



## **The Digital Industry Group Incorporated's submission to the Productivity Commission's Issues Paper into Australia's Intellectual Property Arrangements**

### **About DIGI**

The Digital Industry Group Incorporated (**DIGI**) is a not for profit industry association, whose objectives are to:

1. protect the open nature of the Internet for Australians as an environment for innovation and freedom of access to information, communications and commerce;
2. promote the benefits of the Internet to government, community and other key stakeholders; and
3. advocate for a balanced and common sense approach to policy development for the online world.

DIGI's members include Facebook, Microsoft, Twitter, Google, and Yahoo!. DIGI members together employ more than 2,300 people in Australia and have offices in Sydney, Melbourne, Canberra, Adelaide, Perth and Brisbane.

The business solutions and online platforms that DIGI members provide to the Australian public facilitate new distribution, marketing and revenue generating channels for Australian businesses and content creators. They are also driving fundamental changes to the way that business is conducted and content is created and distributed.

DIGI appreciates the opportunity to comment on the Productivity Commission's Issues Paper into Australia's Intellectual Property arrangements.

## **Key recommendations**

DIGI recommends the following changes to Australia's intellectual property (**IP**) laws in order to ensure that the IP system provides appropriate incentives for innovation, investment and the production of creative works while ensuring it does not unreasonably impede further innovation, competition, investment and access to goods and services:

- amend the *Copyright Act 1968* (Cth) (the **Copyright Act**) to include a fair use exception;
- broaden the existing safe harbour scheme in the Copyright Act so as to apply to all providers of online services and not just carriage service providers; and
- abolish or reform the innovation patent system in the *Patents Act 1990* (Cth) (the **Patents Act**).

In addition, DIGI recommends that the Australian Government include within the *Trade Marks Act 1995* (Cth) (the **TM Act**) defences for criticism, review, parody and satire - consistent with existing exceptions in the Copyright Act - as well as to codify in the TM Act relevant principles in case law in respect of the concept of use "as a trade mark".

## **Innovation is the key to Australia's future economic prosperity**

Lasting economic growth relies on continuous technological progress through innovation. The Internet and associated digital technologies (the **Internet**) has fostered innovation, increased competition and driven productivity and economic growth. As recognised by the Government in the Intergenerational Report, "[c]ontinuing to encourage entrepreneurship and innovation, enhancing resource allocation, investing in and using infrastructure efficiently, facilitating trade with other countries and improving physical and human capital investment will all be critical to Australia's future productivity performance."<sup>1</sup>

Deloitte Access Economics (**Deloitte**) estimated that the "[Australian] digital economy contributed \$79 billion (or 5.1%) to GDP in 2013–14 ... and is 50% larger in real terms than [a] 2011 estimate."<sup>2</sup> To put this in perspective, "[i]f the digital economy was an industry it would be larger than Australia's agriculture, transport or retail industries." Deloitte also estimated that the digital economy could be worth \$139 billion by 2020 (7.3% of GDP).<sup>3</sup>

Of particular relevance for this inquiry, Deloitte estimated that the "[Australian] economy was about \$45 billion bigger in 2013 than it otherwise would have been because of the productivity impacts of digital technologies, approximately 3% of the Australian economy."<sup>4</sup>

---

<sup>1</sup> The Commonwealth Treasury, *2015 Intergenerational Report: Australia in 2055*, (2015) 92.

<sup>2</sup> Deloitte Access Economics, *The Connected Continent II: How digital technology is transforming the Australian economy* (March 2015) 2.

<<https://www2.deloitte.com/content/dam/Deloitte/au/Documents/Economics/deloitte-au-economics-connected-continent-ii-2015-300315.pdf>>

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

## **Intellectual Property and innovation policy**

At its heart the IP system seeks to support innovative activity. The production of additional intellectual property in any form, including copyright, patents or trade marks is not and should not be a goal in and of itself. As such, IP laws that fail to support innovative activity should be amended.

As noted by the Harper review panel in their final report, “[a]ccess to and creation of intellectual property ... will become increasingly important as Australia moves further into the digital age.”<sup>5</sup> As also noted by the Harper review panel, “[e]xcessive IP protection can not only discourage adoption of new technologies but also stifle innovation.”<sup>6</sup> This is clear from Australia’s experience.

