

Intellectual Property Forum

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Editor
Fiona Rotstein



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Intellectual Property Forum

The Journal of The Intellectual Property Society of Australia and New Zealand Inc ABN 056 252 558

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Fiona Rotstein

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March 2023	before 1 February 2023
June 2023	before 1 May 2023
September 2023	before 1 August 2023
December 2023	before 1 November 2023

The Intellectual Property Society of Australia and New Zealand Inc is an independent society whose principal objectives are to provide a forum for the dissemination and discussion of intellectual property matters.

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EXPRESSIONS OF INTEREST

Expressions of interest are invited from intellectual property (“IP”) lawyers and writers to contribute to the Profile Section of *Intellectual Property Forum*.

Since 1997, *Intellectual Property Forum* has featured regular interviews with a range of eminent persons who have made significant contributions to the advancement of IP law in Australia and New Zealand. Expressions of interest are now invited from IP lawyers and writers who wish to suggest, facilitate or contribute profiles of local and international leaders and emerging leaders in the field of IP.

Initial enquiries or expressions of interest to contribute a profile are welcome. However, all expressions of interest to contribute a profile are critically appraised by the Editor (having regard to the Editorial Policies) who retains absolute discretion regarding the content of *Intellectual Property Forum*.

Some of those who have been profiled previously include:

- leading IP judges such as Chief Justice James Allsop AO, Justice Arthur Emmett AO KC, Former Chief Justice Robert French AC, Former Justice Dr Annabelle Bennett AC SC;
- leading IP lawyers such as the late Dr John McLaren Emmerson QC, the late Margaret Doucas, Angela Bowne SC, Katrina Howard SC, Dr Terri Janke, Katrina Rathie;
- leading IP academics such as the late Professor James Lahore, Dr Francis Gurry, Emeritus Professor Sam Ricketson AM, Professor Natalie Stoianoff;
- leading IP players such as Frank Moorhouse AM, Anna Funder, Kim Williams AM.

A full list of the distinguished persons previously profiled can be found at:
<<https://www.ipsanz.com.au/ip-forum/profiles/>>

Initial enquiries or expressions of interest to contribute a Profile are welcome, and may be directed to the Editor. Please email: editors@ipsanz.com.au.

Editorial – Fiona Rotstein



Photo by James Grant

Fiona Rotstein, Editor

Welcome to the final issue of *Intellectual Property Forum* for 2022. This edition covers the broad spectrum of IP, from trade marks to patents and copyright. There are five articles and six reports on a range of topical issues affecting the practice of IP law. We are fortunate to have a range of high profile authors. These include two leading IP judges: the Honourable Justice Jayne Jagot, who was recently appointed as a Justice of the High Court of Australia and the Honourable Justice Ian Gault, Judge of the High Court of New Zealand. There are also two IP silks featured plus an insightful submission from renowned IP academic, Emeritus Professor Sam Ricketson AM.

This issue starts with a profile of Siobhan Ryan KC who was called to the Bar in 2006 and appointed silk in 2021. In our conversation, Siobhan considers what she learnt as a solicitor at Davies Collison Cave, some high points (so far) at the Bar and her role as the current President of the Trans Tasman IP Attorneys Disciplinary Tribunal. She discusses whether the path remains harder for women to rise to the top of the legal profession and her advice for young practitioners starting out in IP. Siobhan also examines some of the key issues in IP currently and the evolving practice of trade mark law. As she states:

In the thirty years that I have been in practice, trade marks have seen great change; from the emergence of super brands like Virgin and Nike, to the decline of others like Blockbuster in response to changing market conditions. Although niche, trade mark law is rarely static.

Next, the Honourable Justice Jayne Jagot canvases some evidentiary issues in patent law. Justice Jagot discusses evidence regarding lack of inventive step for the purposes of court proceedings. According to her Honour, “The rituals in which experts and lawyers in Australia currently engage to avoid hindsight are time consuming, expensive and may not achieve the objective of avoiding hindsight.” The article helpfully distils important principles in patent law, such as the art, the person skilled in the art and the common general knowledge. In addition, Justice Jagot provides her observations on evidence in patent cases and the alternatives to the current rituals employed to avoid hindsight that she believes should be considered by the profession.

Craig Smith SC then examines the 3:3 split decision by the High Court of Australia in *Aristocrat Technologies Australia Pty Ltd v Commissioner of Patents* (2022) 168 IPR 1 (“*Aristocrat*”) on 17 August 2022. Smith examines a string of recent decisions by the Full Court of the Federal Court of Australia regarding the patentability of computer-implemented inventions. He then discusses the issues raised by the facts of *Aristocrat* and examines in detail the

judgments of the two High Court groups. According to Smith, *Aristocrat* is “not a game changer” – as the split result means that there is no majority view and because there are difficulties with each group’s approach to characterising the invention. Smith contends that there was an underlying issue relating to the patentability of games that affected the outcome of this particular case.

The following article is by David Kwei, this year’s John McLaren QC Essay Prize winner. Thank you to the Honourable Justice Stephen Burley for his ongoing enthusiasm for judging the Prize. Kwei asks the intriguing question: when should a company’s directors also be personally liable when the company infringes IP? Kwei examines how the three main tests for concurrent tortious liability seek to answer this question and argues that the law is unclear and poorly adapted to the task. After exploring each test in detail and the differences between them, Kwei proposes an alternative solution. In doing so, he provides a list of factors courts may consider when assessing if a director defendant should be subject to concurrent tortious liability.

On a very different note, Emma Berry analyses incidental copyright infringement in contemporary content creation. She discusses the history of the exception for incidental infringement contained in section 67 of the *Copyright Act 1968* (Cth). In addition, the equivalent exceptions to copyright infringement in New Zealand, the United Kingdom and the United States are considered. Berry focuses on the shortcomings of section 67, which she believes “is insufficient for today’s digital reality”. According to Berry, there are two options to overcoming its limitations. First, section 67 could be amended in a similar manner to New Zealand and the UK and protect photographers from incidental infringement. Alternatively, Australia could enact a US-style fair use exception. Berry’s reasoning for her preferred solution makes for interesting reading.

Paul Nolan then closely examines the judgment by the High Court of Australia in *H. Lundbeck A/S v Sandoz Pty Ltd; CNS Pharma Pty Ltd v Sandoz Pty Ltd* (2022) 399 ALR 184. The decision was in relation to long running litigation about an extension of term of a standard patent in relation to products containing the drug escitalopram, used as a treatment for depression. Nolan unpacks the history of pharmaceutical patent extensions in Australia and considers the takeaways from the High Court decision. Although the facts of the case are unusual, Nolan notes there are several important implications from the judgment, including “who is entitled to bring patent infringement proceedings, and when, in circumstances where an extension is granted after the expiration of the patent term”.

We also have a range of reports regarding a variety of local and international issues in IP. First, the Honourable Justice Ian Gault discusses the differences in the Australian and New Zealand judicial management of IP cases. With respect to his jurisdiction of New Zealand, Justice Gault notes, “Size of market, globalisation and – in some contexts – New Zealand’s policy settings have no doubt had an effect on the number of cases.” His Honour also considers the proposals currently under consideration by the New Zealand Rules Committee aimed at improving access to civil justice and the management of civil litigation (including IP matters).

Emeritus Professor Sam Ricketson AM then reviews *Intellectual Property in the Conflict of Laws: The Hidden Conflict-of-law Rule in the Principle of National Treatment*. As Ricketson explains, this is a thought-provoking text on “a frequently ignored or misunderstood issue” – the connection between IP laws and conflict of laws. Next, Associate Professor Jani McCutcheon reviews *Copyright, Creativity, Big Media and Cultural Value: Incorporating the Author* by Australian Professor Kathy Bowrey. According to McCutcheon, “a particular strength” of the work is Bowrey’s “ability to clearly explain sometimes confoundingly complex historical copyright law”. This is followed by Rob Clark’s review of *Regulatory Insights on Artificial Intelligence: Research*

for Policy. As Clark notes, the book is “bursting with ideas” regarding the regulation of AI and big data in our daily lives.

Mary Wyburn then analyses a recent judgment by Justice Cheeseman of the Federal Court of Australia regarding a gap in the chain of title to IP the subject of two United States patents: *AMHC, Inc. v Australian Securities and Investments Commission* [2022] FCA 896. The US patents take their priority date from a Patent Cooperation Treaty application, which relied on an Australian provisional patent application. The problem arose because documents demonstrating an earlier transfer of rights to the relevant invention by one of the previous owners in the chain of title, an Australian company, could not be found and the Australian company had been deregistered. Finally, Andrea Rizzi and Francesco de Rugeriis consider the intersection between IP and the booming industry of esports (competitive video gaming). They discuss how esports may be protected by IP law but are essentially unregulated by national law.

As usual, this issue is brimming with current developments from Australia, New Zealand and around the globe. With respect to local updates, there is incisive analysis of a string of recent Australian trade mark decisions, including the judgments of the Full Court of the Federal Court of Australia in *Puma SE v Caterpillar Inc* [2022] FCAFC 153 and *Swancom Pty Ltd v The Jazz Corner Hotel Pty Ltd* [2022] FCAFC 157. There are also contributions from the Journal’s correspondents in China and Hong Kong SAR, Japan, Singapore, the European Union, United Kingdom and France. These cover an array of issues, from defensive trade mark filings in China to the harmonisation of the payment of costs in IP cases across Europe. I thank each of the Journal’s regular contributors for their engaging and detailed updates throughout the year.

I would also like to thank everyone who has written for the Journal in 2022. As always, I welcome readers’ feedback and emails to editors@ipsanz.com.au. I wish everyone a safe and happy festive season and look forward to seeing you all (hopefully without masks) in 2023!



In Conversation with Siobhan Ryan KC

Fiona Rotstein

Siobhan Ryan KC took silk in 2021 and is the President of the Trans-Tasman IP Attorneys Disciplinary Tribunal. In late September 2022, Fiona Rotstein met with Siobhan to discuss her career path, expertise in trade marks and copyright, plus the progression of women in the legal profession.



Photo by James Grant

Siobhan Ryan KC

Q: Prior to signing the Bar Roll in 2006, you were a solicitor at Davies Collison Cave (“DCC”). Tell me about your work there and what you learnt during that time.

A: I started as a solicitor at DCC in the Sydney Office in the early 1990s. I was sent there from Melbourne to learn about trade marks from Trevor Stevens, who was at the top of the game. He did his own appearances in the Australian Trade Mark Office and was usually successful. I got an excellent grounding in trade mark prosecution and oppositions. I took that to DCC in Melbourne and there, as part of Christine Lowe’s team, developed search and advice skills and protection know-how.

I worked on global re-brands for some significant public companies, which was challenging but fun. The search for a viable mark in multiple jurisdictions required creative thinking and agility. There was also an element of working against the clock and of balancing the differing needs of stakeholders, including their dreaded PR teams.

One of my last tasks at DCC was prosecuting shape marks for Hermes, including the belt & padlock hardware on Birkin and Kelly bags and the “H” buckle. Researching the history of the House of Hermes and its iconic handbags was fascinating. The trade witnesses were glamorous and included an editor of *Vogue* magazine, designers, and others in the fashion industry.

Q: What was it like when you first went to the Bar? What kind of work did you do?

A: I did everything I could manage, which meant lots of “crash-n-bash”, garnishee orders, small business disputes and pleas in criminal matters. It was a far cry from my client on the Rue du Faubourg Saint-Honoré. But I really enjoyed my time in the Magistrates’ Courts;

especially Dandenong and Sunshine, which had the added bonus of great food precincts nearby.

Q: You were appointed silk in 2021. What was that experience like?

A: Overwhelming, actually. The outpouring of congratulations and expressions of goodwill were endless. It takes ages to respond to all the emails and letters.

I had been working as a lawyer for over two decades with very little, if any, feedback. The appointment to Senior Counsel was the ultimate performance review – and especially meaningful because of the peer input in the selection process.

Q: What appeals to you most about intellectual property and why?

A: The back stories can be fascinating. Being involved in patent, design and trade mark prosecution puts IP practitioners at the forefront of developments in science, technology, business and culture. I studied law and fine arts at university and had ambitions to pursue an arts-law path. After two thesis – one about appropriation of cultural heritage (a famous example being the Elgin Marbles) and another about the (in)adequacy of western law to protect against exploitation of Indigenous art, I pivoted sideways into IP when I started working. First at Baker & McKenzie with Jenny Wilson and later at DCC. IP appealed to my entrepreneurial leanings whilst keeping in touch with creative people.

Q: Your father is Des Ryan AM who became a Member of the Order of Australia for his contribution to the IP profession in 2001. Looking back, what influence did your father have on your career choice?

A: In my youth it was the attraction of the (often counterfeit) samples that found their way home. For

example, our fox terrier, George sported a wardrobe of “Pierre Cardog” jackets for a while. Later, when I was thinking about my career, I saw how enthusiastic Des was about his work and that he had made many friends in the patent and legal professions and he and my mother, Maggi, travelled the world. What’s not to like?

Q: You are also a registered trade mark attorney and regularly appear before the Registrar of Trade Marks in oppositions and registrability cases. What is it about trade mark law that interests you and why?

A: In the 30 years that I have been in practice, trade marks have seen great change; from the emergence of super brands like Virgin and Nike, to the decline of others like Blockbuster in response to changing market conditions. Although niche, trade mark law is rarely static. On the contrary, trade marks are highly reactive, and practitioners get to ride along with that. Think about the effect of one TV show, *Sex and the City*, on the caché of handbags, shoes, cocktails and cupcakes and the consequent popularisation of their respective brands. Hermes’ pursuit of shape mark protection for its Birkin bag coincided with Carry Bradshaw declaring the Birkin a “must have”. A decade on, the *Sex and the City* effect was met by normcore where the wearer opts for clothes meant to look “normal”, deserting aspirational brands for understated looks in which the trade mark is secondary or even unseen. Ironically, this movement created its own challenges because even the non-descript needs to be branded. Another decade on, Hermes is suing an artist in the USA for releasing a Non Fungible Token (“NFT”) collection called “MetaBirkins” which interprets the iconic Birkin handbag in pixels. Hermes calls it trade mark infringement; the artist calls it his First Amendment right.

More specifically, trade mark litigation is very strategic. I enjoy the moving parts. For example, *Pham Global Pty Ltd v Insight Clinical Imaging Pty Ltd* [2017] FCAFC 83 began in the Australian Trade Marks Office as an opposition but on appeal it gathered an infringement action and a revocation application along the way. There were different priority dates and different use scenarios, each requiring a different approach.

Q: In an article you wrote for *Victorian Bar News* about Victoria’s first female barrister and then silk, Joan Rosanove QC, you quote her as having said:

*To be a lawyer you must have the stamina of an ox and a hide like a rhinoceros and when they kick you in the teeth you must look as if you hadn’t noticed it.*¹

To what extent do you agree with this statement?

A: Thankfully, there is less “teeth-kicking” now than in Rosanove’s time. The prejudice Rosanove faced for being a woman verged on being malicious.

I think Rosanove was right about stamina. Litigation is hard work. You need to put in the hours and for that, you need to be “match-fit” – physically and intellectually.

A rhinoceros’ hide is an asset for the reasons Rosanove attributed to it. Rejection comes with the swings and roundabouts of being a barrister but always feels personal. A barrister also needs a rhinoceros’ hide to be true to the case and assist the court. Sometimes that means dropping the instructor’s pet point or telling the client something they don’t want to hear or haven’t faced up to.

Q: How inclusive a workplace is the Bar for women?

A: The Bar feels like an inclusive workplace to me. The numbers of men and women are not equal (approximately 68 per cent male and 32 per cent female)² but I feel included in the life of the Bar. We have a female President of the Victorian Bar Council, Roisin Annesley KC, we have female List Chairs and female clerks. I see women in and around chambers. I find the Bar to be a very supportive workplace and count both men and women among my friends and mentors there. The men and women of the IP Bar are noticeably collegiate and congenial.

The Bar is also inclusive because a barrister’s life can be so flexible. Your hours are your own, until they are not (i.e. in a trial or when paperwork is due). This means that with hard work comes downtime which can accommodate other aspects of your life.

Q: Do you think the path remains harder for women to rise to the top of the legal profession now?

