial if others do not seek and obtain registration for the same or a deceptively similar mark for those goods or services, as this has the potential to mislead or deceive consumers. Hence there is a consumer benefit.

Defensive registrations are typically only granted to well known marks. Third parties with improper motives not uncommonly seek to take advantage of the existing reputation of such marks by adopting the same or similar marks. They do so because they wish to take advantage of that existing valuable reputation and attractive force, without themselves going to the effort of building that reputation. In addition to deterring such applicants, defensive registrations can also deter the inadvertent adoption of such marks.

The protection granted to trade marks in Australia is generally weaker than the protection granted in corresponding developed western markets such as the United States and European Union. In the United States dilution is recognised as a cause of action and in the European Union actions affecting the reputation of established trade marks can be more readily protected. These jurisdictions recognise causes of action where third parties seek to take “unfair advantage” of the reputation of an existing business, well beyond what can be protected in Australia. Foreign owners of well known marks not uncommonly express a degree of frustration at the limitations on their ability to protect the valuable reputation of their trade marks in Australia.

Defensive registrations are difficult and costly to obtain, they are only granted in appropriate circumstances, very few are granted, they can deter adoption by traders with improper motives and those who inadvertently adopt such marks, and at least provide some mechanism for the justified protection of well known marks which are of considerable economic value and importance. We do not agree that any benefit would be obtained by abolishing defensive registrations.

• The report claims that the Register is becoming cluttered and that this is a consequence of businesses filing in more than one class. The proposal is to increase fees for businesses that file in more than one class. While it is possible that some businesses that file more broadly than they need to, in our experience, the vast majority of businesses are reasonable in the coverage that they seek and that filing in multiple classes is not a cause of cluttering. Indeed, we have one client in the medical field that often files for a very specific medical product and a very specific device used for administering such medical products. They file narrowly but often file in two classes. On the other hand, there are businesses that file very broadly in one class. In our experience, this is more commonly the case with individuals and small businesses filing their own applications online.
This tendency seems to have been enhanced by the Trade Marks Office making available a pick list for use in filing, which involves paying a lower fee than filing for a very specific product description. If any cluttering is occurring, which may itself be debatable in light of the number of registrations on the Australian Register compared to other countries, the pick list seems to be a contributor as it provides an incentive for businesses, particularly those with a low level of knowledge in the relevant field, to simply chose as many descriptions as possible to cover as much as possible and seemingly get best value for their money. On the other hand, a business that files for a precise description of a specialist product pays a higher fee for much more limited coverage.

If looking at any increase in fees, we think it would be more appropriate to increase the fees for pick list filings if applicants choose more than a certain number of descriptions in a particular class, rather than penalising businesses that legitimately file in multiple classes, which already incurs additional fees by virtue of the fact that they are filing in more than one class.

- On the issue of cluttering we question the relevance of the reference to trade mark oppositions being successful and note that the report refers to successful objections under both ss44 and 60. As the Commission will be aware, s60 is a ground of opposition based on prior reputation and so it is only a ground that can be pursued at opposition. Hence it has no relevance to the examination of an application as the Examiner will have no knowledge of that reputation. It is also not clear from the report whether there have been increased oppositions, although with the increased numbers of applications, increased numbers of oppositions are expected. It would also be expected that if businesses are becoming more aware of their intellectual property rights and the need to protect them, then oppositions may result. We also note that the number of oppositions is very small in comparison to the number of applications filed.

- Unused marks on the Register can cause cluttering. However, there is at present a relatively cost-effective procedure for seeking removal of a registration for non-use.

- On the issue of parallel imports, while appreciating the advantages of freedom of competition, there are also potential adverse consequences for reasons of compliance with quality and safety standards when product produced for a specific market finds its way into a different market. Further, the importer rarely takes responsibility for warranties or other product support in respect of product not suitable for Australian conditions, and this can adversely impact upon the business of the trade marks owner, which is entitled to produce product of different quality for different markets. The protection available to brand owners in Australia is generally weaker than that in other jurisdictions, and we do not view the current provisions as causing significant problems.