Whereas Australian consumers have been quick to adopt new technologies developed overseas, Australian companies have not been at the forefront of technological development. While there are a number of factors that may have contributed to this, excessive IP protection in general and copyright protection in particular is undoubtedly one of those factors.

### **Copyright**

Today’s digital world depends on the making and transmitting of copyright works. In the words of the Australian Law Reform Commission (**ALRC**):

*Copyright is an essential aspect of innovation in the digital environment. Productivity is lifted by innovation, which includes ‘creation of new copyright works and innovation in legal access, distribution, storage and consumption of those works’, as well as ‘new ways of producing or distributing goods and services’ or new ways of managing existing processes to do so.<sup>7</sup>*

Key to fostering innovation in a digital economy are balanced copyright laws – laws that encourage the production and consumption of creative works while also promoting new methods and ideas, or goods or services. Australia’s copyright laws need to be optimised to promote the innovation made possible by today’s digital technologies and online platforms. This is most clearly illustrated by Australia’s closed and prescriptive fair dealing defences. They are expressly limited to particular purposes (and in some cases, particular technologies) and have failed to adapt to changes in technology or business practises, let alone the increasingly rapid changes that have come to characterise new technology cycles.

---

<sup>5</sup> Professor Ian Harper, Peter Anderson, Su Mccluskey and Michael O’Bryan QC, *Competition Policy Review, Final Report* (March 2015) 2.5.

<[http://competitionpolicyreview.gov.au/files/2015/03/Competition-policy-review-report\\_online.pdf](http://competitionpolicyreview.gov.au/files/2015/03/Competition-policy-review-report_online.pdf)>

<sup>6</sup> Ibid.

<sup>7</sup> Australian Law Reform Commission, *Copyright and the Digital Economy*, Report No 122 (November 2013) 3.10.

Three examples of technology, now considered commonplace but whose legal basis under Australian law remains ambiguous, highlight the way in which Australia's copyright laws remains stagnant during a time of rapid technological innovation.

### Search engines

Despite the advent of search engines in the early 1990s, to this day Australia's Copyright Act surprisingly does not provide a clear exception that would allow Australian-based search engines to copy websites for the purposes of providing search results. And this is for a service that is used by both business and consumers millions of times each day. It is trite to say that search engines create enormous economic value. Deloitte estimated that the ability to efficiently search for information on the internet was worth \$8.4 billion per annum to Australia.<sup>8</sup>

### Cloud computing

Another example is in cloud computing. We have recently seen the advent of large scale cloud computing. This huge uptake has been driven in part by businesses wanting to drive down IT costs whilst at the same time facilitating remote access to information and systems to drive collaboration amongst employees and stakeholders.

The Department of Communications highlighted the importance of cloud services in its recent Cloud Computing Regulatory Stock Take report.<sup>9</sup> The report noted that cloud technology could be especially transformative for small businesses "because they may lack access to capital for ICT investment and may lack ICT expertise."<sup>10</sup> However, like search engines, there is no exception in the Copyright Act that clearly permits Australia-based service providers from providing cloud computing services, which by necessity involves the making of multiple copies of copyright works, as part of the process of accessing and storing such copies on remote servers.

Not surprisingly, the Department of Communication's cloud services stock take report identified copyright as an impediment to cloud computing in Australia. The Department noted the current legal uncertainty regarding the copyright status of many cloud-based services:

*The extent to which the exceptions under the Copyright Act may apply to cloud services is unclear and will depend on the specific facts of the case, including the manner in which the cloud service is configured and used. ...The ALRC has noted that it is unclear whether the current law enables backups of copyright material to be copied and downloaded from remote cloud servers.<sup>11</sup>*

---

<sup>8</sup> Deloitte Access Economics, *The Connected Continent II: How digital technology is transforming the Australian economy* (March 2015) 35  
<<https://www2.deloitte.com/content/dam/Deloitte/au/Documents/Economics/deloitte-au-economics-connected-continent-ii-2015-300315.pdf>>.