A: That depends on the part of the profession. Women are under-represented at the senior counsel level (13.4 per cent of Victorian barristers are silks, with females accounting for 2.2 per cent).³ That is reflective of the overall numbers and the fact that it takes so many years to rise to a senior level (e.g. a senior-junior is 10 years plus), so improvement is to be expected as the female ranks grow.

That said, there is a concerning under-representation of women appearing in the superior courts, especially on appeals. It boils down to briefing practises, i.e. solicitors and clients being prepared to step outside their comfort zone at the higher level. Judges notice and have commented. For example, in her recent speech at the Australian Women Lawyers’ Conference, the Honourable Chief Justice Kiefel of the High Court of Australia noted the disparity in the number of women silks appearing in the High Court, with that number being less than 13 per cent. Of those appearances,

more than 20 per cent were by Solicitors-General. Her Honour also noted that commercial matters continue to “lag behind”.⁴

In this Journal, the Honourable Judge Julia Baird observed in 2019 that “[in] most of the large IP cases that come before the Federal Court, even now, there is seldom a gender balance among counsel appearing.”⁵ In 2015, the Honourable Justice Susan Kenny wrote, “I see that all too few women present the difficult cases in court, whether at first instance or on appeal, particularly when regard is had to the numbers and skill of women currently at the Bar”.⁶ It seems it was ever thus. Justice Kenny’s article quotes from a 2003 report by the Victorian Bar’s Equality Before the Law Committee which observed that “under-representation is more pronounced in final hearings when compared to interlocutory or Practice Court hearings.”⁷

The profession has confidence in women solicitors to lead and populate their litigation teams, in women to lead their professional organisations (the current Chairs of IPTA and IPSANZ) and in women to lead at their conferences (women outnumbered men almost 2:1 as Speakers and Chairs at the 2022 IPSANZ Conference), yet seemingly has no confidence in allowing women to speak to a Full Court.

Q: What have been some of your highlights at the Bar?

A: It’s the legally and factually esoteric cases that stick in my mind. *Chiropractic Bedding Pty Ltd v Radburg Pty Ltd* [2008] FCAFC 142 was a mattress design case which went up to the High Court for special leave on one issue (refused), then back to the trial judge on a different question. Along the way, we (I was Glenn McGowan KC’s junior) had to examine the *Travaux Préparatoires* to the Paris Convention for the Protection of Industrial Property 1883 to determine the scope of the International Exhibition exemption from prior publication. These were primary documents which were difficult to track down, but we did with the help of Dr Francis Gurry at the World Intellectual Property Organization. The papers were in French, so we got a junior barrister who was a native French speaker involved. It was very interesting.

British American Tobacco Exports BV v Trojan Trading Company Pty Ltd [2010] VSC 572 is one of the few superior court considerations of the criminal offences under the *Trade Marks Act* 1995 (Cth). It began as an attempt to privately prosecute my client in the Supreme Court of Victoria but morphed into a breach of statutory duty claim when jurisdictional issues got in the way of the private prosecution. The criminal offences, the private prosecution, the tort of breach of statutory duty (in which the statute creates a civil right and the common law supplies a remedy), and even the

venue were interesting departures from the usual trade mark opposition or infringement cases.

I’ve been on the Victorian Bar’s Art & Collections Committee for several years and during that time assisted Peter Jopling AM KC to establish the Peter O’Callaghan QC Portrait Gallery and commission portraits of barristers past and present by some of Australia’s leading contemporary artists. Also, spending six years on the steering committee for the Bar history book, which was published this year as *VicBar – A History of the Victorian Bar* by Dr Peter Yule was intensely interesting and an honour.

Q: What, in your view, are the key issues in IP currently?

A: In trade marks, I have been quietly railing against the leaking of reputation considerations into the purity of the registered trade mark monopoly through insufficient differentiation from the passing off and Australian Consumer Law (sections 18 and 29) claims which hang limpet-like on almost every infringement action. This thinking also infects prosecution (and revocation) when reputation strays into sections 41 and 44 of the Trade Marks Act. The courts are paying attention – see *Australian Meat Group Pty Ltd v JBS Australia Pty Limited* [2018] FCAFC 207 and *Swancom Pty Ltd v The Jazz Corner Hotel Pty Ltd* [2022] FCAFC 157, and we hope for instruction from the High Court in the upcoming *Self Care IP Holdings Pty Ltd & Anor v Allergan Australia Pty Ltd & Anor* appeal (High Court of Australia, Case No. S79/2022 and S80/2022).

More generally, the internet and social media constantly throw up curly jurisdictional questions in all IP areas about who can be sued and where. Academics and commentators are starting to talk about brand protection in the Metaverse – we certainly live in interesting times!

If not a key issue, an under-appreciated issue (excuse the pun) is the application of Division 40 of the *Income Tax Assessment Act* 1997 (Cth) to IP as a depreciating asset. For reasons to do with the drafting, interesting questions arise as to the relative strengths of copyright and trade marks as brand protection. Goodwill also figures.

Q: You are President of the Trans-Tasman IP Attorneys Disciplinary Tribunal. What have you come to understand about the IP Attorney profession from this role?

A: Thankfully, the cases that get referred to the Disciplinary Tribunal are few and far between, so the profession looks quite stable from our end. The Trans-Tasman IP Attorneys Board triages and investigates many more complaints. It appears that stress and, at the other extreme, over-confidence can be causes of an attorney’s undoing. Allegations of attorneys carrying out work for which they were not qualified are also a theme. To that

In Conversation with Siobhan Ryan KC

end, it is important that patent and trade mark attorneys understand the limits of the statutory privilege accorded by the *Patents Act* 1990 (Cth) and the Trade Marks Act.

I am not aware of complaints directly attributable to the COVID lockdown conditions, but some may yet emerge.

Q: What advice would you give to young practitioners starting out in IP?

A: Read and watch widely. A strong interest in popular culture kept me in good stead as a young practitioner in trade mark and copyright because the clients liked the fact that someone already knew about their product, and the partners were relieved!

Q: Your brother is Adrian Ryan SC and you are married to Garry Fitzgerald KC. Both practise mainly but not exclusively in the IP field. Given the experiences of yourself, your father, husband and brother, are familial conversations often about IP?

A: Not as often as you might think. Adrian practises mainly in patents but he, Garry and Des chat a bit. On my wedding day, Adrian stepped in as the driver and I recall him and Dad sitting up front chatting about a patent case for the entire drive to the church, while I sat nervously in the back.

Garry and I bounce ideas off each other about trade marks and copyright. He is also my go-to for court-craft. Des has excellent instincts and a wealth of IP knowledge, experience and anecdotes which I tap into.

- 1 Siobhan Ryan, 'Joan Rosanove QC: A law unto herself' (2015) 157 *Victorian Bar News* 90, 90.
- 2 The Victorian Bar, *The Victorian Bar Incorporated Membership Statistics* (June 2022) 4 <<https://www.vicbar.com.au/public/about/about-victorian-bar/major-reviews-and-reports>>.
- 3 The Victorian Bar, *The Victorian Bar Incorporated Membership Statistics* (June 2022) 4 <<https://www.vicbar.com.au/public/about/about-victorian-bar/major-reviews-and-reports>>.
- 4 Chief Justice Kiefel quoted in Cindy Cameronne, 'High Court Chief Justice says Bar 'pays a price' for more female judges', *Business of Law* (1 September 2022).
- 5 Fiona Phillips, 'In conversation with the Honourable Judge Julia Baird' (2019) 115 *Intellectual Property Forum*, 11.
- 6 Justice Susan Kenny, 'Women at the IP Bar: A Case for Unpacking the "Merit" Ideal', (2015) 103 *Intellectual Property Forum*, 19.
- 7 Justice Susan Kenny, 'Women at the IP Bar: A Case for Unpacking the "Merit" Ideal', (2015) 103 *Intellectual Property Forum*, 21.

Some Evidentiary Issues in Patent Law

The Honourable Justice Jayne Jagot¹

Overview

M*innesota Mining & Manufacturing Company v Tyco Electronics Pty Ltd* [2002] FCAFC 315; (2002) 56 IPR 248 (“*Tyco*”) may have had unintended consequences. The Full Court of the Federal Court of Australia’s statement at [45] that “to give the Patent to a prospective witness is tantamount to leading the witness” needs to be understood in the context of the concerns about the evidence in that case as a whole. The problem was identified in the first instance judgment, *Minnesota Mining & Manufacturing Company v Tyco Electronics Pty Limited* [2001] FCA 1359; (2001) 53 IPR 32, in which Sackville J made these points:

[174] The task of determining whether a claimed invention was obvious is inherently difficult, if only because of the pitfalls of having to place oneself in the position of a hypothetical skilled addressee at the priority date. Those pitfalls include the danger of misusing hindsight to which the authorities refer.

...

[178] A further difficulty is that, on some occasions, Tyco’s experts were asked to address questions that were framed in general terms and not specifically directed to the criteria that must be used to determine whether a claimed invention was obvious ...

The real issue is avoiding the effect of hindsight. The question of how that is best done, to the extent it can be done, is best determined on a case-by-case basis.

The rituals in which experts and lawyers in Australia currently engage to avoid hindsight are time consuming, expensive and may not achieve the objective of avoiding hindsight. Alternatives should be considered.

One possible approach is the development of a comprehensive set of standard instructions to experts on the law of inventive step.

Another is the use of early case management to facilitate agreement between the parties or determination of the factual information which may be provided to the experts and the questions the experts should be asked.

The Basics

The art, the person skilled in the art, and the common general knowledge perform multiple functions in patent law.

What is the art?

The “art” is the subject-matter or field of the patent: *Catnic Components Ltd v Hill & Smith Ltd* [1982] RPC 183 (“*Catnic Components*”) at 235.

A patent may involve one or more fields. Identifying the field or fields of the patent is important because the person skilled in the art is the person with expertise in that area who is to be attributed with the common general knowledge of the relevant field or fields of the patent: *JMVB Enterprises Pty Ltd v Camoflag Pty Ltd* [2005] FCA 1474; (2005) 67 IPR 68 at [91].

A degree of circularity of reasoning is involved as the field of the patent determines the common general knowledge and the person skilled in the art, and the field of the patent is to be derived from construing the patent through the eyes of the person skilled in the art.

Who is the person skilled in the art?

Identifying the person skilled in the art also depends on the field of the patent which is derived from the construction of the patent through the eyes of the person skilled in the art. The issue of circular reasoning again arises.

The person skilled in the art is one who is assumed to have a practical interest in the claimed invention and who wants to put the claimed invention to practical use: *Catnic Components* at 235; *Stanway Oyster Cylinders Pty Ltd v Marks* [1996] FCA 527; (1996) 66 FCR 577 at 582.

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The qualities of the person skilled in the art are affected by the nature of the field of the invention. If the field itself is practical and prosaic, the person skilled in the art would not be attributed with inventiveness. If the field is inherently inventive, the person skilled in the art may be attributed with the degree of inventiveness typical in the field.

Further, the extent of the common general knowledge of the person skilled in the art will depend on the field of the patent. If the field is complex and demanding and derived from multiple arts, the extent of the relevant general knowledge may involve the combined knowledge of multiple fields. This is commonly expressed as the person skilled in the art involving a notional team of persons with different kinds of expertise all of which it may be inferred from the patent have been brought to bear to reach the claimed invention: *Root Quality Pty Ltd v Root Control Technologies Pty Ltd* [2000] FCA 980; (2000) 177 ALR 231 at [70].

The person skilled in the art does not hold perception beyond the knowledge and skill of the relevant field of the patent: *Windsurfing International Inc v Tabur Marine (Great Britain) Ltd* [1985] RPC 59 (“*Windsurfing International*”) at 71. Conversely, it must follow that the person skilled in the art does hold the perception, knowledge and skill of the relevant field of the patent.

What is the common general knowledge?

The common general knowledge is the knowledge which has been assimilated and accepted by the bulk of those in the relevant field, and includes the material and information to which such a person would have regard as a matter of course: *Aktiebolaget Hässle v Alphapharm Pty Limited* [2002] HCA 59; (2002) 212 CLR 411 (“*Alphapharm*”) at [31], [173]; *Re Raychem Corp’s Patents* [1997] EWHC 372; [1998] RPC 31 at [40].

What is the motivation or state of mind of the person skilled in the art?

The person skilled in the art is not attributed with qualities such as “constitutional idleness”: *Windsurfing International* at 71.

But nor are they to be assumed to be motivated to solve a problem which the evidence, be it the terms of the patent or other evidence, does not establish was recognised to be a problem at the priority date.

That is, recognition of the problem the patent is said to solve cannot be assumed away as a potential inventive step unless the terms of the patent and/or the other evidence about the common general knowledge in the field(s) of the patent disclose that the problem itself was known to those skilled in the art before the priority date.

In this regard while the prior art base and the common general knowledge are used to “*look forward*” from the prior art base to see what the skilled person is likely to have done when faced with a problem similar to that which the patentee claims to have solved with the claimed invention” (*AstraZeneca AB v Apotex Pty Ltd* [2015] HCA 30; (2015) 257 CLR 356 at [69] per Kiefel J (as her Honour then was)), the issue whether a person skilled in the art was “faced with a problem similar to that which the patentee claims to have solved” is a matter for evidence, not assumption. The perception of a problem may involve or be part of an inventive step: *Lockwood Security Products Pty Ltd v Doric Products Pty Ltd (No 2)* [2007] HCA 21; (2007) 235 CLR 173 at [59] and [85]; *Alphapharm* at [51] citing Aickin J in *The Wellcome Foundation Limited v VR Laboratories (Aust) Proprietary Limited* [1981] HCA 12; (1981) 148 CLR 262 at 280–281.

What functions do the art, the person skilled in the art and the common general knowledge perform?

First, patents are construed through the eyes of the person skilled in the art who is attributed with the common general knowledge in the field of the patent.

Secondly, the prior art base documents/information are construed and understood through the eyes of the person skilled in the art for the purposes of assessing novelty and inventive step.

The role of evidence

Apart from the terms of the patent itself, everything discussed above – the art, the field(s) of the patent, the person skilled in the art, the qualities and extent of the knowledge of the person skilled in the art, the existence of any problem to be solved and the motivation of the person skilled in the art to solve the problem, and the common general knowledge (all as at the priority date) – are all matters for proof by evidence.

The significance of this observation – that proof by evidence is required of all these matters – cannot be overstated.

The patent area

The patent area in the *Patents Act* 1990 (Cth) means, in substance, Australia: s.3 and Sch. 1.

Before the amendments introduced by the *Intellectual Property Laws Amendment (Raising the Bar) Act* 2012 (Cth), the patent area dictated the content of the common general knowledge and the application of the test for inventive step. This is because the test for inventive step in s.7(2) referred to the common general knowledge as it existed in the patent area before the priority date.

On this basis, it was commonplace for the patent and the prior art base information to be construed through the eyes of the person skilled in the art in the field of the patent

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armed with the common general knowledge in the patent area (Australia).

Since the Raising the Bar amendments, s.7(2) provides that the test for inventive step involves the common general knowledge as it existed whether in or out of the patent area before the priority date.

Observations on Evidence

The avoidance of hindsight

Following *Tyco*, an issue which is the subject of painstaking attention by the lawyers involved in the preparation of expert reports or affidavits is that the evidence of the expert not be affected by hindsight.

Avoiding the effect of hindsight reasoning is critical. I do not trivialise the nature or extent of reasoning errors that hindsight can cause.

The concern is that the rituals we have adopted to protect against hindsight reasoning in patent cases involves a multi-layered problem, probably most acutely experienced by the experts who are subjected to (and must be bewildered by) the ritual.

Layer one is that the rituals may not protect against hindsight reasoning.

Layer two is that we may think that if we adopt the rituals, we have protected against hindsight reasoning, so the expert's (and our own) guard is down.

Layer three is that in performing the rituals we may overlook other techniques which might be more effective in protecting against hindsight reasoning, including fully and properly instructing experts about the person skilled in the art, the common general knowledge, the test of obviousness, what hindsight involves, why hindsight reasoning is impermissible, and the consequential need to avoid hindsight.

