

Submission on the Productivity Commission's Final Report into Australia's Intellectual Property Arrangements

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The NSW Young Lawyers Communications, Entertainment and Technology Law Committee and the Business Law Committee (Committees) make the following submission in response to the Productivity Commission Inquiry into Australia's Intellectual Property Arrangements Final Report.

NSW Young Lawyers

NSW Young Lawyers is a division of The Law Society of New South Wales. NSW Young Lawyers supports practitioners in their professional and career development in numerous ways, including by encouraging active participation in its 16 separate committees, each dedicated to particular areas of practice. Membership is automatic for all NSW lawyers (solicitors and barristers) under 36 years and/or in their first five years of practice, as well as law students. NSW Young Lawyers currently has over 15,000 members.

The Communications, Entertainment and Technology Law Committee (**CET Committee**) of NSW Young Lawyers aims to serve the interests of lawyers, law students and other members of the community concerned with areas of law relating to information and communication technology (including technology affecting legal practice), intellectual property; advertising and consumer protection; confidential information and privacy; entertainment; and the media. As innovation inevitably challenges custom, the CET Committee promotes forward thinking, particularly about the shape of the law and the legal profession as a whole.

The Business Law Committee (**Business Law Committee**) is a forum of like-minded individuals who have joined together to improve their own knowledge of business law and foster increased understanding of this area in the profession. We review and comment on legal developments across corporate and commercial law, banking and finance, superannuation, taxation, insolvency, competition and trade practices.

Introduction

The CET Committee and the Business Law Committee (**Committees**) welcome the opportunity to provide the Federal Government and its Department of Innovation, Industry and Science (collectively the Federal Government) with its views in relation to the Productivity Commission's Inquiry and Final Report¹ into Australia's intellectual property arrangements.

This submission does not intend to present a comprehensive review of the differences between the Final and Draft Reports,² or the issues raised in the Final Report. The aim of this submission is to provide the Federal Government with the Committees' insights and expertise into select key issues of concern to the Committees.

Summary of Recommendations

1. Fair Use Exception

The Committees submit that the Federal Government should accept and implement the Australian Law Reform Commission's (**ALRC**) final recommendations regarding a 'fair use' exception in Australia.

2. Contracting Out, Technological Protection Measures and Geoblocking

The Committees are of the view that the *Copyright Act 1968 (Cth)* (**Copyright Act**) should be amended so that any term in an agreement which attempts to 'contract out' of the statutory exceptions to copyright infringement is void.

The Committees are of the view that s 64(1) of the *Australian Consumer Law*³ (**ACL**) is an appropriate provision to model the proposed amendment to the Copyright Act of a prohibition on 'contracting out'.

The Committees submit that in addition to the proposed prohibition against 'contracting out', the Copyright Act should also be amended to expressly prohibit any temporal or monetary restrictions being placed on the statutory exceptions to infringing copyright.

¹ Productivity Commission Inquiry Report, *Intellectual Property Arrangements* (23 September 2016) Report No 78 (2016) (**Final Report**).

² Productivity Commission, Productivity Commission Inquiry into Australia's Intellectual Property Arrangement, *Draft Report*, April 2016, (**Draft Report**).

³ *Competition and Consumer Act 2010 (Cth)*, Schedule 2, *Australian Consumer Law (ACL)*.

The Committees are of the view that the Copyright Act should be amended to better regulate the use of Technological Protection Measures (TPMs) and address the gaps in the current legislative framework.

The Committees recommend expressly permitting circumvention of TPMs other than access TPMs by users of copyright works where the purpose for circumvention is a legitimate use of copyright materials and falls within an exception to copyright infringement, such as a fair dealing exception.

The Committees recommend that the Copyright Act be amended to allow third party service providers to lawfully provide services that circumvent TPMs (other than access TPMs) provided the purpose for circumvention is a legitimate use of copyright materials and falls within an exception to copyright infringement.

The Committees support the Productivity Commission's recommendations that Australia's copyright laws need to be clarified to ensure Australian consumers can legally circumvent geoblocking technology, and that the Federal Government should refrain from entering into international agreements that would prevent consumers from circumventing geoblocking technology.

3. Safe Harbour Scheme

The Committees are of the view that, the Federal Government should expand the safe harbour scheme to apply to all online service providers.

4. Competition Law and Intellectual Property

Overall the Committees agree with the Commission's recommendation in the Final Report that s 51(3) of the *Competition and Consumer Act 2010 (Cth)* (CCA) be repealed on the proviso that the 'per se' prohibitions under the CCA also be amended in accordance with the recommendations of the Harper Report⁴ so that any claim that a contract contains exclusionary provisions be subject to a competition test.

The Committees recommend that a test of whether conduct has the effect, or likely effect, of substantially lessening competition within the market be applied to claims that a contract contains exclusionary provisions.

5. Software Patents

The Committees do not agree that the monopolies granted by patents are overly long given the rate of change in software and are unnecessary to provide incentives to innovators. In the Committees' view, there is nothing that differentiates software from any other widespread new technology.

⁴ Competition Policy Review, *Final Report* (March 2015) (Harper Report), 15.

The Committees submit that there will be great value in software patents if used to protect high quality inventions and where the patent system incentivises significant ongoing investment into research and development.

In the Committees' view there is little legal justification for the 'manner of manufacture' test in software patents.

The Committees are of the view that it is difficult to argue that the standard of a 'scintilla of invention'⁵ is too low, when patent examiners, hearing officers and courts inconsistently apply the inventive step threshold. The Committees submit that it would more beneficial to address these inconsistencies.

6. Defensive Trade Marks

The Committees submit that there are important reasons why defensive trade marks should not be abolished.

Defensive trade marks offer a cost-effective way of protecting well-known marks and benefit the owners of defensive trade marks and the system more broadly.

The Committees submit that defensive marks should continue not to be subject to removal for non-use.

The Committees recommend that the Federal Government consider introducing a renewal process for defensive marks in order to assist with any issues of defensive trade marks 'cluttering' the trade mark register.

7. Improving efficiency by reforming parallel importation

The Committees welcome and support the recommendation that the Federal Government should amend the *Trade Marks Act 1995 (Cth)* (**Trade Marks Act**) to ensure that parallel imports of marked goods do not infringe an Australian registered trade mark when the marked good has been brought to the market elsewhere by the owner of the mark or its licensee.

8. Trade Mark Issues in the Digital Age

The Committees submit that there is scope to amend s 120 of the Copyright Act to ensure greater consistency with the European Union approach of "use in the course of trade in respect of goods or

⁵ *Lockwood Security Products Pty Ltd v Doric Products Pty Ltd (No 2)* [2007] HCA 21 [at 52]; *Meyers Taylor Pty Ltd v Vicarr Industries Ltd* [1977] HCA 19 [at 54].

services.”⁶

The Committees note that as a result of the lack of judicial clarity and Google’s policy of refusing to investigate or restrict the selection of trade marks as keywords,⁷ trade mark owners and businesses are becoming increasingly frustrated at the lack of legislative support to protect their brand in the digital age.

The Committees are of the view that trade mark law is currently inadequately positioned to address the proliferation of technology and the way in which businesses and consumers use technology in the digital age.

The Committees submit that it is necessary to clarify whether the practice of purchasing trade marks as keywords in Google AdWords services (or similar services offered by online indexing services) amounts to using or leveraging another entity’s trade mark.

Fair Use Exception

Copyright law aims to balance the interests of copyright owners with the larger public interest in the free flow of information and innovation.⁸ Under the current legal framework, copyright owners are incentivised to create works by allowing them to control the use of their copyright works through an exclusive set of economic and moral rights. The Committees are of the view that any amendments to the Copyright Act must ensure that a balance is achieved between the broader public interest in the free flow of information and the interests of copyright holders. Specifically, the property rights of copyright owners must not be unduly limited in a manner that is inconsistent with the purpose and objectives of the Copyright Act and the Federal Government’s international obligations.

Draft Report

The Committees note that the Productivity Commission’s (**Commission**) Draft Report on Australia’s Intellectual Property Arrangements⁹ concluded that “Australia’s current exception for fair dealing is weighted too much in favour of rights holders.”¹⁰ The Draft Report recommended for the implementation of a ‘fair use’

⁶ *First Council Directive of 21 December 1988 to Approximate the Laws of the Member States Relating to Trade Marks (89/104/EEC)* [1989] OJ L 40/1, Art 5(1)(a) and *Council Regulation (EC) No 40/94 of 20 December 1993 on the Community Trade Mark* [1994] OJ L 11/1, Art 9(1)(c).