<sup>9</sup> Department of Communications, *Cloud Computing Regulatory Stock Take Report, Volume 1* (June 2014).

<sup>10</sup> Ibid 7.

<sup>11</sup> Ibid 17-18.

Cloud computing is also economically significant for the Australian economy more broadly. In its 2014 report modeling the economic impact of cloud computing, KPMG found that “[b]ased on the current level of Australian GDP, ... that adoption of cloud services across 75 percent of relevant ICT spending ... after 10 years would result in an increase in long-run GDP of \$4.42 billion per annum.”<sup>12</sup>

### Data and text mining

Another valuable new technology that is arguably not permitted in Australia under Australian copyright law is data and text mining. This technology is transforming scientific research, as well as research in the humanities, by enabling automated searches of vast quantities of text and data to look for patterns, trends and other useful information. The data such technology can uncover has tellingly been described as the crude oil of the digital age, in an article by the Lisbon Council bemoaning how EU law lags behind best practice. The article concludes by saying “Europe’s current weakness in this area could have long-lasting repercussions.”<sup>13</sup>

A report by the UK Joint Information System Committee found that the benefits of data mining and text mining include:

*...increased researcher efficiency; unlocking hidden information and developing new knowledge; exploring new horizons; improved research and evidence base; and improving the research process and quality. Broader economic and societal benefits include cost savings and productivity gains, innovative new service development, new business models and new medical treatments.*<sup>14</sup>

As with search engines and cloud computing, text and data mining requires the making of digital copies of the content that is to be mined, in circumstances where such reproduction does not intrude upon the legitimate expectations of copyright owners as to the scope of their rights. Without any specific exception, or a licence, it is arguable that the process of data and text mining would infringe copyright if it was undertaken in Australia.

### **Flexible exceptions**

An essential prerequisite to encouraging new business entrants in a data-driven world are flexible copyright laws. Australia’s current copyright laws are out of date and in urgent need of reform. In particular, the current Copyright Act provides only limited closed categories

---

<sup>12</sup> KPMG, *Modelling the Economic Impact of Cloud Computing* (April 2012) 7  
<<https://www.kpmg.com/AU/en/IssuesAndInsights/ArticlesPublications/Documents/modelling-economic-impact-cloud-computing.pdf>>.

<sup>13</sup> Sergey Filippov, ‘Mapping Text and Data Mining in Academic and Research Communities in Europe’ (Issue 16, the Lisbon Council, 2014) 2.

<<http://www.innovationeconomics.net/component/attachments/attachments.html?id=285&task=view>>

<sup>14</sup> JISC (2012) The Value and Benefit of Text Mining to UK Further and Higher Education. Digital Infrastructure, 5. <<http://bit.ly/jisc-textm>>.

of defences to acts of copyright infringement. These categories are known as fair dealing defences.

The case for greater flexibility in the style of a fair use exception has already been made by the ALRC<sup>15</sup> and the living breathing example of countries like the US who have adopted, and greatly benefited from, it.

The core strength of a fair use exception is that it is flexible and technologically neutral. As noted by the ALRC:

*[f]air use is a standard, rather than a rule. It requires the consideration of principles or factors in an assessment of fairness, rather than setting out in detail the precise circumstances in which the exception will apply. This makes fair use considerably more flexible and better able to adapt to new technologies and new commercial and consumer practices.<sup>16</sup>*

Adopting a standard or principles based approach to regulating permissible exceptions also means that a piecemeal retrospective reform process can be largely avoided. The 2006 reforms to Australia's copyright laws, contained in the *Copyright Amendment Act 2006* (Cth), highlight the problematic nature of legislating for technology specific exceptions and demonstrate how quickly prescriptive purpose based exceptions can become out of date in a digital environment. By way of example, although that Act introduced format shifting and time shifting rights for some types of copyright content, the provisions are complex and technology specific.<sup>17</sup>

In contrast, the flexibility of a fair use exception is demonstrated by the fact that the potential copyright issues associated with online search,<sup>18</sup> cloud computing<sup>19</sup> and data and text mining<sup>20</sup> have all been found to be fair uses under US copyright laws. It is clear from the US experience that adopting a principles based approach to regulating permissible excepted uses is an essential component in facilitating rapid technological development.