Layer four is that, with no justification of which I am aware, the whole process assumes that experts (who actually hold relevant expertise in the field) are incapable of doing what is humanly possible to put hindsight to one side, but judges (who hold no expertise in the relevant field and therefore do not even know what it is that they do not know and who see everything before deciding on the issue of inventive step) have some super-human capacity to do so.

The ritual of “sequential unmasking” (*Akebia Therapeutics Inc v FibroGen, Inc* [2020] EWHC 866 (Pat) at [36]) to avoid hindsight is well-known.

First, the expert must be engaged. In being engaged, however, the expert must not be told what the claimed invention is or what the patent is for. At most, the expert may be told the general field of the patent (presumably, something the expert

could have worked out for themselves given that they would assume they are being retained because they hold relevant expertise).

Why is this first step undertaken in this way? It is because if the expert sees the patent, and therefore knows what the invention is, their mind will be infected by hindsight when the expert comes to assess whether or not the invention was obvious when compared to the prior art base at the priority date.

Hindsight bias is a well-documented psychological phenomenon. It is defined in the American Psychological Association Dictionary of Psychology as:

the tendency, after an event has occurred, to overestimate the extent to which the outcome could have been foreseen. Hindsight bias stems from (a) cognitive inputs—people selectively recall information consistent with what they now know to be true; (b) metacognitive inputs—people may misattribute their ease of understanding an outcome to its assumed prior likelihood; and (c) motivational inputs—people have a need to see the world as orderly and predictable.

Other areas of law recognise hindsight bias, but none that I know suggest that an expert giving evidence in the case cannot know the subject-matter of the case other than by degrees or is expected to give evidence progressively from a time when the expert purportedly knows nothing to a time when the expert (at last) has seen the patent in dispute.

In other areas of the law it is expected that an expert will give evidence once they know the relevant facts. It is expected that the expert will be able to recognise and, so far as humanly possible, eliminate the heresy of hindsight. It is expected that cross-examination will expose an expert who has succumbed to the heresy to any material extent. It is also expected that the judge, who will be writing a judgment and hearing evidence having seen the patent, will be able to assess the extent to which the expert may have succumbed to the heresy of hindsight and weigh their evidence accordingly.

And as foreshadowed above, why is it assumed that a judge's brain is somehow capable of immunising itself from the hindsight heresy, but an expert's brain is not? After all, it is the judge who ultimately determines all of the issues of fact and law, and the judge does so knowing all of the evidence including all details of the invention. Why do we assume that a properly instructed expert in the field (including proper instruction as to the need to avoid hindsight bias) does not have the same (imperfect) intellectual flexibility as the judge? If anything, expertise in the field might make an expert better at recognising the effects of hindsight than a judge. And even if the expert's opinions are affected by hindsight, why do we assume that the adversarial process will be incapable of exposing the effect and its significance for the expert's opinions? That is, ultimately, it is the judge who

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needs to allow and account for the unavoidable effects of hindsight as best they can, but it would help if the expert was as aware as the judge of the need to avoid hindsight as far as humanly possible. Standardised comprehensive instructions to experts about the law of inventive step might assist in this regard and weaken the perceived incentive of engaging in the current rituals.

Secondly, once the expert is engaged, the lawyer and expert must engage in a ritualised dance in which the expert must pretend they don't know why they are being retained and the lawyer must do nothing to undermine the maintenance of that pretence. The lawyer can reveal the relevant field of expertise, but it might be imagined the expert could work this out for themselves given the fact of the retainer. The lawyer cannot reveal the issue which the expert is being asked to address – i.e., (1) was this invention obvious at the priority date, and (2) was this invention novel at the priority date.

Instead, and thirdly, the expert must be asked to identify the common general knowledge at the priority date in the area without knowledge of the invention. In some cases, where the patent dispute is notorious, this exercise is entirely fictitious. In others, where the expert truly does not have a clue what the invention is, the exercise can be less than helpful because it lacks focus. Experts have so much common general knowledge that they cannot be expected, without some direction, to expose the *relevant* common general knowledge.

Fourthly, having identified the common general knowledge, the expert can be asked to undertake an exercise intended to mirror the inventor's journey but without actually knowing what the invention is. This will raise the fraught issue as to whether the problem overcome or the advance made by the invention either formed part of the common general knowledge or was itself part of the inventiveness of the invention. If the latter, it is difficult to see how the expert could legitimately perform the exercise without being given further information relevant to the invention which will lead to the charge of hindsight infection.

Fifthly, if the Raising the Bar Act amendments apply, the expert might also be given the prior art information and asked if the invention was novel at the priority date in light of that information.

Sixthly, the expert might at last be given the patent and be asked to opine if the claimed invention was obvious in light of the common general knowledge at the priority date.

The potential problem with this ritual is that it usually breaks down at some point – either because the invention and/or the patent dispute is notorious, or because to elicit relevant information the expert is or has to be given more information at some point which can then be said to have infected the evidence with hindsight. This can lead to cross-

examination about a peripheral issue (what did the expert know when) and credit issues can arise (the expert saying they did not have something in their mind but they actually did etc). None of these issues are directly relevant to the patent dispute but they can take time to resolve and distract from the key issues in dispute.

Part of the ritual might have made some sense when s.7(3) of the Patents Act applied prior to the Raising the Bar amendments, i.e., when prior art information for the purpose of inventive step had to be information that the skilled person at the priority date would be reasonably expected to have ascertained, understood, and regarded as relevant. When this version of s.7(3) applied, the approach taken was that the question was best answered by an expert identifying what information they would have ascertained, understood, and regarded as relevant by performing that exercise as if it were being undertaken at the priority date. Again, however, the artificiality of this exercise means that it usually broke down at some point, leading to time being taken up with issues not directly relevant to the patent dispute.

The artificial nature of the ritual is reinforced by the selection of experts. The understandable tendency of a litigation lawyer is to retain the best, most renowned experts in the field. But the knowledge (and inventive capacity) of these experts might be far removed from the person skilled in the art. The greater the knowledge of the expert, the more they might have to disregard as not forming part of the common general knowledge at the priority date. Without detailed and explicit instructions, this is a strange position for an expert to be put in. They are being retained because they are renowned in the field, but the evidence being sought from them is not evidence of their own knowledge and capacities and what *they* could have invented – what is sought is their opinions about what effectively everyone in the relevant field would know and take as given. If such a person is retained as an expert, then they need to understand in detail what evidence they can give which is relevant. This indicates that proper instructions to the expert about the law of inventive step are critical.

The value of the ritual?

Overall, I remain to be persuaded that there is real value in the ritual. It may even be that because the ritual is intended to protect the evidence from hindsight, the expert is not as attuned to the invidious effect of hindsight as the expert otherwise might be if fully and properly instructed about the person skilled in the art, the common general knowledge, the test of obviousness, what hindsight involves, why hindsight reasoning is impermissible, and the consequential need to avoid hindsight.

Nor do I think the process shields the expert from challenges to credit. To the contrary, maintaining the pretence at all costs that the expert has not been infected by knowledge

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of the invention (e.g., because an embodiment has been marketed and is well-known by the time the patent case appears), at least in my experience, provides fertile ground for credit challenges.

Justice Birss (as he then was) made the same points more succinctly in *HTC Corporation v Gemalto S.A.* [2013] EWHC 1876 (Pat); [2014] RPC 257 at [274]–[275] in these terms:

... approaches like this are servants and should not become elevated into masters. The approach can risk creating a number of potential difficulties. First the expert naturally may think there is a legal requirement that this be done and that somehow a breach of this protocol is wrong or is his or her fault. There is no legal requirement that expert evidence in patent cases must be given this way. It will not always be fair on the expert to place this burden on them. Second, many patent lawyers are highly skilled at presenting information to the expert which, consciously or subconsciously, has the effect of leading the expert to the conclusion sought. Neither the expert nor the legal team may be aware of it at all. The expert may genuinely think they have formed views without knowledge of the contents of the patent when in fact they may have been led there. Thus the approach may not in fact eliminate hindsight and is capable of giving a false impression.

The exercise in this case caused much more trouble than it could ever have been worth.

Similar observations were made in *Fresenius Medical Care Australia Pty Ltd v Gambro Pty Ltd* [2005] FCAFC 220; (2005) 224 ALR 168 at [175] where Wilcox, Branson and Bennett JJ said:

In coming to his conclusion on obviousness, his Honour was mindful of the restraint imposed by the artificial exercise engaged in by Dr Davies and of the alternative problem of a witness attempting to give evidence of the obviousness idea when he or she already knew the answer. This is particularly acute where the inventive step involved an idea which, once appreciated, was implemented by the application of well-known principles. That is not to say that such evidence should be disregarded but it makes it more difficult to allow for 'the insidious effects' or 'misuse' of hindsight. This problem has long been recognised in patent cases. It is but one matter for the judge to take into account in weighing the evidence of the witnesses, as was the inventiveness of the witnesses (at [401]), the passage of time since the priority date (at [402]) and the provision of prior art which was not part of common general knowledge (at [403] and [404]–[406]). Other factors were the level of advocacy engaged in by the witnesses and the relative levels of skill each possessed. None of these matters is determinative; each is relevant to the assessment by the judge of the competing evidence on obviousness in the circumstances of this case.

My suspicion is that we materially underestimate the reality of the telegraphing of the problem and the solution to experts throughout the process of the preparation of evidence and materially over-estimate the likelihood of a lack of hindsight if evidence of such telegraphing is not apparent.

As a matter perhaps of personal disposition, I tend to favour a direct approach in which all pretence is abandoned, at least in a case where the reality is that the experts know what the invention is even if they cannot be told that by the lawyer. If all pretence is abandoned, then the experts and the courts can acknowledge and make allowances for the inevitable impact of hindsight.

Approved standard instructions to experts?

To assist this, I also raise for consideration the possible development of a court-approved comprehensive standard set of detailed instructions to be provided to experts about the person skilled in the art, the common general knowledge, the test of obviousness, what hindsight involves, why hindsight reasoning is impermissible, and the consequential need to avoid hindsight. I am aware of one set of standard jury directions about obviousness in the US District Court (Northern District of California), but not of any standard expert witness directions for obviousness. Even in cases where the ritual of sequential unmasking is agreed to be of overall benefit, standardising the directions to experts about these issues may be worth the investment of resources it would require.

I also raise for consideration the use of early case management to facilitate agreement between the parties or resolution of the factual information which may be provided to the experts and the questions the experts should be asked.

1 Judge, Federal Court of Australia. I wish to thank my Associate 2022/2023, Amelia Loughland, for research and other assistance in the preparation of this article which was originally given as a presentation at the 35th Annual IPSANZ Conference in Melbourne on 18 September 2022.

Not a Game Changer: *Aristocrat v Commissioner of Patents*

Craig Smith SC¹

Abstract

The patentability of computer-implemented inventions has been a contentious topic both in Australia and internationally. In a series of relatively recent decisions the Full Court of the Federal Court of Australia has found that business methods and schemes do not become patentable subject matter “merely” because they are implemented using a standard computer.

The decision of the High Court of Australia in *Aristocrat Technologies Australia Pty Ltd v Commissioner of Patents* (“*Aristocrat*”)² has not provided substantive guidance as to what amounts to more than “mere” implementation. The limitations arise not only because the High Court split 3:3 on the outcome of the appeal, but also because of difficulties with each group’s analysis. Further, it seems that a substantial reason for the split decision related to a distinct patentability issue, namely the patentability of games that involve physical components.

Introduction

Australian patent law has consistently excluded from patentability claims to subject matter that does not satisfy a “manner of manufacture” requirement referable to section 6 of the *Statute of Monopolies* 1623.³

While the High Court has previously considered the issue of manner of manufacture, most notably in the landmark decision of *National Research Development Corporation v Commissioner of Patents* (“*NRDC*”),⁴ as well as in *Apotex Pty Ltd v Sanofi-Aventis Australia Pty Ltd*⁵ and *D’Arcy v Myriad Genetics Inc* (“*Myriad*”),⁶ it had not considered this issue in the specific context of a computer-implemented invention.

A succession of recent Full Federal Court decisions has applied the following principles to assessing the patentability of computer-implemented inventions, none of which appears to have been challenged before the High Court in *Aristocrat*:

- business methods and schemes are not inherently a manner of manufacture;
- the “mere” implementation of a business method or scheme using a computer does not result in a manner of manufacture; and
- assessing whether a business method or scheme is “merely” being implemented using a computer should be approached as a matter of substance, not form.

The complexity lies with this last point, and how an assessment should be made as to whether the claim involves a “mere” implementation or not.

The facts raised by the asserted invention in *Aristocrat* required consideration of whether an electronic gaming machine (“EGM”) is relevantly different from a computer. And the case involved rules of a game, which are also generally considered to be unpatentable per se, instead of a business method.

A. The form over substance issue for computer-implemented business methods

As the Full Court confirmed in *Grant v Commissioner of Patents* (“*Grant*”),⁷ business, commercial and financial schemes *as such* have never been considered to be patentable subject matter, although the Court emphasised that merely because an invention can be labelled a business method does not answer the issue of patentability.⁸

If business methods per se are not patentable subject matter, then should such methods be patentable if implemented using a computer?

Including a computer within a patent claim introduces a physical apparatus into the claimed combination, and there will be physical effects that take place within the computer, including when data is accessed, processed and stored in memory. A business method implemented using a computer therefore potentially addresses two considerations for patentability articulated by the High Court in *NRDC*:⁹

- the invention belongs to the “useful arts” as distinct from “fine arts” – its value is “in the field of economic endeavour”;¹⁰ and
- it may be argued that there is a relevant “artificially created state of affairs”¹¹ because of changes that occur within the computer itself.

But as the Full Court recognised in *Research Affiliates LLC v Commissioner of Patents* (“*Research Affiliates*”),¹² if the above two considerations were found to be sufficient indicia of patentable subject matter, it would render every business method patentable when implemented using a computer.¹³ Moreover, in practical terms, many business methods are only able to be commercially deployed using a computer, and so an inability to enforce a claim against someone using the method *without* using a computer may be commercially insignificant.

The Full Court in *Research Affiliates* said that it was necessary to consider issues of patentability as a matter of substance, not form,¹⁴ and concluded that the above incidental artificial effects within the computer, which *Research Affiliates* sought to rely on,¹⁵ did not result in the invention being a manner of manufacture. The relevant method, involving a method of indexing a particular weighting of assets within a portfolio, was implemented by a generic computer and did not result in any other artificial effect.

Whether business methods per se should be excluded from patentability is a distinct question, and one that is only likely to change with legislative intervention given common-law development to date. Putting that issue aside, the logic of the Full Court’s reasoning is compelling – it is difficult to see why the question posed in *NRDC* should receive a different answer based only on incidental physical effects within a computer, the relevant question being:

*Is this a proper subject of letters patent according to the principles which have been developed for the application of s. 6 of the Statute of Monopolies?*¹⁶

In framing the above question the High Court in *NRDC* expressly declined to limit the interpretation of section 6 by imposing the “fetters of an exact verbal formula”,¹⁷ and instead left the development of this concept to a common-law methodology of case-by-case development. The Court’s subsequent explication of “Morton’s ‘rule’”, by reference to whether there was an “artificially created state of affairs” in a field of economic utility, was not intended to propound such an “exact verbal formula”.

This guidance from the High Court emphasises the need to consider the particular factual context in which the High Court found there to be a **relevant** “artificially created state of affairs” in a field of economic endeavour. That artificial effect could be observed in the reduction of weeds among the crop that had been treated with the relevant known chemical compounds. That artificial effect was the commercially important outcome, or “product”,¹⁸ of the claimed method, and not some incidental effect.

A Full Court constituted by the same three judges as in *Research Affiliates* reaffirmed its approach the following year in *Commissioner of Patents v RPL Central Pty Ltd* (“*RPL*”),¹⁹ overturning the decision of the trial judge who had found that incidental physical changes in a computer were a relevant

“artificially created state of affairs”. For this invention, the computer played a more central role, in that it was integral in enabling the method to be performed²⁰ – here it was a method for gathering evidence relating to “recognition of prior learning” (hence the “RPL” name). The invention used a computer to retrieve from the internet assessable criteria for a qualification. The computer then processed those criteria to generate corresponding questions that would be presented to an individual who would complete responses about their skills, as well as upload files as part of their response.