⁷ Google Inc, “Advertising Policies Help”, <https://support.google.com/adwordspolicy/answer/6118?hl=en-AU>.

⁸ Ant Horn, ‘Creators and the copyright balance: Investigating the interests of copyright holders, users and creators’ [2004] *AltLawJl* 31; (2004) 29(3) *Alternative Law Journal* 112.

⁹ Above n 1, 121.

¹⁰ *Ibid.*

exception in order to balance the excessive term and scope of copyright protection with user rights. Specifically, the Draft Report recommended that a 'fair use' exception should permit all uses of copyright material that do not materially reduce the incentives to create and disseminate creative work, and that this exception should go further than orphan works not being supplied commercially by rights holders.¹¹

Final Report

The Committees submit that the Federal Government should accept and implement the ALRC's final recommendations regarding a 'fair use' exception in Australia. The Committees maintain the previous position of the CET Committee for the introduction of a broad fair use exception to copyright infringement under the Copyright Act.¹²

Further Comments

Increased flexibility

An open-ended fair use exception has the flexibility to enable courts to develop the legal norm through interpretation. Leaving this discretion to the courts to determine whether emerging activities fall within the exception reduces the need for constant amendments to an already complex piece of legislation that may have difficulty in keeping pace with the speed of technological development. However, the application of the 'fairness factors' could potentially overreach much further than may be originally intended.¹³

The impact on innovation

The principal advantage of fair use is that it remains a highly flexible instrument. In the previous ALRC review, it was claimed that fair use would:

- 'foster an entrepreneurial culture which contributes to productivity'; and
- 'assist in making Australia a more attractive market for technology investment and innovation'.¹⁴

In the United States for example, the statutory fair use exception was not intended to be frozen in time and allowed for an adaptable open-ended list of purposes.¹⁵ As opposed to a restricted set of exceptions, the United States has relied on a case-by-case evaluation to determine whether a use is fair. This means there is flexibility as to categories of use. It has been argued that fair use would address the shortcomings of fair dealings by encompassing emerging uses, requiring the courts to analyse fairness in accordance with

¹¹ Above n 1, 121.

¹² NSW Young Lawyers CET Committee, Submission to the Australian Law Reform Commission, *Copyright and the Digital Economy Issues Paper 42*, 5 November 2012.

¹³ See *Authors Guild, Inc. v Google, Inc* No. 13-4829 (2d Cir. 2015).

¹⁴ Australian Law Reform Commission, *Copyright and the Digital Economy*, Discussion Paper 79 (2013) 79-80.

¹⁵ Bob Wright, 'Fair use will give the digital economy a fair go' (2014) 24 *Australian Intellectual Property Journal* 218, 220.

statutory factors and providing flexibility in uses which might lie at the margins of criticism and review or reporting news.¹⁶ A key argument for fair use is that it drives innovation through transformative uses. Transformative uses are uses that change the purpose and/or character, to express a different meaning or message.¹⁷

Legal Uncertainty

Proponents of the introduction of a fair use exception submitted that fair use is no more uncertain than the current fair dealing exceptions.¹⁸ Whilst the Committees acknowledge that the introduction of an open-ended fair use exception may provide greater flexibility to those wishing to use copyright material, particularly in the digital environment, uncertainty is an inherent consequence for copyright owners, users and consumers. The fair use exception would be open to any number of uses if it is deemed fair based on the proposed fairness factors, rather than the determined uses already defined under the current fair dealing exception.

The Committees are concerned that such an open-ended exception would necessitate a sustained period of litigation and judicial interpretation to establish a sufficiently predictable legal framework to determine the boundaries of fair use. In practice, this may act as a disincentive for copyright owners to pursue action due to the uncertainty around the application of the fair use exception, the time commitment and the high cost of litigation. If copyright owners are unable or unwilling to pursue such action, the failure to address the uncertainty would hinder the development of the application of a fair use defence and further perpetuate the uncertainty.

Notwithstanding these concerns, the Committees agree with the Commission's view that, "legal uncertainty is not a compelling reason to eschew a fair use exception in Australia, nor is legal certainty desirable in and of itself."¹⁹

Contracting Out, Technological Protection Measures and Geoblocking

Part 1: Contracting Out

'Contracting out' occurs where parties to a contract agree that certain provisions of the law should not apply to their contractual relationship. The Copyright Act does not expressly prevent parties to an agreement from 'contracting out' of provisions of the Copyright Act.

¹⁶ Ben Mee, 'Laughing Matters: Parody and Satire in Australian Copyright Law' (2010) 20(1) *Journal of Law, Information and Science* 61.

¹⁷ Matthew Sag, 'Predicting Fair Use' (2012) 73(1) *Ohio State Law Journal* 47, 55.

¹⁸ Above n 1, 10.

¹⁹ Above n 1, 10.

‘Contracting out’ of the copyright exceptions permits copyright owners to erode the rights afforded to users of the works under the Copyright Act. In its submission to the Commission’s inquiry, the Australian Digital Alliance provided an example of licences used by digital music services (such as those operated by Apple, Amazon or Google) that have the effect of preventing the customer from doing things that are otherwise permitted under the ‘exceptions’ contained in the Copyright Act.²⁰ For example, a user of these music services that acquire the rights to a song may be prevented from transferring that music to multiple devices. This has the effect of ‘contracting out’ of s 109A of the Copyright Act, which provides that the owner of a copy of a sound recording can make a copy for private and domestic use. These licenses also typically prevent consumers from using the music to create parodies of the original material. This has the effect of ‘contracting out’ of s 41A of the Copyright Act that permits copyright material to be used for the purpose of a parody or satire.

The purpose of the exceptions contained in the Copyright Act are to strike a balance between the interests of the creators (i.e. to incentivise the creation of new and profitable works) and the interests of consumers (i.e. the ability to maximise the benefit of the works). The Committees are of the view that the balance between these interests are tipped in favour of copyright owners without an express prohibition on ‘contracting out’ of the exceptions and other rights in the Copyright Act.

The Committees are of the view that permitting copyright owners to ‘contract out’ of the Copyright Act is harmful to consumers for the following reasons:

- consumers may not be aware of their current rights under the Copyright Act and the exceptions to copyright infringement contained in the Copyright Act;
- consumers may be less likely to obtain legal advice about standard form agreements, such as licences for digital music or e-books; and
- consumers may have less bargaining power than the owner of the copyright and consequently not able to negotiate the terms of any agreement.

Final Report

In its Final Report, the Commission has recommended that the Copyright Act be amended to:²¹

- make any part of an agreement that restricts uses of copyright material that are permitted by a copyright exception (such as the fair dealing exception for research and study)²² unenforceable, and

²⁰ Australian Digital Alliance, Submission to the Productivity Commission Inquiry into Australia’s Intellectual Property Arrangements, December 2015, <http://www.pc.gov.au/__data/assets/pdf_file/0006/195009/sub108-intellectual-property.pdf>

²¹ Above n 1, 32.

²² *Copyright Act 1968* (Cth) s40 (‘**Copyright Act**’).

- permit consumers to circumvent TPMs for legitimate uses of copyright materials (such as backing up encrypted game files).

The Committees support these recommendations of the Commission. The Committees also recommend that copyright owners should not be able to place temporal or monetary restrictions on the exceptions to copyright infringement.

The Committees are of the view that third parties should be allowed to provide technologies or methods to circumvent TPMs to consumers or users, provided that such circumvention by consumers or users are for a legitimate use of copyright materials under the Copyright Act.

Further Comments

The Committees are of the view that the Copyright Act should be amended so that any term in an agreement which attempts to 'contract out' of the statutory exceptions to copyright infringement are void. Some have argued that there is no need for prohibiting 'contracting out' of the Copyright Act as under the common law, a clause attempting to oust the jurisdiction of the Courts may be invalid where the public interest requires it.²³ The Committees note that notwithstanding this common law protection, it is not uncommon for legislation to expressly prohibit laws from being 'contracted out' of. The Commission's Final Report notes several examples of laws that do not permit 'contracting out' of protections for vulnerable parties including consumer contracts, industrial agreements and residential tenancy agreements.