The economic benefits to the Australian economy of adopting a flexible fair use exception are also significant. A 2012 study by Lateral Economics found that industries that rely on copyright exceptions and limitations - ie educational and research institutions, Internet search and web hosting providers, and producers of devices allowing individual copying of copyrighted content -

---

<sup>15</sup> The Report was the result of an 18 month inquiry during which the ALRC produced two consultation documents, undertook 109 consultations and received 870 submissions.

<sup>16</sup> Australian Law Reform Commission, *Copyright and the Digital Economy*, Report No 122 (November 2013) 4.39.

<sup>17</sup> For example s.110AA of the Copyright Act permits a consumer to format shift a cinematograph film in a videotape format only. In contrast, s.109A allows format shifting of sound recordings in all formats.

<sup>18</sup> Making local cache reproductions (*Perfect 10 Inc v Amazon.com Inc*, 487 F.3d 701 (9th Cir 2007)); search engine reproduction in search databases of images and text crawled on the world wide web and subsequent display in search results (*Perfect 10 v Amazon*, 508 F.3d 1146 (9th Cir. 2007); *Kelly v Arriba Soft*, 336 F.3d 811 (9th Cir 2003); *Field v Google*, 412 F. Supp 2d 1106 (D. Nev 2006)).

<sup>19</sup> *Cartoon Network, LP v. CSC Holdings*, 536 F.3d 121 [2d Cir. 2008].

<sup>20</sup> *Text and Data Mining A.V. ex rel Vanderhye v. iParadigms, LLC*, 562 F.3d 630 (4th Cir. 2009).

were responsible for: contributing 14% to Australia's GDP (\$182 billion); employing 21% of Australia's paid workforce (almost 2.4 million people); and paying wages and salaries of \$116 billion, in 2010.<sup>21</sup>

Fair use is not a novel concept. It has a common law origin<sup>22</sup> and today forms part of the copyright laws of major developed countries around the world, including the US,<sup>23</sup> Singapore,<sup>24</sup> South Korea,<sup>25</sup> Israel<sup>26</sup> and the Philippines.<sup>27</sup> It is not surprising that several of those countries have developed world leading tech sectors.

As noted by the ALRC, “the most significant concern raised by stakeholders opposed to fair use was that a lack of clear and precise rules would result in uncertainty about what uses are fair”.<sup>28</sup> The ALRC also reported that critics of fair use “argued that the uncertainty would create a need for both rights holders and users to obtain legal advice, thus increasing transaction costs ... [with] litigation ... required to determine the scope of permitted uses [in some instances]”.<sup>29</sup> These concerns are overstated.

Inevitably, as with the current copyright laws, there will always be a measure of uncertainty, especially during a transition period. However, as noted by the ALRC, “fair use is sufficiently certain and predictable, and in any event, no less certain than Australia's current copyright exceptions.”<sup>30</sup> As further noted by the ALRC, it is likely that guidelines and industry protocols developed by peak bodies, as well as internal procedures developed by institutional users, would provide a great deal of assistance and certainty to those relying on fair use. Of greater concern should be the legal uncertainty that surrounds those activities which form the backbone of everyday digital life - and provide benefits to creators and users alike.

---

<sup>21</sup> John Houghton and Nicholas Gruen, ‘Exceptional Industries: The economic contribution to Australia of industries relying on limitations and exceptions to copyright’ (Lateral Economics, August 2012) 3  
<<http://digital.org.au/sites/digital.org.au/files/FINAL%20Exceptional%20Industries%20-%20Lateral%20Economics%20Report%20%28Sept%202012%29.pdf>>

<sup>22</sup> William F. Patry, *Patry on Fair Use* (Thomson Reuters, 2013) 1:3.

<sup>23</sup> Copyright Act 1976 (US), s. 107.

<sup>24</sup> Singapore Copyright Act (Singapore) s. 35.

<sup>25</sup> Copyright Act 1967 (South Korea) art. 35-3.