The Full Court eschewed laying down any “precise guidelines” for assessing patentable subject matter,²¹ but, citing *Research Affiliates*, said that relevant considerations included whether the contribution was technical in nature, whether there was some improvement in the functioning of a computer, and whether something more than mere generic implementation of a method on a computer was involved.²² It found that the claimed method, while utilising the speed and processing power of a computer, nevertheless involved mere implementation of a business method using a computer.²³

In *Encompass Corporation Pty Ltd v Infotrack Pty Ltd* (“*Encompass*”)²⁴ a five-member Full Court considered and approved the principles articulated in *Research Affiliates* and *RPL*, and found that the claimed computer-implemented methods for collecting and displaying information about business entities were not patentable. The Court upheld the primary judge’s conclusion that the creation of network diagrams (to illustrate relationships between business entities) involved an artificially created state of affairs, but this did not affect their conclusion that the invention was nothing more than an implementation of an unpatentable method using a computer.²⁵ Those diagrams involved a particular representation of information, specific to a set of input data.

The Full Court also addressed the trial judge’s consideration of whether the claimed method involved an “improvement in the computer”. The Court explained that this language, which picked up on comments made in *Research Affiliates*, was looking to one possible way in which patentable subject matter might be found. It had not been used by the trial judge, nor in *Research Affiliates*, as a specific requirement for patentability.²⁶

In *Commissioner of Patents v Rokt Pty Ltd* (“*Rokt*”)²⁷ the Full Court upheld an appeal by the Commissioner, finding that the claimed computer-implemented method for presenting advertisements to a computer user was not a manner of manufacture. The trial judge had incorrectly found there to be an improvement in computer technology only in the sense that the computer, programmed to perform a new function, constituted an improvement (as would be the case for any new method).²⁸

The last Full Court decision in this series was *Repipe Pty Ltd v Commissioner of Patents*,²⁹ which involved a method

for sharing and completing workplace health and safety information using computers. The Full Court, in brief reasons, refused leave to appeal and rejected the argument that the use of mobile devices and a central server gave rise to something more than a mere implementation of a business scheme.

Before moving to the facts of *Aristocrat*, three earlier Australian decisions should be mentioned. The first is the Full Court's decision in *CCOM Pty Ltd v Jiejing Pty Ltd* ("*CCOM*"),³⁰ which related to a computer-implemented method of assembling Chinese characters for display and was found to be a manner of manufacture. The Full Court in *Grant* noted that this involved a "physically observable effect".³¹ It was, moreover, an effect that can be seen to relate to a more generalised operation of a computer. In particular for a Chinese speaker, the display of Chinese characters is necessary for a diverse range of functions of a computer. While the decision is therefore arguably consistent with the above Full Court decisions, the Court in *CCOM* also expressed approval of reasoning in earlier United Kingdom authority that appeared to support the patentability of computer-implemented inventions more generally.³²

In the earlier decision of *International Business Machines Corp v Commissioner of Patents*,³³ Burchett J of the Federal Court found that a claim to a computer-implemented method for producing an improved curve image on a computer screen was patentable. Again, that can be seen to produce a result that relates to the utility of a computer more generally.

The more difficult decision is *Welcome Real-Time SA v Catuity Inc*³⁴ where Heerey J of the Federal Court considered a claim to a method of providing coupons to customers based in part upon their accumulation of points, and partly on their frequency of use of a card, using algorithms running on one or more computers. Heerey J considered that this involved more than a mere computer implementation of a business method, and used a range of components including loyalty cards, and point-of-sale terminals. His Honour declined to form a view as to whether a physically observable effect was required for there to be a manner of manufacture but said that if it was then it was present in the printing of the coupon, and in the writing of new information to a file.

B. The issues raised by the facts in *Aristocrat*

The trial judge appeared to accept that the rules of a game are not patentable per se,³⁵ but considered that the claim was for a "mechanism of a particular construction, the operation of which involves a combination of physical parts and software to produce a particular outcome in the form of an EGM that functions in a particular way".³⁶

It can readily be seen that the same description would apply to a claim that had been drafted to a generic computer programmed to run a business method, although substituting the word "computer" with the word "EGM".

The Full Court upheld the Commissioner's appeal.³⁷ In doing so the Court found that an EGM is a computer,³⁸ and concluded that the claimed invention involved the mere implementation of an abstract idea by a computer.

Middleton and Perram JJ proposed analysing the issue of manner of manufacture by first considering whether the invention could be considered to be a "computer-implemented invention", and if so, whether it could broadly be described as an "advance in computer technology".³⁹ Nicholas J did not endorse the two-step approach of the majority, and considered that the required artificial effect could potentially be found other than by an "advance in computer technology", giving as a hypothetical example a computer-implemented scheme that made running a refrigerator more efficient.⁴⁰ It may be noted that, consistently with Nicholas J's views, the Full Courts in *Research Affiliates*, *RPL* and *Encompass* all supported the proposition that an advance in computer technology was *one* way in which patentable subject matter might be established. Nicholas J would have remitted the matter to the trial judge to consider whether the use of "configurable symbols" in the claim potentially made some relevant technical contribution to the field of gaming technology.⁴¹

The claimed invention in *Aristocrat* related to an EGM that would present a "feature game" or bonus game during a "base game" featuring digital spinning reels of a poker machine. The "game controller" of the EGM would monitor play, and if there was a "trigger event" it would initiate a feature game, or "free game". Integers 1.11 and 1.12 of claim 1 described the following operation of the game controller, using "configurable symbols" that could be assigned prize values:⁴²

(1.11) *conduct the free games on the display by, for each free game, (a) retaining configurable symbols on the display, (b) replacing non-configurable symbols by selecting, using the random number generator, symbols from a second set of reels defined by the symbol data for symbol positions not occupied by configurable symbols, and (c) controlling the display to display the symbols selected from the second set of reels, each of the second reels comprising a plurality of non-configurable symbols and a plurality of configurable symbols, and*

(1.12) *when the free games end, make an award of credits to the win meter or the credit meter based on a total of prize values assigned to collected configurable symbols.*

C. The 3:3 split in the High Court

Kiefel CJ, Gageler and Keane JJ (the "Kiefel Group"), delivering one judgment, would have dismissed the appeal, while Gordon, Edelman and Steward JJ (the "Gordon Group"), delivering a second joint judgment, would have allowed the appeal. This even split meant that the appeal was unsuccessful, so the result in the Full Court stands,

meaning that claim 1 is not to a manner of manufacture.⁴³ No binding precedent arises in respect of issues on which the High Court split.⁴⁴

Some areas of agreement

Both groups in *Aristocrat* treated previous Full Court decisions considering computer-implemented inventions as being correctly decided on their own facts (even if some aspects of their reasoning were criticised), including *CCOM*, *Research Affiliates*, *RPL*, *Encompass* and *Rokt*, as well as *Grant* (which did not directly consider a computer-implemented invention).⁴⁵

All judges agreed that a plan, a scheme, or set of rules for a game that is *merely* implemented on a computer does not involve a manner of manufacture.⁴⁶ However, if what is claimed involves a contribution to the operation of a computer, that may involve patentable subject matter.⁴⁷

Both groups recognised that, in assessing whether there was a manner of manufacture, it was important to properly characterise the invention that is described and claimed, assessed as a matter of substance, not form.⁴⁸ The two groups disagreed as to what that appropriate characterisation was for the claim before it, and how to approach that characterisation task.

Neither group endorsed the two-step test of Middleton and Perram JJ. The Kiefel Group thought that it “unnecessarily complicates”⁴⁹ the analysis, which should instead focus only on the proper characterisation of the invention. The Gordon Group similarly did not seek to support Middleton and Perram JJ’s test.

The approach taken by the Kiefel Group

In its substantive approach, the Kiefel Group’s analysis of the issue of manner of manufacture was consistent with that of the Full Court in *Research Affiliates*, *RPL*, *Encompass* and *Rokt*. The Kiefel Group commenced their analysis of the proper characterisation of the claimed invention by stating that, in accordance with the approach required by *Myriad*, it was necessary to characterise that claimed invention by reference to the terms of the specification, having regard to the substance of the claim considered in light of the common general knowledge (“CGK”).⁵⁰ Their Honours ultimately reached their conclusion that there was no manner of manufacture because they found that the invention related to a new game that was itself inherently unpatentable, and the claimed invention did not produce any *relevant* physical effect, or adaptation of or addition to technology, including in the computer itself (the EGM).⁵¹

The difficult aspect of the Kiefel Group’s reasoning was their apparent reliance on *NV Philips Gloeilampenfabrieken v Mirabella International Pty Ltd* (“*Philips*”).⁵² The Kiefel Group referred⁵³ to *Aristocrat*’s submission that the Full Court had wrongly conflated issues of lack of novelty

and lack of inventive step with the issue of manner of manufacture. Their Honours relied on *Philips* as authority for the proposition that novelty and inventive step considerations *can* be relevant to an assessment of manner of manufacture.⁵⁴ While that may be technically correct, in *Philips* those concepts were being directly employed, and not being used as a tool in a distinct piece of analytical reasoning.

The Kiefel Group then said that the “claimed invention takes its character as an *invention*, from those elements of the claim which are not common general knowledge”.⁵⁵ That statement of principle is problematic including because, taken at face value, it ignores the fact that there can be a valid claim to a combination of elements each of which is known as part of the CGK. However, read in context it appears that the statement was intended to direct attention to what features of an EGM relevantly differentiated the claimed invention from other EGMs forming part of the CGK (that is, from other well-known combinations of integers).

Their Honours’ suggestion can be seen to provide a useful *option* for commencing an assessment of manner of manufacture, but not a suitable test if it was intended to straitjacket the required analytical process. Insofar as it may be a useful tool, it is a sensible approach in looking for patentable subject matter to consider whether the features of a claim that the specification highlights as being new, or which can otherwise be seen to be new when compared with the CGK, are capable of providing a relevant technical advance that involves something more than a “mere” implementation of an unpatentable method (or game).

On the facts in *Aristocrat*, the Kiefel Group said that “the devising of a scheme or game for entertainment is [not] the invention of a manner of manufacture”,⁵⁶ and concluded that the claimed invention was:⁵⁷

no more than an unpatentable game operated by a wholly conventional computer,⁵⁸ using technology which has not been adapted in any way to accommodate the exigencies of the game or in any other way.

The approach taken by the Gordon Group

As noted above, the Gordon Group made clear that where the proper characterisation of a claim is one that “merely involves the use of a machine to manipulate an abstract idea”, there is no manner of manufacture. Their Honours approved the Full Court’s characterisations of the inventions in each of *Research Affiliates*, *RPL*, *Encompass* and *Rokt*.⁵⁹

The Gordon Group noted the reference in some of those cases to the Court’s consideration of whether there had been an “improvement in computer technology”, and said that the better way of assessing the issue was to ask whether an “artificial state of affairs and a useful result” has been produced. They said that the artificial state of affairs could, but need not, be an improvement in computer technology.⁶⁰ As discussed above, it is not clear that the Full Court had

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said anything different in the earlier line of authority referred to, although with the qualification that not every “artificial state of affairs” will be relevant or sufficient.

In finding that the claimed invention involved a manner of manufacture, the Gordon Group appeared to be strongly influenced by their assumption that a game may be patentable if it involves the use of physical components. Their Honours cited⁶¹ a single authority for that proposition: a 1953 decision of Lloyd-Jacobs J, *Re Cobianchi’s Application*,⁶² which held that a claim to a “pack of Canasta cards” having certain specified markings was capable of being a manner of manufacture. While the plurality sought to elevate the status of that decision by noting that Lloyd-Jacob J was “the first specialist British patent judge”, the judgment in that case ran to a single page, cited no authority, and involved only limited reasoning. That case was not addressed by any of the parties in their written or oral submissions, but had been cited by the Full Court in *Aristocrat*,⁶³ which was the first Australian decision to cite it.⁶⁴ Moreover, the case involved a claim to a pack of cards per se, and not a game involving the use of that new pack of cards.

Middleton and Perram JJ had cited *Re Cobianchi’s Application*, as well as two other Australian Patent Office decisions, for the proposition that physical apparatus for games “may” be patentable.⁶⁵ The first of those Office decisions, *Re Peter Szabo and Associates Pty Ltd*,⁶⁶ was a case predating *Grant* and considered claims to a business method. While the delegate said that board games may be patentable, that statement was made without reference to authority, and in the same sentence the delegate said that software was patentable.⁶⁷ The second decision, *A Couple’a Cowboys Pty Ltd v Ward*,⁶⁸ was a decision relating to a claim to a game comprising a board, playing pieces, and a video or audio tape to provide directions. The delegate found that there was *no* manner of manufacture.

The Gordon Group next cited the Commissioner’s acceptance in argument that the game of Monopoly was patentable subject matter being “embodied in a physical form such as a designed cardboard board, dice, and playing characters”.⁶⁹ The transcript does not disclose clear acceptance by the Commissioner of that proposition, and there is no case law in Australia that requires such a conclusion.

It is this assumption as to the patentability of a game that is played using “physical materials”⁷⁰ that appears to underpin the Gordon Group’s view as to the proper characterisation of the invention claimed by *Aristocrat*, leading to their conclusion that the claim was to a manner of manufacture.

The Gordon Group raised at the outset of their judgment that in the 21st century, the fact that digital images could be generated by complex software and hardware should not change the analysis of patentability.⁷¹ Later in their judgment, after referring to the supposed patentability of

board games, they said:⁷²

In the 21st century, it would be absurd if the application of this principle were any different where the idea of the game is combined with a digital representation rather than a cardboard representation of the game.

So, just as courts have rejected the suggestion that a scheme or plan can become patentable *merely* because it is implemented in a computer, the Gordon Group reasoned that if a game involving physical materials is patentable subject matter, that conclusion should not change *merely* because it is implemented in an equivalent manner using a computer.

The patentability of games is unclear and, as noted above, there is only very limited case law. A 2020 article by Dr Mark Summerfield concluded that the approach of the Australian Patent Office in examining such applications has moved away from accepting such subject matter as being patentable.⁷³

It appears that the issue that actually lies at the heart of the split in *Aristocrat* is the patentability of games that involve physical components (or their digital equivalents), yet unfortunately there was no real analysis of that issue, and no submissions were directed to it. This is unfortunate since there must be real doubt about whether games, including a game such as Monopoly, involve patentable subject matter. If the relevant useful effect is one of entertainment, then what differentiates a board game from a novel or a movie? Or, if it be a relevant distinction, a “choose your own adventure” style novel?

It should also be noted that while the Gordon Group saw an analogy between the claimed invention and rules of a game that used physical components, the claim in suit defined any such game at a high level of abstraction (see integer 1.11 quoted above).

In their concluding paragraph, the Gordon Group explained that it was the interdependence of the game controller, which “includes⁷⁴ feature games and configurable symbols”, and the player interface, which then displayed relevant elements, that was critical to the invention as claimed, and resulted in a manner of manufacture.⁷⁵ But any computer involves an equivalent interaction between its components, including the central processing unit, graphics card and display, and the software run on it will usually affect what is displayed. The Gordon Group’s intended differentiation from the facts and analysis of previous Full Court cases is unclear.

A note about the counterfactual of a wholly mechanical gaming machine

The Gordon Group raised the counterfactual of a mechanical gaming machine in support of their conclusion, and reasoned that:

- (1) a mechanical gaming machine (using cogs, reels and motors) *must* be a manner of manufacture; and
- (2) the position should not logically be any different merely because the same functionality can now be achieved using an EGM, rather than mechanically.⁷⁶

This logic disregards that a computer itself is no less a manner of manufacture than a mechanical gaming machine. It is the fact that a computer can be used to process a series of logical statements, so as to *implement* a plan or a scheme, that has resulted in courts adopting the approach of analysing manner of manufacture only once the proper characterisation of the invention has been determined.

If, hypothetically, it were routine to vary a mechanical gaming machine in a trivial way to implement a different game, then the analogy with a computer may then apply. The Kiefel Group addressed this as follows (although their reasoning was potentially affected by their view about the role of *Philips*, discussed above):⁷⁷

It may readily be accepted that on the first occasion a mechanical poker machine was invented, it was patentable. But a later model of the same machine would not have been patentable simply because it allowed a new variant of poker to be played. That difference would not have relevantly differentiated it from the prototype.