The Committees are of the view that s 64(1) of the ACL²⁴ is an appropriate provision to model the proposed amendment to the Copyright Act of a prohibition on 'contracting out'. Section 64(1) ACL provides that where a term in a contract attempts to exclude, restrict or modify a consumer guarantee, the term will be void.

The Committees note that the Courts have found that despite the fact that certain terms cannot be 'contracted out' of, contractual terms may still place monetary and temporal limits on any ACL claims.²⁵ In the context of Copyright Act, the Committees note that copyright owners may attempt to place monetary or temporal limits in their contracts by, for example:

- charging a consumer an additional fee to licence the song such that it could be placed onto multiple devices or be burnt onto a CD. In this example, a consumer with minimal bargaining power might be required to pay an additional amount to do something which would otherwise be permitted by the Copyright Act; or

²³ See eg. J Carter, E Peden, K Stammer, 'Contractual Restrictions and Rights Under Copyright Legislation' (2007) 23 Journal of Contract Law 32;

²⁴ *Competition and Consumer Act 2010* (Cth), Schedule 2, *Australian Consumer Law*.

²⁵ See eg. *Owners Strata Plan 62930 v Kell & Rigby Pty Ltd* [2009] NSWSC 1342; *Lane Cove Council v Michael Davies & Associates Pty Ltd & Ors* [2012] NSWSC 727.

- placing time restrictions on research institutions, allowing them to only rely on the fair dealing exception for the purpose of research or study within a certain permitted period of time. In this example, using the copyright material beyond the permitted time may cause an institution to infringe copyright after the expiration of the time limit.

The Committees submit that in addition to the proposed prohibition against ‘contracting out’; the Copyright Act should also be amended to expressly prohibit any temporal or monetary restrictions being placed on the statutory exceptions to infringing copyright.

Part 2: Technological Protection Measures

TPMs are technological restrictions designed to protect copyright materials from being copied, modified or accessed. Under the Copyright Act, TPMs fall into two broad classes:

- an ‘access control’ TPM which is a specific type of TPM that controls who can access particular work or subject matter,²⁶ such as password controlled content; and
- non ‘access control’ TPMs (**Other TPMs**), which prevent works from being copied or modified. For example Digital Rights Management software used in the distribution of music downloads or e-books and encryption placed within physical media (such as CDs, DVDs or game discs) to prevent the original works from being copied.

The distinction between the types of TPMs is important because they are treated differently under the Copyright Act. The Copyright Act specifically prohibits a person from circumventing an ‘access control’ TPM subject to limited exceptions.²⁷ This is a strict liability offence that requires the element of intention to obtain a commercial advantage or profit to be satisfied for the contravention to occur,²⁸ and can result in a liability of a fine for the offender.

In contrast, the Copyright Act does not expressly prohibit a person from circumventing Other TPMs. A person may be permitted to circumvent Other TPMs and make a copy of copyright works where such conduct otherwise complies with the Copyright Act.

Pursuant to the Copyright Act, a person who manufactures with the intention of providing to another person; imports; distributes; offers to the public; provides to another person or communicates to another person a circumvention device for a TPM, that person may be liable to a copyright owner for infringement of

²⁶ *Copyright Act 1968* (Cth) s 10.

²⁷ *Copyright Act 1968* (Cth), s 116AN.

²⁸ *Copyright Act 1968* (Cth), s132APC.

copyright.²⁹ In addition, a person who does these acts with the intention of obtaining a commercial advantage or profit may be guilty of a criminal offence.³⁰

The Committees note that the use of TPMs may result in or contribute to the erosion of copyright owners' rights. This is exacerbated by the increasingly digital economy where it is easy to access, duplicate and disseminate electronic works. The Committees are of the view that the existence of TPMs and the lack of legislative support dealing with their use makes it more difficult for consumers of copyright to engage in conduct that is otherwise lawful under the Copyright Act. For example, third parties are prohibited from lawfully providing a service to circumvent TPMs, leaving consumers of copyright with little recourse to make a copy of material protected by a TPM for personal use or as otherwise provided for under the Copyright Act. To exercise their rights under the Copyright Act, consumers would need to:

- obtain the consent and cooperation of the copyright owner to copy the TPM protected material. This may be difficult where the copyright owner has greater bargaining power and does not agree;
- create their own technology to crack a TPM. This is inefficient, and the consumer may not have the technical expertise to do so. This view is supported by the Commission in its Final Report;³¹ or
- use illegally created products to do legal acts, as pointed out by the Australian Digital Alliance in its submission to the Commission.³²

Final Report

The Final Report notes that there is no requirement for TPMs to be used solely for the purpose of protecting copyright. By restricting a user's ability to access or copy works which may otherwise be permissible under the Copyright Act, TPMs can have the effect of tipping the balance away from the interests of copyright users in favour of the interests of the copyright owner. The Committees welcome the recommendation of the Commission in its Final Report that the Copyright Act be amended to permit consumers to circumvent TPMs for legitimate uses of copyright material.

Further Comments

The Committees are of the view that the Copyright Act must be amended to better regulate the use of TPMs and address the gaps in the current legislative framework.

The Committees recommend that the Copyright Act be amended to expressly permit circumvention of Other TPMs by users of copyright works where the purpose for circumvention is a legitimate use of copyright

²⁹ *Copyright Act 1968* (Cth), s116AO(1).

³⁰ *Copyright Act 1968* (Cth), s132APD.

³¹ *Copyright Act 1968* (Cth), s132APD.

³² Above n 1, sub. DR578, p. 15.

materials and falls within an exception to copyright infringement, such as a fair dealing exception. The Committees are of the view that the amendment should, at the very least, enable the lawful circumvention of Other TPMs as these are more concerned with restricting the ability to copy works, rather than to access the works. This would not permit the circumvention of 'access control'.

The Committees recommend that the Copyright Act be amended to allow third party service providers to lawfully provide services that circumvent Other TPMs provided the purpose for circumvention is a legitimate use of copyright materials and falls within an exception to copyright infringement.

The Committees are of the view that bypassing TPMs should only result in a breach of the Copyright Act where the works are still protected under copyright. Source materials in which copyright has not subsisted or that have been placed by their creators within the public domain should be excluded from protection by TPMs. This ensures that the public's right to access works in the public domain will be preserved.

It is important to note that the above recommendations are in addition to the recommendation by the Committees that parties be prohibited from 'contracting out' of the exceptions to copyright infringement in the Copyright Act (see above). If the Copyright Act is amended to include a prohibition against 'contracting out' without reforming the use of TPMs, copyright owners would continue to be able to restrict consumers' rights under the Copyright Act.

Part 3: Geoblocking

Geoblocking is an online mechanism where rights holders of copyright material restrict access to content based on a consumer's geographical location.³³ As evident from the Draft Report and the Final Report, there are mixed opinions about the purpose of geoblocking in intellectual property law; whether the practice is a legitimate copyright tool to control access to content, or a business strategy to maximise profit.

If geoblocking is a mechanism to control access to content, it may be classified as a type of TPM under the Copyright Act.³⁴ Circumventing access control could lead to civil and criminal penalties (see above discussion on TPMs). There is continued uncertainty about the legality of circumventing geoblocking technology.

The Attorney-General's Department (**AGD**) observed that a plain English interpretation of s 10(1) of the Copyright Act indicates that geoblocking lies outside of the definition of a TPM³⁵ because the practice

³³ Sabrina Earle, 'The Battle Against Geo-blocking: The Consumer Strikes Back' (2016) 15 Richmond Journal of Global Law and Business 1, 13.

³⁴ *Copyright Act 1968* (Cth), s 10.