<sup>26</sup> Copyright Act 2007 (Israel) s. 19.

<sup>27</sup> Intellectual Property Code of the Philippines, Republic Act No 8293 (Philippines) s 185.

<sup>28</sup> Australian Law Reform Commission, *Copyright and the Digital Economy*, Report No 122 (November 2013) 4.118.

<sup>29</sup> Ibid.

<sup>30</sup> Australian Law Reform Commission, *Copyright and the Digital Economy*, Report No 122 (November 2013) 4.121. The UK Intellectual Property Office commissioned economics professor Antony Dnes to undertake a law and economics analysis of fair use verse fair dealing. He found that “[a]s a matter of observation and from an assessment of US cases, a system of copyright law adhering to a doctrine of fair use does not appear to be characterized by unusual levels of uncertainty” (Antony W. Dnes, *A Law and Economics Analysis of Fair Use Differences Comparing the US and UK* (April 2011) 32.

<<http://webarchive.nationalarchives.gov.uk/20140603093549/http://www.ipo.gov.uk/ipreview-doc-j.pdf>>)

## **Broadening the safe harbour scheme**

While the introduction of a fair use flexible exception is one prerequisite to facilitating greater innovation and technological development in the Australian economy, another prerequisite is broadening Australia's existing "safe harbour" scheme. The Copyright Act currently contains a "safe harbour" scheme, as set out in sections 116AC to 116AF (the **Safe Harbour Scheme**), which provides a simple system that gives rights holders an efficient way to seek removal of infringing content and rewards online service providers for collaborating with rights holders by granting them certain legal protections. The Safe Harbour Scheme also includes protections for consumers who wish to challenge incorrect claims of copyright infringement. As such, the Safe Harbour Scheme operates to provide legal certainty and minimise compliance costs for all stakeholders.

Under the Safe Harbour Scheme, Carriage Service Providers (**CSPs**) obtain the benefit of limited liability in exchange for quickly removing, or disabling access to, infringing content from their network upon receipt of a notice from rights holders. Rights holders obtain the benefit of an efficient, localised scheme for addressing online copyright infringement. However, while the scheme applies to CSPs, such as Telstra and iiNet by way of example, it does not apply to other providers of online services, such as universities and schools that provide internet access to students, to libraries who provide internet access to Australians who do not have access to home internet services, or to online platforms or search engines.

There is no logical basis for the distinction between the protection afforded under the Safe Harbour Scheme to different categories of online services; no policy reason has ever been forthcoming.

Limiting the Safe Harbour Scheme to commercial ISPs has serious implications for the Australian digital economy. It makes Australia a high-risk legal environment for hosting content as compared with countries with safe harbours. It also creates an uneven playing field for local innovators.

Expanding the Safe Harbour Scheme was first recommended in 2005, in a review conducted by the Attorney-General's Department.<sup>31</sup> It was also suggested in 2011<sup>32</sup> and most recently in the 2014 Online Copyright Infringement Discussion Paper.<sup>33</sup> In that paper the Government indicated that the broader category of "entities should be captured by the safe harbour scheme."<sup>34</sup> DIGI agrees with that assessment.

As a consequence of Australia's more limited Safe Harbour Scheme, Australia is currently out of step with many of its major trading partners, including the US, the EU, Singapore, Korea and New Zealand. International copyright experts, Professors Jane Ginsburg and Sam Ricketson, have also expressed the view that the Safe Harbour Scheme is not only narrower than its US

---

<sup>31</sup> Attorney-General's Department, *Review of the Scope of Part V Division 2AA of the Copyright Act* (2005).

<sup>32</sup> Attorney-General's Department, *Revising the Scope of the Copyright 'Safe Harbour' Scheme* (2011).

<sup>33</sup> Attorney-General's Department, *Online Copyright Infringement Discussion Paper* (July 2014).