The Gordon Group appeared to recognise this same logic when they said that if a computer or “any other machine” merely manipulated an abstract idea without creating an artificial state of affairs (and a useful result) then there would not be patentable subject matter.⁷⁸

The mechanical gaming machine reference illustrates the difficulties with analogies. It may be that achieving a new outcome with a mechanical gaming machine requires ingenuity in the mechanical design of the machine – *that* would involve a manner of manufacture. But if instead, in the above *hypothetical* scenario, such a machine can be readily adjusted in a manner that has an equivalence to the reprogramming of an EGM (or a computer), then that should give rise to similar issues (and difficulties) in assessing whether there is a manner of manufacture, assessed as a matter of substance, rather than somehow suggesting the correct resolution of that issue.

D. Patentability of computer-implemented inventions

The common law development of the concept of a “manner of manufacture” has resulted in the exclusion of business, commercial and financial methods and schemes from patentability. That exclusion was confirmed by all High Court judges in *Aristocrat*, and it follows that legislative intervention would likely be required to change that position. The position in relation to rules of a game, when claimed by reference to physical components (or their digital equivalents), remains unclear, and to date has not been the

subject of considered judicial analysis in Australia, including, if necessary, by reference to the expanded indicia or factors suggested by the plurality in *Myriad*.⁷⁹

The common-law development of the concept of a “manner of manufacture” has also excluded business methods and schemes (and rules of a game) that are “merely” implemented in a computer. The logic of that development is attractive, and was approved by all High Court judges in *Aristocrat*.

That development recognises that an assessment of “manner of manufacture” requires an understanding of the substance of the claimed invention, and not merely its form – in *Aristocrat* the High Court described this as “characterising the invention”.⁸⁰ Any conclusion that there has been “mere” implementation of an unpatentable method in a computer will require looking past the form of a claim that may be to a device (usually a computer) that operates in a particular way, or a method of using such a device. It also necessarily involves taking certain knowledge into account, namely the existence and function of a computer. All members of the High Court in *Aristocrat* considered that, analogously, the existence and function of a generic EGM can be taken into account.⁸¹ In both cases the justification for considering that information is that it forms part of the CGK.

A claimed invention generally involves a solution to a problem.⁸² Insofar as the indicia from *NRDC* of an “artificially created state of affairs” is to be used, then that involves looking to what the solution produces. The High Court in *NRDC* noted that on the facts before it, the method had “**as its end result** an artificial effect” [emphasis added].⁸³ That provides a relevant point of focus for assessing whether an invention is a “manner of manufacture”, as part of the required characterisation process.⁸⁴ If there is an artificially created state of affairs, it may still be necessary to consider whether that state of affairs is sufficiently related to the solution, or end result, provided by the invention as claimed, and also to consider the nature of that end result.⁸⁵

The fact that the analysis of patentability for computer-implemented inventions may be more involved than for other subject matter does not mean that such inventions are being treated differently in the sense that different principles are being applied. The facts in such cases involve greater complexity in assessing whether any artificially created state of affairs is sufficiently closely connected with the claimed invention. While the facts of a particular case may result in a challenging analysis, that is a common experience when applying many legal tests including, for example, inventive step or entitlement. No doubt even more challenging cases will arise for consideration, as part of the ongoing common-law development in this area.

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- 1 Barrister, Castan Chambers.
- 2 (2022) 168 IPR 1 (“*Aristocrat* High Court”).
- 3 21 Jac 1 c 3. See ss 4, 7, 56 and 86 *Patents Act* 1903 (Cth), ss 6, 48, 59(F) and 100(1)(d) *Patents Act* 1952 (Cth), and ss 18(1) and (1A), 45, 59 and 138(3)(b) and Schedule 1 *Patents Act* 1990 (Cth).
- 4 (1959) 102 CLR 252 (“*NRDC*”).
- 5 (2013) 103 IPR 217.
- 6 (2015) 258 CLR 334 (“*Myriad*”).
- 7 (2006) 154 FCR 62 (“*Grant*”), [14], citing *CCOM Pty Ltd v Jiejing Pty Ltd* (1994) 51 FCR 260 (“*CCOM*”), 292.
- 8 *Grant*, [26].
- 9 See also *Myriad*, [28].
- 10 *NRDC*, 275.
- 11 *NRDC*, 277.
- 12 [2014] FCAFC 150 (“*Research Affiliates*”).
- 13 *Research Affiliates*, [113].
- 14 *Research Affiliates*, [106].
- 15 *Research Affiliates*, [85], [102].
- 16 *NRDC*, 269.
- 17 *NRDC*, 271.
- 18 Interpreting the word “product” as Morton J had used that term in *Re G.E.C.’s Application* (1942) 60 RPC 1 in stating that a method or process is a manner of manufacture if it results in a “vendible product”, 271.
- 19 (2015) 238 FCR 27 (“*RPL*”).
- 20 *RPL*, [50] and [51], referring to the trial judge’s finding.
- 21 *RPL*, [98].
- 22 *RPL*, [99].
- 23 *RPL*, [110].
- 24 (2019) 372 ALR 646 (“*Encompass*”).
- 25 *Encompass*, [99]–[104].
- 26 *Encompass*, [107]–[110].
- 27 277 FCR 267 (“*Rokt*”).
- 28 *Rokt*, [96]–[98].
- 29 (2021) 164 IPR 1.
- 30 (1994) 51 FCR 260.
- 31 (2006) 154 FCR 62 (“*Grant*”), [20].
- 32 *CCOM*, 512–13, citing *International Business Machines Corp’s Application* [1980] FSR 564.
- 33 *International Business Machines Corp v Commissioner of Patents* (1991) 33 FCR 218.
- 34 (2001) 113 FCR 110.
- 35 *Aristocrat Technologies Australia Pty Ltd v Commissioner of Patents* (2020) 153 IPR 11 (“*Aristocrat* Federal Court”), [95], although referencing a “mere scheme or plan”.
- 36 *Aristocrat* Federal Court, [95].
- 37 *Commissioner of Patents v Aristocrat Technologies Australia Pty Ltd* (2021) 286 FCR 572 (“*Aristocrat* Full Court”).
- 38 *Aristocrat* Full Court, [30]–[34] per Middleton and Perram JJ, [138] per Nicholas J.
- 39 *Aristocrat* Full Court, [26].
- 40 *Aristocrat* Full Court, [120].
- 41 *Aristocrat* Full Court, [143].
- 42 Claim 1 is set out in full in *Aristocrat* High Court, [11].
- 43 Section 23(2)(a) *Judiciary Act* 1903 (Cth). Burley J must now consider whether the balance of the claims in suit are to a manner of manufacture.
- 44 See *Harvard Nominees Pty Ltd v Tiller* (2020) 282 FCR 530, [55].
- 45 *Aristocrat* High Court, [22]–[29], [121]–[124].
- 46 *Aristocrat* High Court, [22], [24], [75]–[77], [121]–[122].
- 47 *Aristocrat* High Court, [25], [27], [77], [122].
- 48 *Aristocrat* High Court, [73], [101]–[103].
- 49 *Aristocrat* High Court, [77].
- 50 *Aristocrat* High Court, [73], [77].
- 51 *Aristocrat* High Court, [75]–[76].
- 52 (1995) 183 CLR 655 (“*Philips*”). See also *Bristol-Myers Squibb Co v FH Faulding & Co Ltd* (2000) 97 FCR 524 for a discussion about the uncertain scope of the guidance provided by *Philips*.
- 53 *Aristocrat* High Court, [53], [65] and [69].
- 54 *Aristocrat* High Court, [66]–[72].
- 55 *Aristocrat* High Court, [73]. Emphasis in original.
- 56 *Aristocrat* High Court, [63].
- 57 *Aristocrat* High Court, [76].
- 58 The Full Court had made this finding at *Aristocrat* Full Court, [30]–[34], [138].
- 59 *Aristocrat* High Court, [121]–[122]. Their Honours also included *Grant* in this list, but it did not involve a computer-implemented invention.
- 60 *Aristocrat* High Court, [122].
- 61 *Aristocrat* High Court, [118].
- 62 (1953) 70 RPC 199. The Kiefel Group also referenced *Re Cobianchi’s Application*, at *Aristocrat* High Court, [40], footnote 69, but did not directly address it.
- 63 *Aristocrat* Full Court, [16].
- 64 It has been cited in a number of Australian Patent Office decisions.
- 65 *Aristocrat* Full Court, [16].
- 66 (2005) 66 IPR 370, [38].
- 67 (2005) 66 IPR 370, [44].
- 68 (1995) 31 IPR 45.
- 69 *Aristocrat* High Court, [119]. There was also no elaboration as to whether any patent claims would have needed to have been drafted to as to encompass a set of associated rules of the game.
- 70 *Aristocrat* High Court, [118].
- 71 *Aristocrat* High Court, [97].
- 72 *Aristocrat* High Court, [119].
- 73 Mark Summerfield, ‘Games – Now Less Patentable than Ever in Australia’, *patentology* (Blog Post, 30 October 2020) <<https://blog.patentology.com.au/2020/10/games-now-less-patentable-than-ever-in.html>>.
- 74 Contrast the actual language of the claim in suit, at [11], which makes clear that it is the execution of the “game program code” by the “game controller” that triggers a “feature game” and which causes the “display” to show the relevant symbols.
- 75 *Aristocrat* High Court, [154].
- 76 *Aristocrat* High Court, [96]–[97].
- 77 *Aristocrat* High Court, [44], footnote omitted.
- 78 *Aristocrat* High Court, [153].
- 79 *Myriad*, [28].
- 80 *Aristocrat* High Court, [73], [101]. The same terminology was used in *Myriad*, including at [83], [86] and [87].
- 81 *Aristocrat* High Court, [73], [75], [145].
- 82 See *Lockwood Security Products Pty Ltd v Doric Products Pty Ltd (No 2)* (2007) 235 CLR 173, [105].
- 83 *NRDC*, 277. See also *Myriad* at [6] and [28], referring to an “outcome” that can be characterised as an “artificially created state of affairs”.
- 84 Although note the Full Court’s approach in *Ariosa Diagnostics, Inc v Sequenom, Inc* (2021) 159 IPR 371, [159] – the end result was information, but the process of analysing a blood sample involved artificial steps being taken.
- 85 See also *Research Affiliates*, [115]. In *Encompass*, the diagrams that were produced were an artificially created state of affairs, but the Court did not find that that resulted in a manner of manufacture. While this aspect was not reasoned, it may be noted that the diagrams were a presentation of information, specific to the input data in each case.

A Judge's Breakfast: Legal Tests for the Liability of Directors in IP Infringements

David Kwei¹

Abstract

When a company infringes the intellectual property of another, when should its directors also be personally liable? The law relating to concurrent tortious liability provides one route to directorial liability, but in 2005 Wilcox J described this area as being “in some disarray”.² Unfortunately, the law remains – if not quite a *dog's* breakfast – unclear and poorly adapted to the task at hand. As a result, the jurisprudence offers practitioners little real guidance, and exposes courts to the criticisms of legal realists that “justice is what the judge ate for breakfast”.

Introduction

Where two or more wrongdoers inflict the same damage on an innocent party, both of those wrongdoers may be held liable for the joint commission of the wrongful acts as “joint tortfeasors” providing they have taken “concerted action to a common end”.³ Infringements of IP rights such as registered trade marks, copyright, patents and designs are forms of statutory tort, and the common law principles as to liability of joint tortfeasors are applicable to such cases.⁴

For a tort to be committed jointly, there must be a “concurrence in the act or acts causing damage, not merely a coincidence of separate acts ...”.⁵ This raises particular considerations with respect to companies and their directors or other officers. Given that a company is, by definition, incorporeal, it can only act through its agents, officers and directors.⁶ Therefore, when a director causes a company to act in a particular way (including to commit a tort), the act will usually be seen as that of the company alone, and not of the company and the director together.⁷

In essence, the question of a director's personal liability requires the weighing of two conflicting normative values:⁸

- that an incorporated company is separate and distinct in law from its shareholders, directors, and office holders, and this separation should shield those people from personal liability; and
- that people should be answerable for their own tortious acts.

The law starts with the proposition that a director should not be personally liable as a joint tortfeasor unless there are specific circumstances which justify the opposite conclusion.⁹ Therefore, to decide these cases, judges must form a view on the nature and extent of the director's conduct and determine whether it transgresses a moral or ethical boundary that justifies the displacement of one normative value with another.

This article examines the three main tests propounded by the courts to determine this question. It argues that one of the tests is clear and easy to apply, but does not strike the appropriate policy balance. In contrast, other tests are so flexible that they increase the risk of decisions being based on subconscious or idiosyncratic notions of fairness that are not fully understood, let alone articulated. As such, they provide little real guidance to litigants. Finally, it suggests an alternative approach which avoids these problems, and has been adopted in at least one case.

The nature of the problem

Cases which require the choice between normative values are inherently challenging for common law judges, who must strive to put aside their personal views and judge cases impartially and free from predilections. Those from the legal formalist school hold that judges are more than capable of meeting this challenge – of applying legal reasons to the facts in a rational, mechanical, and deliberative manner.¹⁰ Formalists do not deny the difficulty of that task but hold that true objectivity is achievable. Beverley McLachlin PC, former Chief Justice of Canada, stated as follows:¹¹

The judge, as we all know, must be impartial in fact and perception.

... Often, the judge will have strong personal views on questions which a judge is asked to decide: ... But the task of judging is not accomplished simply by plugging one's personal views into the legal equation; the judge must strive for objectivity.

In contrast to the formalists, those from the legal realist school argue that non-legal considerations, including psychological, political and social factors inevitably influence decisions.¹² While realists would not contend that (to paraphrase McLachlin CJ) judges simply “plug [their own] personal views into the legal equation”, they recognise that extra-legal factors can and do impact decisions. Lady Brenda Hale, former Law Lord and Deputy President of the Supreme

Court of the United Kingdom, has noted that “everybody comes to the task with a set of values and perspectives that may lead you to pick different bits of the materials to reason towards an outcome”, and that “the impact of background and perspective on judicial decision making is particularly relevant in close cases where the legal principle[s] themselves permit more than one acceptable answer ...”. Her Ladyship argued that in such cases the decision “is likely to be motivated at a far deeper level by the judge’s own approach to the law, to the problem under discussion and to ideas of what makes a just result”.¹³

Judges, like all of us, are only human, and studies conducted over the last two decades have exposed just how deep those levels of motivation may be. For example, a famous empirical study tested the realist school aphorism that justice is “what the judge ate for breakfast”.¹⁴ The study examined over 1,100 decisions of eight highly experienced judges in parole board decisions over a 10-month period. The authors also recorded the judges’ two food breaks, which produced three distinct “decision sessions” per day. They found that the percentage of favourable rulings dropped gradually from 65 per cent to nearly zero in each decision session and concluded that judicial rulings can be swayed by extraneous extra-legal variables such as mental freshness and glucose levels after meals. What (if anything) judges eat for breakfast may indeed have a bearing on their decisions.

Another study from 2006 suggests less startling but equally important conclusions. It used statistical analysis to assess 292 United States federal district court decisions.¹⁵ Each decision concerned the likelihood of consumer confusion in trade mark infringement cases by reference to a range of factors which included the similarity of the marks, the proximity (or relatedness) of the goods, evidence of actual confusion, the strength or inherent distinctiveness of the plaintiff’s mark, and the intention of the defendant among other factors. Despite assertions that no single factor is dispositive, “the data suggest that judges determine the test outcome based on a limited number of core factors, and then adjust the rest of the factor outcomes to accord with that result”.¹⁶ The authors identify “a picture of legal multifactor decision making in which certain factors drive the outcome and the rest of the factors subsequently fall in line to support that outcome”.¹⁷

These and similar studies do not suggest that judges lack good faith in their reasoning.¹⁸ However, they do suggest that we need to think carefully about how legal tests are constructed and then applied in practice: that we ensure they are used to assist in the decision-making process rather than to justify legal reasoning retrospectively, and that they help to elucidate rather than obscure the true reasons for decisions.

Courts have developed at least three discernible tests for assessing whether a director’s involvement justifies personal

liability. This article examines these tests with the above observations in mind.