³⁵ House of Representatives Standing Committee on Infrastructure and Communications 2013, *At what cost? IT pricing and the*

“controls geographic market segmentation by preventing the playback in Australia of a non-infringing copy of...work...acquired outside Australia.”³⁶ However, the AGD notes that this interpretation has not been tested before a court. Consequently, there is continued confusion by service providers, rights holders, and consumers as to legality of circumventing geoblocking technology.³⁷

The Committees note the view of the Prime Minister of Australia that geoblocking is a business mechanism uninvolved with Australia’s copyright laws:³⁸

While content providers often have in place international commercial arrangements to protect copyright in different countries or regions, which can result in ‘geoblocking’, circumventing this is not illegal under the Copyright Act.³⁹

In contrast, Associate Professor Dr Nicolas Suzor examined the issue and warned that while it is unlikely that Australian consumers would be held legally liable for using VPNs to circumvent geoblocks, “it might technically be an infringement of copyright under Australian law, and there is a small possibility that it might be a crime under Australian law as well.”⁴⁰ Dr Suzor also noted that if the original distribution of copyright material was an infringement then consumers may be liable for making temporary copies of that material while they view it online.⁴¹ Consumers may also be breaching the contract with online providers by signing up with a fake address.⁴² As for criminal liability, consumers may be committing fraud by accessing restricted data with a fake address.⁴³

Proponents of geoblocking technology argue that the technology is important mechanism that ensures copyright creators can effectively exploit their copyright.⁴⁴ This practice resembles the country coding of DVDs to allow distributors to vary the price and availability of content based on location. According to chief of Internet Australia, Laurie Patton, part of the logic of country coding DVDs was to charge higher prices in some countries to cover the extra costs of physically delivering those products.⁴⁵ The Committees are of the

Australia tax, July, Commonwealth of Australia, Canberra, 104.

³⁶ Ibid.

³⁷ Ibid.

³⁸ Malcolm Turnbull MP Federal Member for Wentworth Prime Minister of Australia, *Online copyright infringement FAQs* <<http://www.malcolmturnbull.com.au/policy-faqs/online-copyright-infringement-faqs>>.

³⁹ Ibid.

⁴⁰ Nicolas Suzor, *Using a VPN to access Netflix: is it legal?* (22 July 2013), 1 <<http://nic.suzor.net/2013/07/22/using-a-vpn-to-access-netflix-is-it-legal/>>.

⁴¹ Ibid, 5.

⁴² Ibid, 2.

⁴³ Ibid, 7.

⁴⁴ Michelle Edelman, ‘The Thrill of Anticipation: Why the Circumvention of Geoblocks Should be Illegal’ (2015) 15 *Virginia Sports & Entertainment Law Journal* 110, 115.

⁴⁵ Karl Quinn, ‘Australians’ rights to use VPNs should be enshrined in law’, *The Sydney Morning Herald* (online), 4 May 2016 <<http://www.smh.com.au/entertainment/tv-and-radio/australians-rights-to-use-vpns-should-be-enshrined-in-law-report-20160504-gom863.html>>.

view that this rationale cannot be maintained for digital distribution as it “costs no more to deliver a live stream or download to Melbourne than it does to Los Angeles”.⁴⁶

While the argument that creators are being oppressed by providing Australians access to online content at competitive prices at the same time as other markets has little merits, it is arguable that circumventing existing geoblocks negatively impacts copyright owners. For example, if a creator sells their rights to a distributor who only bought distribution rights in the US, but consumers outside the US pay to access that content by circumventing a geoblock, then the distributor profits from those extra consumers but the creator does not. Indeed, Ellen Seidler, an independent filmmaker and journalist, explains that Netflix is reaping benefits from these kinds of agreements while creators are being exploited:

Netflix pays for U.S. rights, but forgoes purchasing rights elsewhere knowing full well its subscribers worldwide can still watch. Netflix profits grow at the creators' expense.”⁴⁷

Draft Report

In the Draft Report, the Commission took the view that geoblocking is the online equivalent of parallel import restrictions⁴⁸ and is used to maximise profit through market segmentation and price discrimination.⁴⁹ The Committees note that the Draft Report recognised that there is confusion and contention about whether consumer actions of circumventing geoblocking risked breaching the Copyright Act.⁵⁰ Based on these concerns, the Commission recommended in its Draft Report that the Copyright Act should be amended to make it clear that circumvention of geoblocking is not an infringement of the Copyright Act, and that the Federal Government should avoid any international agreements that would prevent or ban consumers from circumventing geoblocking technology.⁵¹

Final Report

The Committees welcome the Commission’s recommendations that the Federal Government should:

- amend the Copyright Act to make clear that it is not an infringement for consumers to circumvent geoblocking technology; and
- avoid any international agreements that would prevent or ban consumers from circumventing geoblocking technology.

⁴⁶ Ibid.

⁴⁷ Above n 40, 115.

⁴⁸ Above n 1, 127.

⁴⁹ Above n 1.

⁵⁰ Ibid, 128.

⁵¹ Ibid.

Further Comments

The Committees support the Commission's recommendations that Australia's copyright laws need to be clarified to ensure Australian consumers can legally circumvent geoblocking technology, and that the Federal Government should refrain from entering into international agreements that would prevent consumers from circumventing geoblocking technology.

Copyright laws aside, the Committees recognise that consumers may be infringing other laws by using VPNs or similar tools that circumvent geoblocking. The Committees are of the view that the consumers may not be aware of the complicated legal implications of circumventing geoblocking technology. Even if the Federal Government clarifies that circumvention is not illegal under the Copyright Act, consumers may still be legally liable if circumvention constitutes a breach of contract when signing up to foreign online services like Hulu.⁵² While unlikely, consumers may even face criminal liability for fraud for representing that they are based in a different country to their actual location.⁵³ As such the Committees recommend that the Federal Government educate VPN users on the potential, albeit unlikely, legal ramifications of circumvention.

The 'Safe Harbour' Regime

The 'safe harbour scheme' refers to Division 2AA of the Copyright Act which affords some protection to 'carriage service providers' by limiting their liability for copyright infringement where they have taken reasonable steps to limit the infringement once they have become aware of its existence.⁵⁴ Carriage service providers are also not obliged to proactively monitor what happens on their platform.⁵⁵ These provisions give carriage service providers "some protection from the otherwise unavoidable risk of liability for inadvertently hosting or communicating infringing material on behalf of their users."⁵⁶

The Copyright Act includes four broad categories of activities (such as transmitting copyright material, storing copyright material on a network, automatically caching copyright material and referring users to other websites), which are eligible for safe harbour protection from copyright infringement.⁵⁷ However, each of these categories applies to the activities of a 'carriage service provider', which is defined by reference to the Telecommunications Act 1997 (Cth) as "a person that supplies a listed carriage service to the public using a

⁵² Above n 40.

⁵³ Ibid.

⁵⁴ *Copyright Act 1968* (Cth), s 116AH.

⁵⁵ *Copyright Act 1968* (Cth), sub-s (2).

⁵⁶ Above n 14, 181.

⁵⁷ *Copyright Act 1968* (Cth), ss 116AC -116AF.

network unit owned by one or more carrier or in relation to which a nominated carrier declaration is in force.”⁵⁸

The definition of ‘carriage service provider’ is narrow and was introduced at a time when the Internet had fewer streaming services and individual self-publishing was limited.⁵⁹ Therefore the safe harbour protections as they stand only apply to traditional telecommunications infrastructure providers and Internet Service Providers (**ISPs**).

As a result, it is not clear what protections (if any) are available to other online service providers when issues of copyright infringements on their service arise. If an online service provider receives an infringement notice, they may operate under the assumption that the safe harbour protections apply and that they are required to take down the infringing material.⁶⁰ Alternatively, the lack of protections afforded to online service providers may discourage businesses from hosting third party content due to potential liability of copyright infringement. Either result would be contrary to the public benefit objectives of the Copyright Act.

The Committees submit that the Copyright Act must be amended to reflect the changing landscape of the Internet, including the prevalence of cloud based storage providers and social media websites which host predominantly third party content (i.e. Facebook and YouTube). These activities would likely fall within the categories of ‘activities’ to which safe harbour protection would otherwise be afforded. Due to the fact that online service providers offer a wide range of services and host a diverse range of content, the expansion of the existing safe harbour to online service providers is “an important reform in the interests of the Australian digital economy.”⁶¹ As outlined by the ALRC, third party ‘fair use’ of copyright material may be “highly productive and transformative”⁶² and this is the digital environment that should be encouraged through legal reform.

Increased legal certainty incentivises innovation amongst Australian rights holders and intermediaries in a robust and enforced space. In comparison to our narrow application of the safe harbour scheme, the United States has benefited from their ‘fair use’ provision which has allowed innovative use of copyright works. The most successful of these have been Web 2.0 sites such as Facebook and YouTube. In addition, the ‘fair use’ exception has enabled businesses to explore new business models without being “suffocated by prescriptive and restrictive copyright laws.”⁶³ For such sites to exist in Australia, the safe harbour protections would need

⁵⁸ *Telecommunications Act 1997* (Cth), s87.