<sup>34</sup> Ibid 9.

counterpart, but also “narrower than the obligations contained in the AUSFTA”.<sup>35</sup> Ricketson and Ginsburg concluded that “the category of persons and entities who are to be entitled to the remedial safe harbours needs to be revisited and extended beyond the present narrow category of “carriage service providers.”<sup>36</sup>

## Patents

In addition to copyright, the patent system can be an important driver of innovation and economic growth, providing incentives to invest in and commercialize new technologies by awarding exclusive rights that allow an inventor to recoup that investment in exchange for disclosing an invention to the public. Standard patents in Australia best achieve this goal when they are awarded for nonobvious advances in technology and inform the public of what subject matter is covered through clear claim boundaries. Conversely, intellectual property rights having uncertain scope and validity awarded for trivial differences over the prior art can harm innovation and economic growth by increasing the uncertainty, risk and cost of creating and providing new services and products. In the view of DIGI members, unlike standard patents, innovation patents can fall into this latter category or be otherwise abused and should be abolished or reformed.

The Australian innovation patent system is intended to be a “second tier” system to protect minor and incremental functional inventions that cannot be protected by standard patents because they do not meet the required inventive threshold.<sup>37</sup> Unlike standard patents, innovation patents are granted without examination. Certification is necessary before the owner can enforce an innovation patent, but certification can occur at any time during its life.

One rationale for creating an innovation patent system was to stimulate innovation in small to medium enterprises (**SMEs**) by providing an easy, fast mechanism to obtain patent protection for lower level inventions. But its effectiveness has been called into serious question. In June 2014, the Advisory Council on Intellectual Property (ACIP) released its *Review of the Innovation Patent System* report.<sup>38</sup> Following this report, IP Australia undertook a comprehensive economic analysis of the innovation patent system, as documented in its paper, *The Economic Impact of Innovation Patents*.<sup>39</sup> The paper concludes that the innovation patent system is failing to incentivise Australian SMEs to innovate and is imposing an overall net cost. Based on this new evidence and analysis, ACIP released a revised Report in June 2015 recommending that the Australian Government consider the abolition of the Australian innovation patent system (the **ACIP Final Report**).<sup>40</sup>

---

<sup>35</sup> Jane Ginsburg and Sam Ricketson, “Separating Sony Sheep from Grokster (and Kazaa) Goats: Reckoning Future Business Plans of Copyright-dependent Technology Entrepreneurs” (2008) 19 Australian Intellectual Property Journal 10, 31.

<sup>36</sup> Ibid 40.

<sup>37</sup> Australian Council on Intellectual Property, *Review of the Innovation Patent System Final Report* (2015), 23.

<sup>38</sup> Australian Council on Intellectual Property, *Review of the Innovation Patent System Report* (2014).

<sup>39</sup> IP Australia, *The Economic Impact of Innovation Patents*, Economic Research Paper 05 (2015).

<sup>40</sup> ACIP, above n 38, 1. The key finding of the ACIP Final Report was that (at 1):

## **Problems with the Innovation Patent System**

DIGI supports the ACIP recommendation that the Australian innovation patent system be abolished or otherwise reformed. The system is not achieving its intended goals and policy outcomes. Its implementation has a negative effect on innovation by increasing uncertainty, risk and cost for innovators in the Australian market. Due to their low “innovation step” requirement, innovation patents also create unwarranted exclusive rights that limit competition and innovation by others and are susceptible to abuse and unintended uses.

### **Uncertainty, risk and increased costs**

As the ACIP Report described, the Register of Patents contains many “poor” quality, uncertified innovation patents that are “devaluing” Australia’s patent system.<sup>41</sup> In particular, the large majority of Australian innovation patents are never certified. According to the IP Australia Economic Research Paper, in 2012, approximately 1900 innovation patent applications were filed, but only 329 were certified.<sup>42</sup>

The existence of so many uncertified innovation patents creates a high degree of uncertainty as to whether the patent owners will ever attempt to certify them, and if they do, whether the patents will meet the inventive requirement. This situation forces creators and implementers of technology into the difficult choice of moving forward in the face of infringement risk, avoiding the field, or taking on the significant expense of assessing whether an uncertified innovation patent is sufficiently inventive to be enforced. DIGI agrees with the position expressed in the IP Australia Economic Research Paper<sup>43</sup> that these difficulties may deter competitors and innovators from introducing new products into the market. Companies that do move forward and make the investments necessary to bring new products to the public may find themselves embroiled in litigation that consumes resources better devoted to research and development.