The Performing Right Test

Explanation of the Test – procuring or directing the tort

In *Performing Right Society Ltd v Caryl Theatrical Syndicate Ltd*,¹⁹ (“*Performing Right*”), Atkin LJ considered whether a Mr Faraday, the shareholder and managing director of the defendant company should be personally liable for a copyright infringement. The company was the lessee of a theatre, and the director had arranged for a bandmaster to engage and direct performances by musicians at the theatre. The band infringed the copyright in the plaintiff’s works on two occasions in the absence, and without the knowledge, of the managing director. In holding that the director was not personally liable, his Lordship quoted the following passage from the judgment of Lord Buckmaster in *Rainham Chemical Works v Belvedere Guano Co*:²⁰

If a company is formed for the express purpose of doing a wrongful act or if, when formed, those in control expressly direct that a wrongful thing be done, the individuals as well as the company are responsible for the consequences, but there is no evidence in the present case to establish liability under either of these heads.

Atkin LJ then enunciated the following test (the “*Performing Right Test*”):²¹

*Perhaps that is put a little more narrowly than it would have been if it had been intended as a general pronouncement without reference to the particular case; because I conceive that express direction is not necessary. If the directors themselves **directed or procured** the commission of the act they would be liable in whatever sense they did so, **whether expressly or impliedly**. [Emphasis added]*

Atkin LJ’s reasoning has been summarised in terms of three limbs:²²

The directors of a company are not personally liable for infringements by the company, even if they are managing directors or the sole directors and shareholders, unless either (1) they have formed the company for the purpose of infringing; or (2) they have directly ordered or authorised the acts complained of; or (3) they have so authorised or ordered by implication.

Curiously, the *Performing Right Test* contains a lacuna in that none of the limbs explicitly refer to a director who personally carries out the acts which constitute the infringing conduct rather than simply ordering, authorising or procuring those acts. However, perhaps unsurprisingly, defendants do appear to have exploited this lacuna to escape liability.

The first limb of the *Performing Right Test* involves ascertaining the identities of the founders of the company, and then determining their intentions or motivations when forming the company. This limb is therefore akin to criminal

offences where it is necessary to establish both *actus reus* and *mens rea*. In contrast, the second and third limbs are solely concerned with whether the directors order or authorise the relevant acts, whether explicitly or implicitly. These limbs are only concerned with the physical actions taken – the *actus reus* so to speak – and are therefore akin to strict liability offences.

Although the first limb of the *Performing Right Test* does require consideration of the director's state of mind, the scope for doing so in practice is limited. Companies are formed for many reasons, including asset protection, tax planning, investment readiness, and the desire to divide ownership between founders or investors in specific proportions. Even if one purpose for forming the company was to infringe the plaintiff's rights, this is extremely difficult to prove. Therefore, the second and third limbs are much more likely to be invoked by plaintiffs, which effectively renders the *Performing Right Test* a type of civil law "strict liability" test for defendants.

Critique of the Performing Right Test

While the *Performing Right Test* has been described as "reasonably clear",²³ it has come under increasing criticism. In *King v Milpurrurru*, Beazley J stated:²⁴

I do not consider that the principles stated in the Performing Right Society case pay sufficient regard, either to the separate legal existence of the company, or to the fact that the company acts through its directors. Nor do I find the language used sufficiently describes the need to find conduct over and above that engaged in as part of the management of the company to find a director personally liable for the tortious conduct of the company.

In other words, the bar set by the *Performing Right Test* may be too low. This point is most obviously illustrated in the case of a one-person company which can only act through its director. The *Performing Right Test* would "go near to imposing personal liability in every case".²⁵ While some Australian judges see no problem in principle with that consequence,²⁶ others have recognised the force of the criticism without going so far as to doubt or overrule the test.²⁷

Nevertheless, the problem is not confined to one-person corporations, as demonstrated by the facts of *Australian Postal Corporation v Digital Post Australia* ("*Digital Post Australia*").²⁸ The respondent company ("DPA"), was a joint venture between the large listed Australian companies Computershare Limited and Salmat Limited, and an American startup by the name of Zumbox Inc.²⁹ It was formed to deliver digital postal mail in Australia. The DPA board engaged solicitors to provide advice on the potential use of the mark "Digital Post Australia" among others. The solicitors noted the existence of the registered trade mark "AUSTRALIA POST" but advised that this would

not prevent the use or registration of the proposed mark. Despite this, they also warned that Australia Post might still take action. The court accepted that the Chairman of DPA's board was aware of the "AUSTRALIA POST" mark, but that he chose the name without an intention to deceive, or to make use of the goodwill of another trader.³⁰

Digital Post Australia was not a case in which the directors in their capacity were sued for concurrent tortious liability. The unusual amount of evidence about the directors' intentions and motivations, and the legal advice obtained were actually adduced by DPA in support of the good faith defences under ss.122(1)(a)(i) and (122(1)(b)(i) of the *Trade Marks Act 1995* (Cth). Ultimately, the advice received from the solicitors proved to be correct, and DPA was found not to have infringed the "AUSTRALIA POST" mark. Nevertheless, unlike the managing director in *Performing Right*, the Chairman directed or procured the choice of the mark – the act that formed the basis of the alleged infringement. This satisfies the second limb of the *Performing Right Test* and would have exposed him to liability on that basis if his solicitors' advice had not been correct.

Although this is a natural and direct result of the application of the *Performing Right Test*, most company directors and legal practitioners would be surprised at this result. While not entirely without fault, directors who act honestly, not intending to benefit from the goodwill of another trader, and who obtain "freedom to operate" clearances from suitably qualified lawyers are nearly free from blame, yet they are still caught in the web of personal liability by the *Performing Right Test*. It seems perverse that directors who take positive steps to ensure that their companies do not contravene third party rights could lose the immunities conferred by incorporation if those steps prove to be ineffective. A similar (although admittedly less compelling) argument might also be made in respect of directors who cause their companies to infringe through carelessness – perhaps by failing to research the market or failing to obtain legal advice. The exposure of "near-innocent" or merely careless directors to potentially significant financial liability lends weight to Beazley J's criticism that the *Performing Right Test* does not "pay sufficient regard, either to the separate legal existence of the company, or to the fact that the company acts through its directors",³¹ and it is clear that the problem identified is not confined to one-person companies.

The Mentmore Test

Explanation of the Test – making the tortious act one's own

An alternative test for a director's personal liability (the "*Mentmore Test*") is set out in the Canadian case of *Mentmore Manufacturing Co, Ltd v National Merchandising Manufacturing Co Inc* ("*Mentmore*").³² In that case, a company was found to have infringed a Canadian Patent (for a retractable ball-point pen) which was owned by the

plaintiff. The plaintiff alleged that the company's principal shareholder and president, Mr Goldenberg, was a joint tortfeasor, and the court found that Mr Goldenberg gave directives that resulted in the assembly and sale of some of the infringing goods.³³ In holding that Mr Goldenberg was not personally liable, Le Dain J stated the following:³⁴

*It would appear to be that degree and kind of personal involvement by which the director or officer **makes the tortious act his own**. It is obviously a question of fact to be decided on the circumstances of each case. I have not found much assistance in the particular case in which Courts have concluded that the facts were such as to warrant personal liability. But there would appear to have been in these cases a **knowing, deliberate, wilful quality to the participation**.*

...

*I do not think we should go so far as to hold that the director or officer must know or have reason to know that the acts which he directs or procures constitute infringement. That would be to impose a condition of liability that does not exist for patent infringement generally. ... But in my opinion there must be circumstances from which it is reasonable to conclude that the purpose of the director or officer was not the direction of the manufacturing and selling activity of the company in the ordinary course of his relationship to it but the **deliberate, wilful and knowing pursuit of a course of conduct that was likely to constitute infringement or reflected an indifference to the risk of it**. The precise formulation of the appropriate test is obviously a difficult one. [Emphasis added]*

In the English case of *White Horse Distillers Ltd v Gregson Associates Ltd*,³⁵ Nourse J applied the *Mentmore Test*, summarising it as follows:

Before a director can be held personally liable for a tort committed by his company he must not only commit or direct the tortious act or conduct but he must do so deliberately or recklessly and so as to make it his own, as distinct from the act or conduct of the company. It is unnecessary for him to know, or have the means of knowing, that the act or conduct is tortious [as that would be to impose a condition of liability that does not exist for patent infringement generally]. It is enough if he knows or ought to know that it is likely to be tortious. The facts of each case must be broadly considered.

...

As for deliberateness or recklessness and knowledge or means of knowledge that the act or conduct is likely to be tortious, I think that these may on examination be found to be no more than characteristic, perhaps essential, elements in the director's making the act or conduct his own.

In *Performing Right*, the copyright infringement was committed without the knowledge of the director, Mr Faraday. The director in *Mentmore* (Mr Goldenberg) went

much further, by actually issuing directives that resulted in the patent infringement. As such, he would clearly have satisfied the second limb of the *Performing Right Test*, but he nevertheless escaped liability under the *Mentmore Test*. The requirement for there to be "knowing", "deliberate" or "wilful" participation means that the *Mentmore Test* is recognised as positing a higher test than the *Performing Right Test*:³⁶ one more akin to a criminal law offence requiring both *actus reus* and *mens rea* than an offence of strict liability.

In *Root Quality Pty Ltd v Root Control Technologies Pty Ltd* ("*Root Quality*"),³⁷ Finkelstein J elaborated on the mental element of the *Mentmore Test*, holding that:³⁸

*If a director **deliberately takes steps** to procure the commission of an act which the director **knows is unlawful** and procures that act for the purpose of causing injury to a third party, then plainly it is just that liability should be imposed upon him. **Lesser conduct may suffice**. For example, if the director is **recklessly indifferent** as regards whether his company's act was unlawful and would cause harm, that may also suffice. In the end it will depend upon the facts of each particular case. Where the boundary lies, between the non-tortious conduct of a director who acts bona fide within the course of his authority and the tortious conduct of a director who acts deliberately and maliciously to cause harm, cannot be stated with any precision. [Emphasis added]*

The above passage was later quoted with approval and followed by the Full Court of the Federal Court in *JR Consulting v Cummings* ("*JR Consulting*"),³⁹ and the idea that lesser conduct such as reckless indifference may suffice has been endorsed on many occasions.⁴⁰

Critique of the Mentmore Test

The *Mentmore Test* has also received its fair share of criticism. It has been criticised for introducing "considerations of policy ... that are capable of overriding the basic principles of liability in any particular case",⁴¹ however legal realists and many modern formalists would argue that this is one of the strengths of that test.

In *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd*,⁴² Wilcox J commented "[m]y difficulty is that ... I am not sure what that test means". His Honour was echoing the criticisms of Lindgren J in *Microsoft Corporation v Auschina Polaris Pty Ltd*, who stated "[w]ith respect, I do not find the formula, 'making the tortious act his own', particularly illuminating ...".⁴³ The problem with the test may be that its logic is circular. In *Keller v LED Technologies Pty Ltd* ("*Keller*"),⁴⁴ Jessup J, specifically endorsed *Mentmore*,⁴⁵ and posed the following question:⁴⁶

It has likewise been observed on occasion that there is no reason why a person should be immune from liability, pursuant to general rules of the kind to which I have

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referred, merely because he or she happens to be a director of the company which is the direct wrongdoer. This seems clear as a matter of principle, but there is a sense in which it goes no further than to beg the question in a situation in which the director himself or herself was the human agency through which the company acted in committing the wrong. ... What is it about the position of the director whose actions have caused the company to commit the wrong which should make him or her liable in addition to the company?

His Honour continues by discussing the question as follows:⁴⁷

I believe that the answer lies in the application of the conventional rules of law as to joint liability to the particular circumstance where the primary wrongdoer is an artificial person who can act only by human agency. Each of the two main conventional rules to which I have referred – directing another to commit a tort and participation in a joint enterprise – requires, or at least assumes, a duality (or multiplicity) of actors. [Text omitted but discussed below.] ... [U]nless the director is conceptually separate from the company, there is, it seems to me, no “jointness” about the enterprise at all, but merely a one-person wrong in which the company is actor.

The passages appearing above read as damning indictments of the *Mentmore Test* rather than a defence of it. For Jessup J, the answer to the question of joint tortious liability “lies in the application of the conventional rules of law” which require or assume “a duality (or multiplicity) of actors”, but his Honour also recognises the inescapable fact that this “beg[s] the question” because the director himself or herself may be “the human agency through which the company acted in committing the wrong”. In his Honour’s mind, the conundrum is resolved by applying the concepts omitted from the above passage, namely:

For a director to be liable because he or she directs or procures his or her company to commit a wrong, the context must be such that the director is effectively standing apart from the company and directing or procuring it as a separate entity. There must be a sense in which the director is using the company as the instrument of his or her own wrong.

However, with respect, this takes us no further towards answering the question. The requirement for the judge to have a “**sense** in which the director is using the company as the instrument of his or her own wrong” [emphasis added] is so amorphous that it literally invites judges to use their intuitive sense of moral propriety to decide the question of the director’s concurrent liability. This gives litigants who are also legal realists real cause to wonder what the judge had for breakfast before making that crucial decision.

The difficulties of such a flexible standard can be demonstrated by reference to the facts in two Full Federal Court decisions: *Keller*,⁴⁸ and *JR Consulting*.⁴⁹

In *JR Consulting*,⁵⁰ the relevant company, SFSI, was found to have infringed the copyright in a software product known as QSS by granting sub-licences of that software to its customers without the permission of the copyright owner. The relevant director, a Mr Pacione, was directly engaged in licensing the QSS product to his company’s customers while knowing that his company had no right to do so. Mr Pacione was held to be personally liable because “he, together with SFSI invaded the rights of the copyright owner by enabling reproduction and communication of versions of QSS to customers of SFSI and thus Mr Pacione was a joint tortfeasor with SFSI”.⁵¹

In *Keller*, Mr Keller was a director, and was one of the “bosses” of Ren International Pty Ltd. His company was held to have infringed certain registered designs relating to the rear lights of motor vehicles. Mr Keller had designed the infringing products, having had personal knowledge of the designs before doing so. He was also involved in the manufacture, importation and sale of the infringing products. At first instance, Gordon J held Mr Keller liable as a joint tortfeasor, but this decision was overturned by the Full Court on appeal. In his judgment, Jessup J held that a director should only be liable if:⁵²

*... there was a dimension to his or her role which was separate from the **good faith discharge** of his or her duties in the service of the company. If so, there will be a basis, in accordance with general principles, for making the individual liable because he or she was involved in a joint, wrongful, enterprise with the company. [Emphasis added]*

While not identical, the level of involvement of the directors in *Keller* and *JR Consulting* is comparable. Each director sold or licensed the infringing products despite knowledge of the applicant’s rights. However, the fact that ostensibly the same test absolved Mr Keller of personal liability but not Mr Pacione casts doubt on its utility. If courts find directors liable under the *Mentmore Test* (as in *JR Consulting*), they emphasise how the relevant conduct – which may include extensive personal involvement in the key acts of infringement, including creating the product, choosing the brand, and manufacturing, importing and selling the item – involved “making the tortious act their own”. Conversely, courts that absolve directors (as in *Keller*) simply narrow the focus to the particular acts, and conclude that the directors were simply carrying out their usual responsibilities.⁵³ The first approach involves seeing that conduct within in the context of the infringement, while the second involves narrowing the focus to the company’s immediate interests. The difference in outcomes results from the frame of reference one chooses to use, not from the application of the test.

In *Mentmore* itself, Le Daine J recognised the imprecision of the test, stating that “[t]he precise formulation of the appropriate test is obviously a difficult one. Room must be left for a broad appreciation of the circumstances of

each case to determine whether as a matter of policy they call for personal liability.” With respect, this is not a valid justification for a legal test, given our growing understanding of the difficulties of achieving the ideal of objectivity in hard cases. The words of Brennan J in *Gala v Preston*⁵⁴ are particularly apposite:

Principles of law must be adequate to resolve disputes that arise in contemporary society and, so far as practicable, they must be sufficiently precise to be applied without reference to a court. The purpose of judicial development of legal principle is not to espouse a broad theory which, unembarrassed by precise content, can be postulated as an explanation of diverse cases. Were such a theory to be propounded as a legal principle, each judge would be free to give it such content as he or she chooses and the law would become an invitation to litigate, not an instrument of dispute resolution.