⁵⁹ Daniella Phair, *And the copyright changes keep coming – safe harbour, fair dealing and more* (29th January 2016) IP Whiteboard <<http://ipwhiteboard.com.au/and-the-copyright-changes-keep-coming-safe-harbour-fair-dealing-and-more/>>.

⁶⁰ Australian Digital Alliance, *Productivity Commission’s Draft Report on Australia’s Intellectual Property Arrangements*, June 2016, 14.

⁶¹ Above n 14.

⁶² Above n 14, 182.

⁶³ Above n 59,1.

to be extended to apply to all online service providers.⁶⁴ As Australia is a “net cultural exporter through YouTube,”⁶⁵ the potential for innovation in online sharing platforms in this country is a convincing argument for expanding the safe harbour exception.

The Committees note that the Australia United States Free Trade Agreement (**AUSFTA**) requires Australia to provide safe harbour protection to all categories of ‘activity’. The safe-harbour provisions set out in the US’ Digital Millennium Copyright Act⁶⁶ provide sizable protections to ISPs from the consequences of their users’ actions. This is balanced with the US Patent and Trademark Briefing on ISP Liability,⁶⁷ which states that ISPs must have adopted and implemented policies such as enabling the termination of account holders’ subscriptions who are repeat offenders. Adopting similar changes would align Australian law with overseas jurisdictions such as the US and EU, also make Australian businesses more competitive in the overseas markets.

Further Comments

The Committees are of the view that, the Federal Government should expand the safe harbour scheme to apply to all online service providers, to:

- ensure that Australia’s safe harbour scheme is updated to reflect advancements in technology and to reflect that the changing landscape of the Internet;
- bring Australia’s safe harbour scheme in line with other schemes internationally; and
- ensure that Australia complies with its international trade obligations, such as its obligations under the AUSFTA.⁶⁸

The Committees recommend that the definition of ‘carriage service providers’ in the Copyright Act be amended to expressly include any entity that carries out an activity which falls within a Category A, B, C or D of activity as defined in the Copyright Act.

Competition Law & Intellectual Property

Intellectual property policy seeks to promote innovation through grant of exclusivity or monopoly (such monopoly does not readily take on the same meaning given under competition policy). Whilst the

⁶⁴ Above n 59,1.

⁶⁵ Fred von Lohmann, *Copyright law change could lead to Aussie blockbuster digital company* (26 February 2016) AFR Weekend <<http://www.afr.com/technology/copyright-law-change-could-lead-to-aussie-blockbuster-digital-company-20160226-gn4fht>>.

⁶⁶ *Digital Millennium Copyright Act 1998* (US).

⁶⁷ *ISP Liability for Copyright Infringement* (Harvard 2 November 1999) <<https://cyber.harvard.edu/property99/liability/main.html>>.

⁶⁸ *Australia-United States Free Trade Agreement*, signed 18 May 2004, (entered into force 1 January 1995).

Committees agree with the Commission that “intellectual property rights give their holders the ability to prevent others from using that intellectual property,” we emphasise that this is a fundamental right aimed at incentivising innovation and intellectual property investment.

Competition policy aims to protect general economic welfare through regulation of trade practices. The Committees note that the interaction between intellectual property rights and competition law is dynamic and urge that considerations to anticompetitive conduct in relation to intellectual property should be broad.

Further Comments

The Committees recommend against the limitation of the scope of intellectual property rights whether through competition policy, by way of the guidance issued by the ACCC or otherwise. The Committees recommend that it must be clear that any overlap between competition law and intellectual property rights is concerned with the commercialisation of intellectual property, not the invention or rights given to the intellectual property itself. Competition policy should not operate to erode any grant of intellectual property rights.

Innovation requires a fine balance of encouraging intellectual property investment whilst also protecting competition and, where relevant, consumer welfare. It is an interactive process that would benefit from assessment regarding anticompetitive conduct on a case-by-case basis and can be impeded by prescriptive competition policy.

Overall the Committees agree with the Commission’s recommendation in the Final Report that s 51(3) of the CCA be repealed on the proviso that the ‘per se’ prohibitions under the CCA also be amended in accordance with the recommendations of the Harper Report. In particular, the Committees recommend that a test of whether conduct has the effect or likely effect of substantially lessening competition within the market be applied to claims that a contract contains exclusionary provisions. The application of such a test will permit the Courts to balance the rights of the intellectual property owners to exploit intellectual property through commercial arrangements against the effects that restrictive practices may have on competition in the market on a case by case basis. The application of such a test will prevent the per se prohibitions from eroding the rights of intellectual property owners.

Section 51(3) of the CCA creates an exemption to the prohibition on restrictive trade practices under the CCA. However, its application is limited to:

- the intellectual property (IP) rights specified (i.e. patents, designs, copyrights, circuit layouts and trade marks) and does not contemplate other IP rights such as plant varieties and non-statutory rights including trade secrets;
- the condition in the license or assignment that would otherwise breach the CCA ‘relates to’ the IP rights prescribed in the section; and

- contractual arrangements that restrict dealings or affect competition⁶⁹ and exclusive dealings⁷⁰. The exemptions do not apply for misuse of market power⁷¹ or resale price maintenance⁷².

The extent of the application of s 51(3) of the CCA is unknown. Since the inception of the provision, few judicial decisions have considered the application of s 51(3) of the CCA. In the recent case of *ACCC v Pfizer Australia Pty Ltd*,⁷³ the ACCC brought proceedings against Pfizer, alleging Pfizer misused its market power and engaged in exclusive dealing when it negotiated contracts for its new generic brand drug, before its patent had expired on the original drug and before competitors were permitted to compete with the patented drug. Pfizer raised s 51(3) as a defence to this claim. Ultimately, Pfizer was found not to have breached the exclusive dealing provisions and the availability of the defence it raised was not required to be decided.

Given its limited judicial application, the Committees are of the view that the benefit of s 51(3) is that it provides businesses with some certainty and comfort that their licences or assignments of intellectual property are not restrictive trade practices under the CCA as acknowledged in the Final Report.⁷⁴ Including such an exemption may reduce the need to obtain legal advice about whether an arrangement involving its intellectual property is anti-competitive.

The Committees are also of the view that a condition contained in a licence agreement that 'relates to' particular intellectual property (such as a patent or design) may still be anti-competitive within the meaning of Part IV of the CCA and that s 51(3) of the CCA may provide an exception to such conduct. For example, a company may grant a licence for a party to use its patent on the condition that the party purchase particular stock from a third supplier of the company's choosing. This conduct would constitute 'third line forcing' and would be a prohibited exclusive dealing under the CCA. However, it could be argued that such conduct 'relates to' the licence of the patent and falls within the exception under s 51(3) of the CCA. The Courts have found that conditions imposed to gain an advantage that is collateral to the patent would not be protected by s 51(3) of the CCA.⁷⁵ The scope of what is considered 'collateral' would need to be determined on a case-by-case basis.

Given the uncertainty surrounding s 51(3) of the CCA, the Committees recommend that this section be repealed. In addition, we recommend that the CCA be amended in accordance with the recommendations in the Harper Report so that any claim that a contract contains exclusionary provisions be subject to a

⁶⁹ *Competition and Consumer Act 2010* (Cth) s 45.

⁷⁰ *Ibid*, s 47.

⁷¹ *Ibid*, ss 46 and 46A.

⁷² *Ibid*, s 48.

⁷³ [2015] FCA 113.

⁷⁴ Above n 1, 451.

⁷⁵ *Transfield Pty Ltd v Arlo International Ltd* [1980] HCA 15 at 103 per Mason J.

competition test. This will assist with balancing the rights of the owner of intellectual property (such as a trademark owner attempting to exclusively licence his trade mark) against the interests of consumers.

If s 51(3) of the CCA is repealed in accordance with the recommendation set out in the Final Report, the Committees recommend that the Federal Government to take a nuanced approach to ensure that competition policy is not applied in a blanket fashion, and that regard is given to the varied nature of intellectual property rights. Consideration should also be given to the various types of conduct related to IP which may have anticompetitive effect, such as dealings beyond licensing arrangements and excessive royalties from intellectual property licenses. The Committees note that the Final Report is unclear as to what the Commission would consider be 'excessive' and that competition issues may arise even when exclusivity, whether territorial or otherwise, is not at issue.⁷⁶

The Committees are supportive of the ACCC issuing guidance on the application of competition law to intellectual property. Such guidance would aid the community, in particular the growing portion of Small and Medium Enterprises (**SME**) that contribute to innovation through strategic use of IP.⁷⁷ If s 51(3) is repealed, the guidance should also address the consequence of the repeal and impact on existing licensing or assignment arrangements. The Committees recommend that the ACCC consult the community in developing the guidance.