The uncertainty, risk and cost associated with innovation patents is exacerbated by the large number that have poor quality disclosures or are filed and granted with a poorly worded claim - or no claim at all - and therefore fail to provide adequate notice of the scope of protection.

### **Low innovative step**

DIGI shares a widely held view that the current “innovative step” test that an innovation patent must satisfy is too low and uncertain to support the goal of promoting the creation and development of new technologies. An innovation patent may be granted if a person skilled in the relevant art would understand that the invention varies from the prior art in a way that makes a substantial contribution to the working of the invention.<sup>44</sup> The Federal Court explained this test

---

*Australian SMEs are less likely to use the patent system after filing an innovation patent than a company that has not previously filed an innovation patent. This suggests that innovative activity is not being stimulated among these groups by the innovation patent system.*

<sup>41</sup> ACIP, above n 39, 44.

<sup>42</sup> IP Australia, above n 40, 5.

<sup>43</sup> IP Australia, above n 40, 17.

<sup>44</sup> Patents Act s. 7(4).

in *Dura-Post (Aust) Pty Ltd v Delnorth Pty Ltd*, making clear that an innovation patent “is entitled to protection, whether or not (even if), it is obvious.”<sup>45</sup> Once certified, obvious innovation patents are difficult to challenge and therefore create barriers to competition and innovation by others without providing a countervailing benefit to the public through the encouragement of significant new inventions.

### **Use of innovation patents for unintended purposes**

Because they are often not examined, and when they are they must meet only the low “innovation step” test, innovation patents are susceptible to gaming that is contrary to their intended purpose. For example, the ACIP Final Report<sup>46</sup> discusses the use of innovation patents to:

- extend the effective term of a standard patent by filing an innovation patent application over a marginal improvement immediately prior to expiry of the standard patent (a form of “evergreening”);
- create a patent thicket by filing multiple innovation patents (including divisional innovation patents) for minor variants of the main invention; and
- capture new market developments since the filing of an original application through the filing of multiple innovation patent applications as divisional applications.<sup>47</sup>

Each of these uses creates the potential that innovation patents could be used to block the true innovation of others, and further supports calls to abolish or reform the innovation patent system.

For these reasons, it is DIGI’s view that the innovation patent system has failed to achieve its core policy goals, does not promote innovation, and should be abolished or reformed. To the extent that innovation patent protection is not eliminated entirely, DIGI believes that, at a minimum, it is necessary to adopt a more rigorous inventiveness requirement and to require certification of innovation patents within a reasonable period of time in order to avoid the substantial uncertainty and risks to competition and innovation that result from the current system.

---

<sup>45</sup> As the court explained, “The phrase ‘no substantial contribution to the working of the invention’ involves quite a different kind of judgment from that involved in determining whether there is an inventive step. Obviousness does not come into the issue. The idea behind it seems to be that a claim which avoids a finding of no novelty because of an integer which makes no substantial contribution to the working of the claimed invention should not receive protection but that, where the point of differentiation does contribute to the working of the invention, then it is entitled to protection, whether or not (even if), it is obvious. Indeed, the proper consideration of s 7(4) is liable to be impeded by traditional thinking about obviousness.” *Dura-Post (Aust) Pty Ltd v Delnorth Pty Ltd [2008] FCA 1225* per Gyles J at [53],

<sup>46</sup> ACIP, above n 38, 36-37.

<sup>47</sup> The recent decision in *Britax Childcare Pty Ltd v Infa-Secure Pty Ltd [2012] FCA 467* describes similar uses of innovation patents.

## **Trade Marks**

Australia's trade mark law provides trade mark owners with significant legal and practical control over use of their trade marks. To promote social welfare and competition, however, strong trade mark laws should be balanced with protections for freedom of expression as they impact on competition. The current review also provides an opportunity to clarify what constitutes use "as a trade mark" for the purposes of infringement, and the scope of the monopoly of trade marks containing descriptive elements.