A note on the use of good faith

Before moving to the third test, it is worth commenting on Jessup J's use of good faith in *Keller* as quoted above.⁵⁵ His Honour suggested that directors who had merely acted in good faith to discharge their duties in service of the company should not be personally liable.

This approach has two obvious attractions. First, it protects directors who unwittingly cause their companies to infringe third party IP rights from personal liability, thereby avoiding the main shortcoming of the *Performing Right Test*. Secondly, directors are already required by s.181(1)(a) of the *Corporations Act 2001* (Cth) to “exercise their powers and discharge their duties ... in good faith in the best interests of the corporation” at the risk of civil penalties. The use of good faith (or its absence) as a criterion of liability means that directors merely need to comply with an existing standard to avoid personal liability for IP infringements.

However, the choice to employ good faith in this way is a curious one. While good faith conduct in relation to third parties is used as a touchstone for liability in cases brought under the Trade Marks Act,⁵⁶ the focus of Jessup J's dictum is on a director's duties to the company, which are not public in nature.⁵⁷ The idea of absolving directors from liability to IP rights holders because they acted in good faith towards the joint tortfeasor – the company which stands to benefit most from the infringement – is questionable.

The Root Quality Test

Explanation of the Test – close personal involvement

In *Root Quality*,⁵⁸ Finkelstein J explained the *Mentmore Test* as follows:⁵⁹

If the Mentmore line of cases were adopted it would not always be easy to identify the circumstances under which a director could “make the tort his own”. All that can be said confidently is that if a director decides that his company should carry out an act that results in an infringement of the

*rights of a third party, the director does not, without more, render himself personally liable at the suit of the third party ... The director's conduct must be such that it can be said of him that he was **so personally involved** in the commission of the unlawful act that it is just that he should be rendered liable. [Emphasis added]*

In the above passage, Finkelstein J was clearly expounding upon the *Mentmore Test*. However, in *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd*,⁶⁰ Wilcox J treated the passage as positing a new test (the “*Root Quality Test*”) that supplants rather than explains the *Mentmore Test*:⁶¹

... [I]n recent years, several members of this Court have expressed dissatisfaction with the Performing Right Test and have argued for the adoption of something more rigorous. Some judges have favoured the Mentmore Test and asked whether the person “made the tort his own”. ... In Root Quality, Finkelstein J said: “The director's conduct must be such that it can be said of him that he was so personally involved in the commission of the unlawful act that it is just that he should be rendered liable”. I am happy to adopt that test, with the qualification that the person need not be a director of the company. I adopt that approach the more readily because I believe it encapsulates the approach which has in fact been taken, although perhaps not articulated in those words, in many intellectual property cases in this Court.

Although judges have treated the “close personal involvement” requirement as being an “additional component” of the *Mentmore Test*,⁶² a number of cases have treated *Root Quality* as positing a separate and alternative test.⁶³ Given their different focus, this article treats the *Root Quality Test* as constituting a third test.

The courts have expounded upon the meaning of the “close personal involvement” test in various ways. In *Keller*,⁶⁴ Emmett J thought that the required level of involvement would be present when the director uses the corporation “as an instrument whereby infringement is perpetrated, such that the director can be seen to be **hiding behind the corporate veil**”. [Emphasis added]⁶⁵ In the same case, Jessup J put it as follows:⁶⁶

*For a director to be liable because he or she directs or procures his or her company to commit a wrong, the context must be such that the director is **effectively standing apart from the company** and directing or procuring it as a separate entity. There must be a sense in which the director is **using the company as the instrument of his or her own wrong**. [Emphasis added]*

In yet another formulation regarding the question of “close personal involvement”, judges have invoked the words of Starke J in *O'Brien v Dawson*, who stated:⁶⁷

The acts of [the director] were the acts of the company and not his personal acts which involved him in any liability to

*the plaintiff. But I would add that it does not follow that a director of a company would escape personal liability under cover of the company's responsibility if he himself **became an actor and invaded the plaintiff's rights**, as by trespassing on his land, or seizing his goods and so forth. [Emphasis added]*

Critique of the Root Quality Test

In *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd*, Wilcox J rejected the *Mentmore Test* because he did not know what the phrase to “make the tortious conduct his own” means.⁶⁸ However, the *Root Quality Test* adopted by his Honour in that case is equally problematic. Wilcox J treated “close personal involvement” as a broad, flexible concept which would enable the court “to eschew any catchphrase and consider the justice of the case”.⁶⁹ This simply replaces one vague principle of liability with another. This vagueness appears to be the reason why those propounding the *Root Quality Test* have developed and adopted so many additional phrases in an attempt to shed light on its meaning: e.g. “hiding behind the corporate veil”; “invading of the plaintiff's rights”, using the company as “an instrument of his [or her] own wrong”, or “standing apart from the company”. If the *Root Quality Test* were sufficiently precise, then there would be no need for these further statements.

A second weakness of the test is that it is framed in a way that suggests the answer results from a purely factual enquiry. The task involves determining if the director's involvement in the IP infringement is “close and personal” or not. As discussed above, the problem of concurrent tortious liability requires the making of moral or ethical judgments about the director's conduct: whether the director **ought** to have acted in a particular way or not. In his seminal work, *Treatise of Human Nature*, Scottish philosopher David Hume remarked as follows:⁷⁰

*In every system of morality which I have hitherto met with, I have always remark'd, that the author proceeds for some time in the ordinary way of reasoning, and establishes the being of a God, or makes observations concerning human affairs; when of a sudden I am surpriz'd to find, that instead of the usual copulations of propositions, **is**, and **is not**, I meet with no proposition that is not connected with an **ought**, or an **ought not**. This change is imperceptible: but is, however, of the last consequence. For as this **ought**, or **ought not**, expresses some new relation or affirmation, 'tis necessary that it should be observ'd and explain'd; and at the same time that a reason should be given, for what seems altogether inconceivable, how this new relation can be a deduction from others, which are entirely different from it. [Emphasis added]*

This observation is often expressed in the maxim that one cannot derive an “ought” from an “is”. Now referred to as the “naturalistic fallacy”, David Hume identified the

error inherent in “any inference which purports to derive a normative conclusion from factual premises”.⁷¹ To avoid making the error, it is necessary to start with normative statements (e.g. “directors should not intentionally infringe the intellectual property of others”, or, perhaps more controversially, “directors should exercise due diligence before using intellectual property in the market place”). From there, it is permissible to draw normative conclusions (i.e. this director should be personally liable). While the *Root Quality Test* doesn't preclude discussion of normative statements, it frames the problem in a way that makes them seem extraneous.

The current status of the tests

The current status of all three tests is currently uncertain, but broadly speaking, the *Performing Right Test* seems to be falling out of favour, and the *Root Quality Test* has more momentum than the *Mentmore Test*.

The differences between the tests

It is worth noting that many courts have recognised the existence of the two traditional tests, but decided the matters before them without the need to resolve choose between them – more often than not because they conclude that the relevant directors have satisfied both.⁷² In *Allen Manufacturing Company Pty Limited v McCallum & Co Pty Limited* (“*Allen Manufacturing*”), the Full Court of the Federal Court of Australia held:⁷³

*The difference between the two tests may be more apparent than real. We are not aware of any case in which it has been held that a director or officer of a company directed or procured the company's infringing act, yet that person escaped liability because he or she did not deliberately, wilfully or knowingly pursue a course of conduct that was likely to constitute infringement or that reflected indifference to the risk of infringement. This may be because, in practice, an act of direction or procurement will generally meet the *Mentmore Test*.*

...

To the extent there is a real difference between the tests, each has eloquent supporters. One day it may be necessary, in a practical sense, to choose between them. But it is not necessary to do so in this case. We share the view of Gyles J that, on either test, Mr Harper must be held liable.

The above passage was quoted with approval by the Full Federal Court in the 2016 case of *JR Consulting*,⁷⁴ and in the 2020 case of *Hashtag Burgers Pty Ltd v In-N-Out Burgers, Inc* (“*Hashtag Burgers*”).⁷⁵ Notwithstanding the weighty support for the proposition that the two tests may not produce different outcomes, it is difficult to see how this could be the case. The *Mentmore Test* proceeds from a fundamentally different starting point from the *Performing Right Test*. As explained by Finkelstein J in *Root Quality*, “[a]ll that can be said confidently is that if a director decides that his company

should carry out an act that results in an infringement of the rights of a third party, the director does not, without more, render himself personally liable at the suit of the third party.”⁷⁶ This is at direct odds with the second and third limbs of the *Performing Right Test* which make directors concurrently liable if they have simply “directed or procured” the tortious acts. Moreover, despite the statement in *Allen Manufacturing* to the contrary,⁷⁷ there are numerous cases where directors had been involved in directing or procuring the company’s infringing act (thereby satisfying the *Performing Right Test*) without being held liable (presumably because they had not satisfied the higher *Mentmore Test*).⁷⁸ The two tests must therefore be regarded as imposing different standards and are therefore technically irreconcilable.

Development of authority over time

The *Performing Right Test* was followed with regularity at first instance in the Federal Court of Australia from the 1980s until at least the early 2000s.⁷⁹ Sundberg J stated in the December 2000 case of *Pioneer Electronics Australia Pty Ltd* that “[t]he clear preponderance of authority” favours the *Performing Right Test*,⁸⁰ and this point was reiterated a decade later by Bennett J in *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Limited*.⁸¹

The *Mentmore Test* received little support in cases before 2000,⁸² but was notably preferred by Beazley J in the Full Federal Court decision in *King v Milpurrurru*.⁸³ It was discussed at length, and with apparent approval, by Finkelstein J in the 2000 case of *Root Quality*,⁸⁴ even though the same passage ironically became the basis of the third test.

Support for the *Root Quality Test* has been growing over the last two decades. This idea was taken up by Kenny J in *Cooper v Universal Music Australia Pty Ltd*,⁸⁵ and by both Jessup J⁸⁶ and Besanko J⁸⁷ in *Keller*. In *Keller*, Besanko J observed that the case law between 1996 and 2010 had not resolved the question of which of the two traditional tests should be preferred, before apparently endorsing the *Root Quality Test*.⁸⁸

In my opinion, in considering a director’s potential liability as a joint tortfeasor, it is necessary to consider carefully the director’s involvement in the unlawful or infringing acts. A close personal involvement in the infringing acts by the director must be shown before he or she will be held liable. [Emphasis added]

The question was again considered some six years later by the Full Federal Court in *JR Consulting*,⁸⁹ which was decided by a bench again featuring Besanko J. In that case, the court held:⁹⁰

We suspect that there is ultimately not a great deal of difference between these lines of authority as the director must be shown to have directed or procured the tort and the conduct must, clearly enough, go beyond causing the company to take a commercial or business course of action or

directing the company’s decision making where both steps are the good faith and reasonable expression of the discharge of the duties and obligations of the director, as a director. The additional component required is a “close personal involvement” in the infringing conduct of the company and inevitably the quality or degree of that closeness will require careful examination on a case by case basis. [Emphasis added]

The above passage was recently quoted with approval in the unanimous joint judgement of Nicholas, Yates and Burley JJ in *Hashtag Burgers*,⁹¹ who went on to hold the two directors liable on the basis that “their conduct as individuals went beyond the threshold of performing their proper roles as directors”,⁹² and that they “had sufficiently close personal involvement with the actions of Hashtag Burgers as to attract liability as joint tortfeasors”.⁹³ The court in *Hashtag Burgers* might have taken the opportunity to settle the status of the competing tests, including whether *Root Quality* represents a separate test from *Mentmore*, whether there is “in a practical sense” a real difference between the three (or two) tests, and if so, which should be preferred. However, it chose not to do so,⁹⁴ and it may be that the question needs to be determined by the High Court.⁹⁵ Nevertheless, given that the concept of “close personal involvement” has been endorsed by the last two Full Federal Court decisions dealing with the issue,⁹⁶ the concept will be important for the foreseeable future.

While the *Performing Right Test* has not yet been overruled, the emergence of the requirement for there to be “close personal involvement” puts the test on shaky ground. In *State of Escape Accessories Pty Limited v Schwartz*,⁹⁷ Davies J referred to *JR Consulting*⁹⁸ and *Keller*⁹⁹ in rightly holding that, as the law presently stands, “[i]t is insufficient to attribute liability to her as a joint tortfeasor merely on the basis that whilst acting in her capacity as a director of Chuchka she caused or directed the company to engage in the unlawful act or acts”.¹⁰⁰ This is clearly inconsistent with second and third limbs of the *Performing Right Test*.

An alternative approach

The Clipsal Test

If the prevailing tests are inadequate or ill-suited to the task at hand, where does that leave us? Is there a test which could provide more flexibility than the *Performing Right Test* while at the same time providing greater certainty and predictability than *Mentmore* and *Root Quality*? Could that test legitimately focus on the policy-based or normative dimensions of the task, helping to elucidate the real judgments which drive decisions rather than obscure them?

One possible alternative appears in *Clipsal Australia Pty Ltd v Clipso Electrical Pty Ltd (No 3)*.¹⁰¹ In that case, Perram J referred to the passage from *JR Consulting* which emphasised that it must be shown that the director has gone “beyond causing the company to take a commercial or business course

of action or directing the company's decision-making where both steps are the good faith and reasonable expression of the discharge of the duties and obligations of the director, as a director".¹⁰² His Honour then held:¹⁰³

I am satisfied that Mr Abdul Kader did have the kind of close personal involvement in the acts of the first respondent being discussed in this passage because at all times, as I have concluded above . . . , it was Mr Abdul Kader who dishonestly selected CLIPSO and the dolly switch precisely to suggest that his products had an association with the applicants. It was deliberate conduct in bad faith. This is sufficient to render him liable as a joint tortfeasor. [Emphasis added]

The meaning of bad faith within the context of concurrent directorial liability

The use of bad faith as a touchstone of liability is a subtle yet potentially significant development in this area. The concept is perhaps most familiar to Australian IP lawyers within the context of s.62A of the Trade Marks Act, which permits the opposition to the registration of a trade mark on that basis. In *Fry Consulting Pty Ltd v Sports Warehouse Inc (No 2)*,¹⁰⁴ Dodds-Streeton J held that the test is whether "persons adopting proper standards would regard the decision to register as in bad faith, or that reasonable and experienced persons in the field would view such conduct as falling short of acceptable commercial behaviour".¹⁰⁵ Her Honour further held that:¹⁰⁶

... mere negligence, incompetence or a lack of prudence to reasonable and experienced standards would not, in themselves, suffice, as the concept of bad faith imports conduct which, irrespective of the form it takes, is of an unscrupulous, underhanded or unconscientious character.

Within the context of concurrent tortious liability, courts may consider the following inter-related factors when assessing if a defendant has acted in bad faith, many of these factors having already been mentioned in the authorities:

- (1) What was the nature of the directors' involvement in the infringing acts, in both a quantitative and qualitative sense? Were they responsible for, or involved in, all of the relevant acts, or even the core acts constituting the infringement?¹⁰⁷ Were they only marginally involved, or not involved at all?¹⁰⁸
- (2) Did the directors take positive steps to avoid infringement? Did they search, or commission searches, of the market or the relevant IP registers? Did they register the relevant rights, or obtain what they thought was a valid licence from a third party?¹⁰⁹ Or did they simply not turn their minds to the question?¹¹⁰
- (3) What did the directors know, and when did they come to know it? Did they know of the plaintiff's products prior to, or at the time of the infringement?¹¹¹ Were they aware of any registered rights held by the

plaintiff before acting?¹¹² Did they know about the likelihood of infringement and proceed anyway?¹¹³ Did they only become aware of the claim after being made aware of it by the plaintiff?¹¹⁴

- (4) What did the directors intend? Were they knowingly selling counterfeit products,¹¹⁵ or otherwise attempting to trade off the goodwill of the plaintiff?¹¹⁶ Did they consider the risk of infringement, but conclude that there was none?¹¹⁷ Did they simply not care?¹¹⁸
- (5) How did the directors conduct themselves after first being contacted by the plaintiff? Did they flagrantly ignore letters of demand?¹¹⁹ If the initial infringement was unintentional, did they act reasonably or appropriately after being alerted to it, for example, by expeditiously withdrawing an obviously infringing product from sale?¹²⁰ If they contested proceedings, was it reasonable for them to do so?¹²¹
- (6) Were there any other surrounding relevant circumstances? Did the directors attempt to register similar IP rights without a legitimate right to do so, or even in bad faith?¹²² Was the infringement part of a pattern of conduct targeted against the relevant plaintiff or the market generally?¹²³

Judged in light of the above questions, each director would sit somewhere on a spectrum. On one side would be directors with little or no personal involvement in the relevant acts who might be characterised as merely negligent, incompetent or imprudent, but not as having acted in bad faith. Those would escape personal liability. On the other would be directors who were heavily involved in the key acts of infringement, and whose conduct may have been unscrupulous, underhanded, or even fraudulent. Those would be judged to have acted in bad faith, and therefore not be entitled to the usual immunity from personal liability.