Software Patents

Draft Report

The Committees note that following a number of submissions in relation to the Draft Report, the Commission appears to have accepted that software patents are suitable for some types of innovation and has consequently withdrawn its anti-software patents position.

Final Report

The Committees note that the Commission seeks to ensure that creators and inventors are justly awarded for their efforts, but is of the view that the patent system grants an exclusive monopoly to software creators and inventors too easily as evident on page 13 of the Final Report. In the Commission's view, this adversely impacts innovation and competition and results in many low-quality patents. The Commission recommends that applications for software patents should be scrutinised more closely.

⁷⁶ Such as refusal to licence (i.e. passive sale restrictions). See Margaret Vestager, 'Intellectual Property and Competition' (Speech delivered at 19th IBA Competition Conference, Florence 11 September 2015).

⁷⁷ SMEs are less likely to have the resources to address compliance costs.

The Committees submit that software is similar to all new technology and should not be singled out as patents are not always ideal for all new technologies. The Committees submit that the Commission's observation of the proliferation of "low quality" software patents is an issue best directed at the 'inventive step' test, not the 'manner of manufacture' test.

Software is Similar to Other New Technologies

The Committees do not agree that the monopolies granted by patents are overly long given the rate of change in software and are unnecessary to provide incentives to innovators can be applied to most new technology. In the Committees' view, there is nothing that differentiates software from any other widespread new technology. Many emerging technologies enter the market with a flurry of activity before levelling off after a period with more steady growth and innovation. For example, technologies such as aviation and pharmaceuticals historically experienced similar rates of change during the first 20-30 years of their in the 20th century before plateauing. That is, early on, innovation cycles can be as short as months, and new versions of the technologies can entirely replace the existing ones. As innovation cycles become longer, each innovation becomes more incremental and innovation starts to plateau. Therefore the fact that software has changed quickly over the past 20 to 30 years is no guarantee that it will continue to do so. The Committees submit that it is important to take into consideration that the historic use of software patents is not a reliable predictor of future use, and recommend that the laws relating to software patents should take this into account.

Patents are not always ideal for any new technologies so software should not be singled out

The Committees acknowledge that patents are not always ideal for cutting edge technologies. In part this is because when technology is unfamiliar to consumers, truly innovative technologies are often difficult to differentiate from merely new iterations of existing technologies. Consequently, there may be financial incentives to produce a new technology without contributing an inventive aspect or element. Similarly, those that are contributing an inventive aspect or element may believe that better solutions can be devised over a shorter timeframe than provided by patents. However, once the plateauing of innovation commences, patents are beneficial to incentivise continuous investment in the research and development of that technology. The Committees are of the view that as innovation in software plateaus, they become more suitable for patents, and submit that there will be great value in software patents if used to protect high quality inventions and where the patent system incentivises significant ongoing investment into research and development.

Proliferation of 'low quality' software patents is an issue best directed at the 'inventive step' test, not the 'manner of manufacture' test

The Committees observe that perhaps as a result of the proliferation of 'low-quality' software patents from the early 1990s to the mid-2000s, software patents have been increasingly rejected on the basis that they

are not a 'manner of manufacture'. The Committees are of the view that this is an ineffective test for determining whether the subject matter of a patent is patentable, as it results in a proxy for an inventive step test.

The Committees are of the view that it is problematic that software inventions are subject to a 'manner of manufacture' test more readily than other types of technology. The rejection of a software patent on the basis of 'manner of manufacture' appears to be an attractive approach to Examiners at IP Australia and the courts. This may be as a consequence of the relative complexity involved in analysing the software invention in light of the prior art, the involvement of experts or a concern that a broad 'low-quality' software patent that appears inventive may be anti-competitive.

It is the Committees' view that the 'manner of manufacture' test is not appropriate for software patents. This position is supported by the High Court, which determined in *National Research Development Corporation v Commissioner of Patents*⁷⁸ that there should be limited restrictions as to what qualifies as 'manner of manufacture.' The Committees submit that the concerns regarding 'low-quality' patents⁷⁹ are more likely a reflection of a failure in the 'inventive step' test and not the 'manner of manufacture'. That is, 'low-quality' software patents should fail at the 'inventive step', not the 'manner of manufacture'. The Committees are of the view that a truly inventive software patent that incorrectly fails the 'manner of manufacture' test is equally as problematic as a 'low quality' software patent being granted.

The Committees note that the Commission has recommended increasing the inventive step threshold. The Committees are of the view that it is difficult to argue that the standard of a 'scintilla of invention'⁸⁰ is too low, when patent examiners, hearing officers and courts inconsistently apply the inventive step threshold. The Committees submit that it would more beneficial to address these inconsistencies. Without addressing these inconsistencies there is a lack of reliable evidence as to whether the standard is too low. Given that the prior art base for software is now much more significant than it once was, it is arguable that the inventive step test can be applied relatively easily, rather than having to resort to an undesirable 'manner of manufacture' rejection. The size of the prior art base also naturally results in the narrowing of the overly broad claims and may assist to negate concerns of any anti-competitive issues.

The Committees support the recommendation that IP Australia collect and publish information on patent applications that are accepted or rejected on the 'manner of manufacture' test. This would include information on how the decisions in *Research Affiliates LLC v Commissioner of Patents*⁸¹ and *Commissioner*

⁷⁸ (1959) 102 CLR 252.

⁷⁹ Above n 6.

⁸⁰ *Lockwood Security Products Pty Ltd v Doric Products Pty Ltd (No 2)* [2007] HCA 21 [at 52]; *Meyers Taylor Pty Ltd v Vicarr Industries Ltd* [1977] HCA 19 [at 54].

⁸¹ [20114] FCAFC 150 (**Research Affiliates**)

of *Patents v RPL Central Pty Ltd*⁸² have affected IP Australia's consideration of and the patentability of software inventions. The Committees are of the view that this information be useful and beneficial considering the inconsistent applications of the law in this area to date. In particular it would enable a fairer assessment of whether action is required in relation to the 'manner of manufacture' test or the 'inventive step' test in relation to software patents.

Further Comments

The Committees note that the Commission has not recommended that software patents be abolished, but that they be scrutinised more carefully going forward.⁸³ The Committees recommend against the use of historical data in approving a software patent. This recommendation is based on the uncertainty of the predictive element or utility of such data and the inconsistent application of the legal tests. The Committees are of the view that the collecting and publishing information accepted or rejected on the 'manner of manufacture' test would enable practitioners to have more certainty, and provide lawmakers with sufficient information to take appropriate steps to address deficiencies in the law.

Defensive Trademarks

In its Final Report, the Commission reversed its position on defensive trade marks. In its Draft Report, the Commission recommended repealing Part 17 of the Trade Marks Act in order to abolish defensive trade marks.⁸⁴ The Committees note that the Commission did not include this Recommendation in its Final Report, stating that "while defensive marks are little used, the Commission considers the costs and benefits of dispensing with them are likely to be small."⁸⁵ Final Recommendation 12.1 instead proposes a different approach to reduce cluttering on the trade marks register.

The Committees supports the Commission's position in the Final Report and submits that there are cogent reasons why Government should not take any steps to abolish defensive trade marks.

The Role of Defensive Trade Marks

Defensive trade mark registrations protect marks that are well-known or famous. These are trade marks that have been extensively used for certain goods or services and have become synonymous with those goods or services and the trade mark owner. Consequently, if the marks are used on different goods or services,

⁸² [2015] FCAFC 177 (**RPL Central**).

⁸³ Above n 1, Recommendation 12.1.

⁸⁴ Above n 2, 343.

⁸⁵ Above n 1, 387.

there is a high probability that consumers would be confused or would associate unconnected goods or services with the well-known mark or its owner.

Part 17 of the Trade Marks Act sets out the requirements of a defensive trade mark. At the time of applying for a defensive trade mark, the applicant must be able to demonstrate the trade mark has been extensively used such that any use of the mark would signpost a connection with the trade mark owner.⁸⁶ This is a high threshold regardless that the applicant is not required to demonstrate any intention to use the defensive mark for the goods and services specified.