### **Defences for criticism, review, parody and satire**

The Trade Marks Act represents a balance between the proprietary rights of the trade mark owners and the right of other persons to exercise their freedom of expression. The courts have expressly recognised the need to balance proprietary rights and other rights.

Balancing proprietary rights and freedom of expression is important because the right of other traders to use words and other signs is strongly associated with their freedom to trade.

Ensuring that the TM Act protects freedom of expression will lead to increased freedom to trade and therefore lead to increased competition.

We suggest the defences in sections 122 to 124 of the TM Act currently do not strike an adequate balance between proprietary rights and the freedom of expression in the context of trade mark infringement. In particular, there is an absence of specific protections for criticism, review, parody or satire, as in the Copyright Act.

### **Clarification of the concept of use "as a trade mark"**

A threshold issue in trademark infringement under section 120 of the TM Act is demonstrating that the alleged infringer has used a sign "as a trade mark". The TM Act provides that a "sign" is used "as a trade mark" if it's used to distinguish the goods/services dealt with or provided by the person from goods/services dealt with or provided by other persons. However under case law, there are three additional types of use, including: (i) for a commercial purpose, i.e., "in the course of trade"; (ii) as a "badge of origin", i.e., to indicate a connection between the goods/services and the trade mark owner; and (iii) in a manner that invites prospective consumers to purchase the person's goods/services, which are distinguished from other goods/services partly because the goods/services are identified by the sign.

Because the TM Act does not fully capture the meaning of use “as a trade mark”, trade mark owners can assert infringement even in circumstances where the alleged infringer has not used the sign “as a trade mark”. In fact, an academic study (J. Bosland, K. Weatherall and P. Jensen, “Trade Mark and Counterfeit Litigation in Australia”<sup>48</sup>) found that about a quarter of the trade mark infringement cases were ultimately lost because the trade mark owner could not show that the alleged infringer had used the sign “as a trade mark”.

Even if claims of infringement do not ultimately succeed, threats of infringement based on any use of a trade mark, whether or not that use is use “as a trade mark”, can increase the overall cost of the trade mark system, reduce competition, and negatively impact on social welfare because public and private resources are being diverted to resolving trade mark disputes. The proposed amendment to codify the term “use as a trademark” would help stem such harms and it would do so without any substantive changes to the law, as it codifies existing case law.

## **Conclusion**

It is clear that there are significant areas of Australia’s IP laws that require reform to make sure that existing “IP rights are [not only] apt for the future” but also apt for today.

In terms of copyright, Australia’s Copyright Act, with its closed fair dealing defences, is ill suited to adapt to changes in the domestic and global economic, commercial and technological environments. This will continue to be the case for as long as Australia fails to implement a principles-based fair use style flexible exception. If our existing copyright laws have taught us anything, it is that a prescriptive technologically specific approach to legislating is antithetical to innovation and the rapid pace of technological development occurring globally.

Implementing a fair use style exception has the best prospects of being efficient, effective and robust over time.

Further, in terms of Copyright reform, if Australian policy makers wish to truly foster the development of local Australian online technology companies, then the existing Safe Harbour Scheme will need to be broadened to cover all online service providers and not just CSPs.

On patents, while Australia’s existing patent laws are functioning reasonably well, Australia’s second tier innovation patent system may in fact be operating to the detriment of innovation by increasing uncertainty, risk and cost for the developers of new technologies. Accordingly, the innovation patent system should either be reformed or be removed from the Patents Act altogether and policymakers should consider other options for achieving the stated goals of that system.

---

<sup>48</sup> [2006] UMelbLRS 3, URL: <http://www.austlii.edu.au/au/journals/UMelbLRS/2006/3.html>

Finally, Australia's trade mark laws could also be adjusted to work more effectively and fairly through the introduction of defences for criticism, review, parody and satire, in line with existing defences in the Copyright Act. Similarly, including clarification of the concept of use "as a trade mark" in the TM Act would likely result in a reduction in the number of unmeritorious claims brought before Australian courts, in turn improving the efficiency of the trade mark system and reducing the misallocation of financial resources by both trade mark owners and users.