Indeed, we think there should be greater protection for businesses in areas relating to the sale of product, typically parallel imports, where they were never intended for sale (e.g. perfume testers) or in an altered condition e.g. in removed from its original packaging, barcodes removed etc.

- We agree that more should be done to draw to the attention of those registering business names to the potential for conflict with trade mark rights. Further, we believe that the defence to infringement provisions under Section 122(1)(a), which permits use of the name of a person’s place of business, should be removed or at least more specifically defined. It seems to provide a very broad and unwarranted exclusion to the rights granted to trade mark owners under their registrations, and enables substantial damage to such assets simply because a third party has registered a business or company name, which is not assessed for conflict with prior rights at the time of registration. There have been a number of recent court cases where the judges have grappled with its meaning and it is an area of uncertainty that requires clarification. In relation to the potential and uncertain extent of protection afforded we note the broad views expressed in Anchorage Capital Partners Pty Limited v ACPA Pty Ltd [2015] FCA 882, which give cause for concern as to the meaning and scope of the section.
Chapter 17: International cooperation

Draft Recommendation 17.1
Australia should revive its role in supporting opportunities to promote global cooperation on intellectual property policy among intellectual property offices through the World Intellectual Property Organization and the World Trade Organization to avoid duplication and reduce transaction costs.

Draft Recommendation 17.1
While the intent of Draft Recommendation 17.1 is laudable, and indeed may be achievable, experience has shown that attaining multilateral agreements via WIPO or WTO is extremely difficult or at least only comes about following years of negotiations. Accordingly historically, the difficulty in obtaining multilateral agreements via WIPO or WTO is the very reason Australia has sought bilateral agreements or multilateral agreements outside WIPO and WTO.

Until there is international recognition that IP agreements should be solely or primarily conducted via WIPO/WTO it is difficult to see how these multilateral agreements will come about. It is precisely the congestion in WIPO and WTO that has forced the need for such bilateral agreements.

Further, as discussed in Chapter 17 most of the multilateral agreements have been fairly non-controversial and relate to the front end or clerical processes for obtaining patent protection. Whilst some of the costs associated with these processes may be reduced, it is not clear how further multilateral agreements would benefit Australian businesses or in particular the IP community in Australia. Experience has shown that simple reduction in costs is not sufficient as it appears to correlate with an increase in the number of foreign filings into Australia. It seems to have little effect on outgoing filings and/or the ability of Australian businesses to leverage their IP.

Further, while initial upfront costs for filing patent applications overseas is a contributing factor, it is not in our opinion determinative of the countries in which Australian businesses seek protection.

Australia should also give serious consideration to becoming a leader in the IP field in the South East Asian region. IP Australia does contribute extensively to the development of IP awareness in the region including assisting other Patent Offices/jurisdictions, training Examiners and businesses in the importance of IP. However, any promotion or implementation of systems which minimise involvement of local attorneys, for instance, can seriously impact on the IP profession in certain jurisdictions particular for technology importing jurisdictions. This is particularly important in the South East Asian region which has a number of underdeveloped and developing IP jurisdictions, into which Australian technology and IP could be readily exported.

One area in which Australia could give consideration is the development a possible regional enforcement process whereby parties could seek non-binding opinions on infringement-validity of patents. Most of the common law jurisdictions in South East Asia for instance including Australia, New Zealand, Singapore, Hong Kong, Malaysia etc. have similar IP enforcement procedures in their Courts. Further with PPH and other enhanced prosecution processes at least in patents, the IP being enforced has similar scope. Such a multi-jurisdictional body for providing a non-binding opinion on enforcement in these jurisdictions (both validity and infringement) may encourage greater filings and exports into those jurisdictions if there was an alternative to the high costs associated with enforcement in the courts.

One last suggestion would be regional co-operation of customs authorities to effect appropriate customs seizure provisions both import and export. This is currently available for Trade Marks in some areas but could be extended to IP protected by registered patents or designs. This would not require WIPO or WTO involvement.