Defensive trade marks are difficult to obtain as a result of the high-threshold requirements in s 185(1) of the Trade Marks Act. The evidence required to meet this high threshold also acts as a deterrent to trade mark owners seeking protection of a well-known mark. As the grant of defensive trade marks is tightly regulated, there is a relatively small risk that these types of registrations will be misused.

Draft Report

The Commission stated in the Draft Report that “abolishing defensive trade marks and raising fees for applications that seek overly broad trade mark rights would also contribute to a better balance.”⁸⁷ While the Commission noted that “in practice, defensive marks are not used extensively”, it also stated that “it is not clear whether defensive marks are necessary to prevent consumer confusion. Given that their presence can prevent the registration of trade marks that could be considered to be similar, they do represent a form of cluttering.”⁸⁸ The Commission concluded that abolishing defensive marks would reduce confusion among users of trade marks.

There were a number of submissions to the Draft Report against this recommendation. Some of the critical points raised were that:

- the Draft Report offered no evidence to support the assertions that “defensive trade marks offer a more deliberate method to hinder competition and prevent entry of new firms to a market” nor that they “represent a form of cluttering;”⁸⁹ and
- the costs of repealing Part 17 of the Trade Marks Act and determining the effect on current defensive trade mark registrations might not justify the result.⁹⁰

Final Report

⁸⁶ Trade Marks Act, section 185(1).

⁸⁷ Above n 1, 323.

⁸⁸ Ibid, 338-339.

⁸⁹ Above n 2, AIPPI Australia submission to the Productivity Commission’s Draft Report, pp 15-16.

⁹⁰ Above n 8, Gilbert +Tobin submission in response to the Productivity Commission’s draft report (10 June 2016), pp 7-8.

The Committees note that the Commission did not provide extensive comments on this issue in its Final Report. The Commission stated “all else being equal, it seems reasonable at first glance to abolish such marks, especially if they are not well used.”⁹¹ The Commission acknowledged that many submissions to the Draft Report had objected to the abolition of defensive marks for many reasons including that they:

- do not contribute to cluttering of the register,
- mitigated consumer confusion,
- imposed less administrative burden on companies with well-known marks; and
- comply with Australia’s obligations under the Paris Convention and the Agreement on Trade Related Aspects of Intellectual Property Rights (**TRIPS**).⁹²

The Commission also considered the counter-arguments that defensive marks afford an extra layer of protection to companies that need them the least and they are not necessary for Australia to comply with its International obligations.

The Commission seems to have made an appropriate assessment of the costs and benefits in dispensing with defensive trade marks in reaching its final conclusion and recommendation. The Committees are of the view that the Commission’s decision not to include its earlier recommendation in its Final Report is correct.

Further Comments

The Committees submit that there are important reasons why defensive marks should not be abolished.

While the Commission’s Draft Report noted that defensive marks are not critical for Australia’s compliance with International Treaty obligations,⁹³ the Commission did not provide any alternative means of compliance with these obligations if Part 17 of the Trade Marks Act were to be repealed. Unlike countries such as the United States which have trade mark anti-dilution laws, Australia does not have any other mechanism of preventing well-known or famous marks from becoming diluted, other than by way of defensive marks.

Defensive trade marks offer a cost-effective way of protecting well-known marks and benefits the owners of defensive trade marks and the system more broadly. Without defensive marks, trade mark owners can only attempt to protect their well-known marks by undertaking enforcement activities, such as commencing court proceedings for trade mark infringement, passing-off or breaches of the Australian consumer law. This shifts the burden to the courts rather than dealing with these issues at the Trade Mark Office level. Litigation is

⁹¹ Above n 6, p387.

⁹² Art 6bis Paris Convention for the Protection of Industrial Property (1883); Art 6 Agreement on Trade Related Aspects of Intellectual Property, Annex 1C of the Marrakesh Agreement establishing the World Trade Organisation, opened for signature 15 May 1994, 1869 UNTS 299 (entered into force 1 January 1995) (**TRIPS**).

⁹³ *Ibid.*

expensive, time-consuming, and affords less certainty to the owners of well-known marks. Enforcement is a reactive protection mechanism. The Committees submit that defensive marks offer a proactive mechanism to protect against trade mark dilution and consumer confusion and will appropriately shift the burden of expensive enforcement activities from the courts to the Trade Mark Office level.

The Committees submit that defensive mark should continue not to be subject to removal for non-use. However, the Committees recommend that the Federal Government considers introducing a renewal process for defensive marks in order to assist with any ‘cluttering’ issues. Such a renewal process would involve reviewing the status of the defensive mark, for example, every ten years or so. Combined with the high-threshold requirements that must be met in order to obtain registration, a renewal process can act as a further safeguard against ‘cluttering’ and potential misuse.

The Committees recognise that consumers ultimately benefit from defensive marks. Consumers are protected from being deceived or misled into assuming a false connection between unrelated goods and services and a particular owner or brand, as a result of the misuse of an identifiable trade mark. This is particularly important in the globalised commercial environment in which information and marketing is digitally disseminated, and there is increased prevalence of brand diversification through brand extension, sponsorships and endorsements.

Improving Efficiency by Reforming Parallel Importation

The Committees welcome and support the recommendation that the Government should amend the Trade Marks Act to ensure that parallel imports of marked goods does not constitute trade mark infringement of an Australian registered trade mark when the marked good has been brought to Australia by the owner of the mark or its licensee.⁹⁴ The Committees agree with the Commission that s 97A of the Trade Marks Act 2002 (New Zealand) could serve as an appropriate model clause in this regard under which it does not constitute trade mark infringement where goods have been put on the market by an associated person of the owner (such as a licensee).

The Committees agree with the Commission’s view that the exemption to trade mark infringement provided by s 123 of the Trade Marks Act should be extended to apply where the trade mark is applied or assigned:

- to goods manufactured overseas pursuant to a licence from the owner of an Australian trade mark, but sold or supplied outside the scope of the licence, such as overseas where sales to Australia are excluded;

⁹⁴ Above n 1, Recommendation 12.1, point 3.

- by a company within the same corporation group as the owner of an Australian trade mark, but the related company's licence excludes sales to Australia;
- to an independent Australian distributor or licensee or to a company within the same corporate group as the owner of the Australian trade mark;
- an Australian distributor/licensee, although the trade mark owner in the country of origin holds an assignment back which is not dated or registered, or where there is an obligation to assign the trade mark to the overseas owner on demand.

Parallel imports benefit consumers by enhancing competition, offering products at lower prices and provides access to items which otherwise may not be available in Australia. The Committees are of the view that the Federal Government needs to take a balanced approach to trade mark restrictions that would allow consumers greater access to a wide range of imported products currently restricted under trade mark laws. The Committees submit that clear labelling of parallel imports may be a useful means of achieving a greater balance between the rights of trade mark owners and can also result in a greater degree of consumer protection.

Challenges for Trade Marks in the Digital Age

In the increasingly digital and globalised economy, the digital presence of a business is ever more crucial to its prosperity and longevity. The Committees accept that the digital age offers potential economic benefits for the new uses and applications of trade marks, such as online indexing business models (such as Google) and increased competition between brands through the use of trade mark keywords, AdWords and metatags. However, the Committees are concerned about the significant challenges that remain to balance these benefits with the interests of trade mark owners and consumers.

Draft Report

The Committees note that the Commission's Draft Report made no recommendations in relation to these issues and sought further information to better understand the challenges of trade marks in the digital age.

Final Report

The Committees note that the Final Report recommends that a 'watch and see' approach should be taken in relation to the challenges for trade marks in the digital age. The Committees are particularly concerned with the impact that the new uses of trade marks in the digital age have on consumer confusion, the reduction in the effectiveness of trade marks to distinguish between brands or businesses, and the diminution of brand-equity as a result of these uses. The Committees submit that a 'watch and see' approach is inappropriate due to the lack of clarity and uncertainty that currently exists in relation to the concept of 'use of a trade

mark’, especially after the recent decision in *Veda Advantage Limited v Malouf Group Enterprises Pty Limited* (see discussion below).⁹⁵

Further Comments

Google Keywords, Metatags and the Use of Trade Marks

The Committees are concerned with the lack of clarity in relation to the use and purchase of registered trade marks as keywords in the Google AdWords service. Google AdWords is Google’s advertising system that allows advertisers to bid on keywords in order for their clickable ads to appear in Google’s search results. Businesses invest significant resources to establish, grow and protect their brand, as well as undertake trade mark registration. This investment translates into a measurable corporate asset – its brand-equity and goodwill. The practice of purchasing and using competitors’ registered trade marks as a keyword in the Google AdWords services encourages competition between competitors and brands, but can also result in diminution of brand-equity and act as a disincentive to invest resources into establishing and growing brand-equity.

The decision in *Veda v Malouf* raises important questions about use of trade marks in the digital economy. In *Veda v Malouf*, Katzmann J held that Malouf’s purchase of Veda’s registered trade mark as a keyword in the Google AdWords service did not infringe the trade mark.⁹⁶ This decision has far-reaching implications for businesses of all sizes in terms of their ability to effectively protect and exploit their brand and may adversely impact on the effectiveness of registered trade marks as a “sign used, or intended to be used, to distinguish goods or services dealt with or provided in the course of trade.”⁹⁷ The Committees are of the view that it is essential to balance the need for legitimate competition between competitors and brands with the incentives for businesses to invest in and exploit their brands.

Competitors are able to easily and quickly leverage a competitor’s brand or reputation by purchasing a competitor’s registered trade mark as a keyword in the Google AdWords service. This has the effect of diverting consumers away from the trade mark owner at very little cost. The Committees are of the view that this may undermine the fundamental purpose of establishing a brand or registering a trade mark. According to IP Australia, “your trade mark is your identity – the way you show your customers who you are. The more successful your business, the more valuable your trade mark becomes.”⁹⁸

The Committees submit that it is necessary to clarify whether the practice of purchasing trade marks as keywords in Google AdWords services (or similar services offered by online indexing services) amounts to

⁹⁵ [2016] FCA 255 (“*Veda v Malouf*”).

⁹⁶ *Ibid* at [303].

⁹⁷ *Trade Marks Act 1995* (Cth), s 17.

⁹⁸ IP Australia, “Benefits of Trade Marks”, <https://www.ipaustralia.gov.au/trade-marks/understanding-trade-marks/benefits-trade-marks>.

using or leveraging another entity's trade mark. The Committees note that this practice may result in greater precision of marketing and advertising activities and generate increased competition. However, the Committees are of the view that these benefits need to be more carefully balanced with the interest of trade mark owners as this practice infringes on the ability of trade mark owners to determine how, when and where and under what conditions their trade marks can be used.

Lack of Legal Clarity

As identified in the Final Report, the decision in *Accor Australia & New Zealand Hospitality Pty Ltd v Liv Pty Ltd*⁹⁹ determined that the presence of a registered trade mark term in a metatag did constitute use and infringement of a trade mark, despite a lack of evidence that consumers had ever viewed the trade mark in accessing the website.¹⁰⁰ In addressing this decision in *Veda v Malouf*, Katzmann J considered it relevant whether keywords are "entirely invisible" or could become visible "to those who know what to look for,"¹⁰¹ for instance where consumers would know or understand the use of Google AdWords keywords. However, Katzmann J rejected the reliance on *Accor v Liv* and instead relied on the 2011 decision in *Complete Technology Integration Pty Ltd v Green Energy Management Solutions Pty Ltd*.¹⁰² Katzmann J provided three core reasons for her decision:

By selecting keywords and providing them to Google, objectively, it was not using the words to distinguish its services from those of other providers, rather it was to identify internet users who may have an interest in using its services.

The keywords were not performing the function of a trade mark: distinguishing (identifying) the trade source to the exclusion of others as anyone could select the same keywords.

The keywords were invisible and inaudible and are imperceptible to consumers therefore the use a keyword cannot be perceived by consumers as being used as a badge of origin, in the sense that it did not indicate a connection in the course of trade between goods and services and the person who applies the mark to the goods and services.¹⁰³

The Committees are of the view that trade mark law is currently inadequately positioned to address the proliferation of technology and the way in which businesses and consumers use technology in the digital age. Section 120(1) of the Trade Marks Act states "a person infringes a registered trade mark if the person uses as a trade mark a sign that is substantially identical with, or deceptively similar to, the trade mark in

⁹⁹ [2015] FCA 554 ("**Accor v Liv**").

¹⁰⁰ Above n 1, 398.

¹⁰¹ [2016] FCA 255, [132].

¹⁰² [2011] FCA 1319 ("**Complete Technology**").

¹⁰³ [2016] FCA 255, [122]-[128].

relation to goods or services in respect of which the trade mark is registered.” The phrase “uses as a trade mark” is also contained in subsections (2) and (3). The Full Bench of the Federal Court in *Coca-Cola Co v All-Fect Distributors Ltd*¹⁰⁴ held that “use ‘as a trade mark’ is use of the mark as a ‘badge of origin’ in the sense that it indicates a connection in the course of trade between goods and the person who applies the mark to the goods.”¹⁰⁵ This statement was approved by a majority of the High Court in *E. & J. Gallo Winery v Lion Nathan Australia Pty Limited*.¹⁰⁶ In *Veda v Malouf*, Katzmann J held that “there is no dispute in this case that Malouf’s use of the word “veda” and its variations in its Google AdWords campaigns was used in the course of trade.”¹⁰⁷

The Committees note that as a result of the lack of judicial clarity and Google’s policy of refusing to investigate or restrict the selection of trade marks as keywords,¹⁰⁸ trade mark owners and businesses are becoming increasingly frustrated at the lack of legislative support to protect their brand in the digital age.

Global Inconsistency

The Committees note that the decision in *Veda v Malouf* is consistent with the approach taken by the New Zealand courts in *Intercity Group (NZ) Ltd v Nakedbus NZ Ltd*¹⁰⁹ and *Tasman Insulation New Zealand Ltd v Knauf Insulation Ltd*.¹¹⁰ However, this approach is inconsistent with *Veda’s* Court of Justice of the European Union (CJEU) which held that use of a trade mark as a keyword constituted in use and infringement of the trade mark.¹¹¹ The inconsistency between the CJEU position and Australia can be reconciled in theory as “the law is not the same.”¹¹² From a practical perspective the global inconsistency adds to the confusion and uncertainty of when a trade mark is infringed in the digital age.

The Committees note that while *Veda v Malouf* was decided by a single judge of the Federal Court, it has not been tested in appellate courts. The Committees are concerned that the narrower definition of “use as a trade mark” as decided in *Veda v Malouf* means that businesses operating across borders with trade marks registered in several countries (as is now common practice) may not be receiving adequate protection for trade marks registered in Australia.

¹⁰⁴ [1999] FCA 1721 at 19.

¹⁰⁵ *Ibid*, 19.

¹⁰⁶ [2010] HCA 15 at 43.

¹⁰⁷ [2016] FCA 255, 111.

¹⁰⁸ Google Inc, “Advertising Policies Help”, <https://support.google.com/adwordspolicy/answer/6118?hl=en-AU>.

¹⁰⁹ (2014) 3 NZLR 177.

¹¹⁰ (2014) 108 IPR 162.

¹¹¹ *Google France SARL v Louis Vuitton Malletier SA (C-235/08)* [2011] Bus LR 1; All ER (EC) 411 and *Interflora Inc and Anor v Marks & Spencer No. 5* [2014] EWCA Civ 1403.

¹¹² [2016] FCA 255, [145].

This may result in the undesirable effect of Australian businesses that also operate overseas (with registered trade marks in the overseas jurisdiction), pursuing a course of action for trade mark infringement in the overseas jurisdiction. The Committees are of the view that this is neither a cost-effective nor attractive option and disadvantages local brands that do not operate internationally.

The Committees submit that there is scope to amend s 120 of the Trade Marks Act to ensure greater consistency with the European Union approach of “use in the course of trade in respect of goods or services.”¹¹³ The Committees are of the view that this would provide more adequate brand protection for businesses large and small, both domestically and internationally. The Committees recommend that the Federal Government consider these far-reaching implications for businesses and consider reforming the phrase “use as trade mark” as the first step to a better balance between competition and the interests of trade mark owners and consumers.

¹¹³ *First Council Directive of 21 December 1988 to Approximate the Laws of the Member States Relating to Trade Marks (89/104/EEC)* [1989] OJ L 40/1, Art 5(1)(a) and *Council Regulation (EC) No 40/94 of 20 December 1993 on the Community Trade Mark* [1994] OJ L 11/1, Art 9(1)(c).

Concluding Comments

NSW Young Lawyers and the Committees thank you for the opportunity to make this submission. If you have any queries or require further submissions please contact the undersigned at your convenience.

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