The utility of the Clipsal Test

Like the prevailing tests, the *Clipsal Test* does not produce easy answers. Hard cases will still lie in the middle of the spectrum, and the point where imprudence crosses over to sharp practice will still be a difficult one to judge.

However, the *Clipsal Test* does have a number of obvious attractions. First, the test – which uses "proper standards" to assess whether a director had "fallen short of acceptable commercial behaviour" – is explicitly normative. Secondly, it embodies sound principles: if directors have acted in bad faith, why should they be immune from liability? Further, it is a test that predisposes a wider enquiry than good faith conduct towards a director's company, as it encompasses an assessment of behaviour towards others, including competitors.¹²⁴ Thirdly, "bad faith" would be a meaningful concept to most directors – the people who may fall foul of the test – and this is an important consideration for any criterion of liability. Finally, the test is clearer and

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more obviously relevant than asking whether the directors have “directed or procured” the conduct, have “made the tortious conduct their own” or have had a “close personal involvement” with the infringing conduct.

Conclusion

As a society, we want our justice system to be perfect. As practitioners, we do our best to make it so, fully aware of our human limitations. Nevertheless, the idea of highly experienced judges, doing their utmost to be just and impartial, refusing parole because it is nearly lunchtime, and they are “hangry” is entirely disconcerting. Equally disconcerting is the thought of parties spending hundreds of thousands of dollars in litigation, adducing evidence and making submissions regarding multiple factors that point towards the likelihood of confusion or otherwise of their trade marks, only to have their judges make up their mind after considering just one of those factors.

Judges are highly trained experts, who grapple with the hardest of problems, including whether or not to impose concurrent tortious liability on directors when their companies infringe the IP rights of others. The prevailing tests make this particular task more difficult than it needs to be, and should be replaced by one that is simpler, and better adapted to the objective. That would serve judges well ... as would a good breakfast each day.

- 1 LLB (Hons), B.Com. Principal Solicitor at Epiphany Law. Thanks go to Lucy Davis, Emmerson Chambers, and Yvette Kwei of Epiphany Law for their comments on earlier drafts of this article.
- 2 *Universal Music Australia Pty Ltd v Sharman License Holdings Pty Ltd* [2005] FCA 1242, [433].
- 3 *The Koursk* [1924] P 140, 151–2 (Bankes LJ). See also Sargant LJ at 159.
- 4 *In-N-Out Burgers, Inc v Hashtag Burgers Pty Ltd* [2020] FCA 193, [308] (Katzmann J). See also *Swancom Pty Ltd v The Jazz Corner Hotel Pty Ltd (No 2)* [2021] FCA 328, [275] (O’Byron J) (“*Swancom*”).
- 5 *JR Consulting & Drafting Pty Limited v Cummings* [2016] FCAFC 20, [334] (“*JR Consulting*”).
- 6 *Root Quality Pty Ltd v Root Control Technologies Pty Ltd* [2000] FCA 980, [125] (per Finkelstein J) (“*Root Quality*”). See ss.127 and 198A of the *Corporations Act 2001* (Cth) for examples of corporations acting through their directors.
- 7 While this article refers almost exclusively to directors, the same principles apply to officers and employees.
- 8 *Root Quality* [2000] FCA 980, [141] (Finkelstein J), discussing the decision of Le Dain J in *Mentmore Manufacturing Co, Ltd v National Merchandising Manufacturing Co Inc* (1978) 89 DLR (3d) 195, 202 (“*Mentmore*”).
- 9 *Performing Right Society Ltd v Ciryil Theatrical Syndicate Ltd* [1924] 1 KB 1, 14 (“*Performing Right*”); *Root Quality* [2000] FCA 980, [146].
- 10 Brian Leiter, “American Legal Realism” in *The Blackwell Guide to Philosophy of Law and Legal Theory* (eds Martin Golding and William Edmundson) (Blackwell, Oxford) 50–66.
- 11 Beverley McLachlin, *The 21st Century Courts: Old Challenges and New*, Fourteenth AIJA Oration in Judicial Administration (2006) <<https://aija.org.au/wp-content/uploads/2017/10/21st-Century-Court-Old-Challenges-and-New-McLachlin-2006.pdf>> 9.

- 12 Shai Danziger et al, “Extraneous Factors in Judicial Decisions” (2011) 108 (17) *Proceedings of the National Academy of Sciences* 6889, 6889.
- 13 Lady Hale, Oral evidence before the Constitution Committee, Autumn 2011. Quoted in Rachel J. Cahill-O’Callaghan, “The Influence of Personal Values on Legal Judgments” (2013) 40(4) (November) *Journal of Law and Society* 596, 597–8.
- 14 Shai Danziger et al, “Extraneous Factors in Judicial Decisions” (2011) 108 (17) *Proceedings of the National Academy of Sciences* 6889, 6889.
- 15 Barton Beebe, “An empirical study of the multifactor tests for trademark infringement” (2006) 94(6) *California Law Review* 1581.
- 16 Barton Beebe, “An empirical study of the multifactor tests for trademark infringement” (2006) 94(6) *California Law Review* 1581, 1587.
- 17 Barton Beebe, “An empirical study of the multifactor tests for trademark infringement” (2006) 94(6) *California Law Review* 1581, 1605.
- 18 In fact, Beebe states this is evidence of a rational decision-making framework referred to as a “core attributes heuristic”. In this framework, decision makers cease acquiring and analysing information once the last in the set of most important factors has been acquired and analysed. Beebe therefore argues that this is evidence of human ingenuity rather than human fallibility: Beebe, 1602–3.
- 19 [1924] 1 KB 1.
- 20 [1921] 2 AC 465, 476.
- 21 [1924] 1 KB 1, 14–15 (Atkin LJ).
- 22 This was originally a passage appearing in 29 Hals., 3rd ed., 90 [192], which was quoted by Le Dain J in *Mentmore* (1978) 89 DLR (3d) 195, 201–2. Le Dain J inferred that the passage was based upon Atkin LJ’s judgment. In the recent case of *In-N-Out Burgers, Inc v Hashtag Burgers Pty Ltd* [2020] FCA 193, [311] Katzmann J mistakenly attributed the passage directly to Atkin LJ rather than *Halsbury’s Laws*.
- 23 *Keller v LED Technologies Pty Ltd* [2010] FCAFC 55, [286] (Emmett J) (“*Keller*”).
- 24 *King v Milpurrurru* (1996) 66 FCR 474, 500 (Beazley J).
- 25 *White Horse Distillers Ltd v Gregson Associates* [1984] RPC 61, 92 (Nourse J) (“*White Horse Distillers*”).
- 26 See e.g. Lindgren J in *Microsoft Corporation v Auschina Polaris Pty Ltd* [1996] FCA 1069 (“*Auschina*”).
- 27 See e.g. *Root Quality* [2000] FCA 980, [140] (Finkelstein J) and *Keller* [2010] FCAFC 55, [286] (Besanko J).
- 28 [2013] FCAFC 153.
- 29 *Australian Postal Corporation v Digital Post Australia Pty Ltd (No 2)* [2012] FCA 862, [15]–[17] (“*Australia Post*”).
- 30 See the discussion of the facts at first instance in *Australian Postal Corporation v Digital Post Australia Pty Ltd (No 2)* [2012] FCA 862, [66]–[71] and on appeal in *Australia Post* [2012] FCA 862, [50]–[58].
- 31 *King v Milpurrurru* (1996) 66 FCR 474, 500 (Beazley J).
- 32 (1978) 89 DLR (3d) 195.
- 33 (1978) 89 DLR (3d) 195, 200.
- 34 (1978) 89 DLR (3d) 195, 203–204 (citations omitted).
- 35 [1984] RPC 61.
- 36 *White Horse Distillers* [1984] RPC 61, 92. See also *Keller* [2010] FCAFC 55, [287].
- 37 [2000] FCA 980.
- 38 [2000] FCA 980, [146].
- 39 [2016] FCAFC 20, [342].
- 40 See, e.g.: *Keller* [2010] FCAFC 55, [284] (Besanko J) and [377] (Jessup J); *JR Consulting* [2016] FCAFC 20, [350]; and *Hashtag Burgers Pty Ltd v In-N-Out Burgers, Inc* [2020] FCAFC 235, [136] (“*Hashtag Burgers*”).
- 41 *White Horse Distillers* [1984] RPC 61, 92 (Nourse J).
- 42 [2005] FCA 1242.
- 43 [1996] FCA 1069; (1996) 71 FCR 231, 245.
- 44 [2010] FCAFC 55.
- 45 [2010] FCAFC 55, [405].

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- 46 [2010] FCAFC 55, [401].
- 47 [2010] FCAFC 55, [404].
- 48 [2010] FCAFC 55.
- 49 *JR Consulting* [2016] FCAFC 20.
- 50 *JR Consulting* [2016] FCAFC 20.
- 51 *JR Consulting* [2016] FCAFC 20, [375].
- 52 *Keller* [2010] FCAFC 55, [406].
- 53 See *Rakman International Pty Limited v Boss Fire & Safety Pty Ltd* [2022] FCA 464, [460]-[470] for a recent example.
- 54 [1991] HCA 18, [12].
- 55 *Keller* [2010] FCAFC 55, [406].
- 56 See, e.g. the good faith defences to infringement in s.122(1)(a) to (c) of the *Trade Marks Act* 1995 (Cth) and the defence available to some honest concurrent users through ss.122(1)(fa) and section 44(3)(a).
- 57 *Ailakis v Olivero* [No. 2] [2014] WASCA 127, [103].
- 58 [2000] FCA 980.
- 59 [2000] FCA 980, [146] (citations omitted).
- 60 [2005] FCA 1242.
- 61 [2005] FCA 1242, [433]-[434].
- 62 See: *JR Consulting* [2016] FCAFC 20, [350], *Career Step, LLC v TalentMed Pty Ltd* (No 2) [2018] FCA 132, [213].
- 63 See, e.g.: *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Ltd* [2010] FCA 108, [179] (“*Inverness*”); (Bennett J); *Complete Technology Integrations Pty Ltd v Green Energy Management Solutions* [2011] FCA 1319, [94] (Kenny J) (“*Complete Technology*”); *Facton Ltd v Xu* [2015] FCA 66, [279], and *Geneva Laboratories Ltd v Pharmacy Depot Hurstville Pty Ltd* [2018] FCA 516, [129] (Rares J).
- 64 *Keller* [2010] FCAFC 55.
- 65 *Keller* [2010] FCAFC 55, [84] (Emmett J). See also the judgment of Besanko J at [291].
- 66 *Keller* [2010] FCAFC 55, [88].
- 67 [1942] HCA 8. Quoted by Finkelstein J in *Root Quality* [2000] FCA 980, [130]; *Allen Manufacturing Company Pty Limited v McCallum & Co Pty Limited* [2001] FCA 1838 (“*Allen Manufacturing*”), [46]; *Keller* [2010] FCAFC 55, [277] (Besanko J). The concept of “invasion” of rights was also used in *JR Consulting* [2016] FCAFC 20, [375].
- 68 [2005] FCA 1242, [434].
- 69 [2005] FCA 1242, [434].
- 70 David Hume, *Treatise of Human Nature* (1739), Book III, Part I, Section I.
- 71 Alan Bullock et al, *The Fontana Dictionary of Modern Thought* (2nd ed, 1988), 563.
- 72 See, e.g.: *Inverness* [2010] FCA 108, [192]; *Complete Technology* [2011] FCA 1319, [99]; *Young Investments Group Pty Ltd v Mann* [2012] FCAFC 107, [58]; *Hashtag Burgers* [2020] FCAFC 235.
- 73 [2001] FCA 1838, [43] and [44].
- 74 [2016] FCAFC 20, [342].
- 75 [2020] FCAFC 235, [136].
- 76 [2000] FCA 980, [146].
- 77 [2001] FCA 1838, [43] and [44].
- 78 See, e.g., *Auschina* [1996] FCA 1069; *Keller* [2010] FCAFC 55; *Career Step, LLC v TalentMed Pty Ltd* (No 2) [2018] FCA 132, [238] and [249]; and *State of Escape Accessories Pty Limited v Schwartz* [2020] FCA 1606 (“*State of Escape*”).
- 79 See e.g.: *Australasian Performing Right Association Ltd v Valamo Pty Ltd* (1985) 84 FLR 101, 127; *Martin Engineering Co v Nicaro Holdings Pty Ltd* (1991) 100 ALR 358; *Auschina* [1996] FCA 1069; *Henley Arch Pty Ltd v Clarendon Homes (Aust) Pty Ltd* (1998) 41 IPR 443, 463-464; *Sony Music Entertainment (Aust) Ltd v CEL Music Pty Ltd* (2002) 54 IPR 289, 295-296, [28]-[29].
- 80 [2000] FCA 1926, [45] and [46].
- 81 [2010] FCA 108, [180].
- 82 *GM (Nth Melbourne) v Young Kelly* (1986) 7 IPR 149 is one notable instance.
- 83 (1996) 66 FCR 474, 496.
- 84 [2000] FCA 980.
- 85 [2006] FCAFC 187, [161].
- 86 *Keller* [2010] FCAFC 55, [405].
- 87 [2010] FCAFC 55, [290].
- 88 [2010] FCAFC 55, [291].
- 89 [2016] FCAFC 20.
- 90 [2016] FCAFC 20, [350].
- 91 [2016] FCAFC 20, [136].
- 92 [2016] FCAFC 20, [140].
- 93 [2016] FCAFC 20, [141].
- 94 [2020] FCAFC 235, [136].
- 95 In *Keller* [2010] FCAFC 55, Besanko J noted at [274] that “[t] he precise formulation of the common law test has not been the subject of authoritative determination by the High Court.” This has not changed in the last 12 years.
- 96 *JR Consulting* [2016] FCAFC 20, [350]; *Hashtag Burgers* [2020] FCAFC 235, [141].
- 97 [2020] FCA 1606.
- 98 [2016] FCAFC 20, [347].
- 99 [2010] FCAFC 55.
- 100 [2020] FCA 1606, [176].
- 101 [2017] FCA 60.
- 102 *JR Consulting* [2016] FCAFC 20, [350] (emphasis added).
- 103 *Clipsal Australia Pty Ltd v Clipso Electrical Pty Ltd* (No 3), [2017] FCA 60, [255] (“*Clipsal*”).
- 104 [2012] FCA 81.
- 105 [2012] FCA 81, [174].
- 106 *Fry Consulting Pty Ltd v Sports Warehouse Inc* (No 2) [2012] FCA 81, [166].
- 107 Greater involvement in the core acts of infringement would tend to point to a greater likelihood of personal liability. See e.g.: *Auschina* [1996] FCA 1069 (the director imported and sold the infringing goods and was liable); and *Hashtag Burgers* [2020] FCAFC 235 (directors chose and persisted with the infringing trade mark). However, this will not always be the case. See, e.g.: *State of Escape* [2020] FCA 1606 (director sourced, imported and sold the infringing goods but was not liable); and *Swancom* [2021] FCA 328 (director chose the alleged infringing trade mark would not have been liable if the trade mark had infringed). It is also worth noting that in *Keller* [2010] FCAFC 55, there were two directors who escaped liability. All three judges unanimously agreed that a non-executive director with knowledge of the Keller’s activities but no direct involvement was not liable. However, Besanko J held at [197] that Keller, who designed the infringing products was liable. Emmet J absolved Keller from liability but admitted at [87] that his position was ‘not quite so clear’.
- 108 Directors with little or no involvement will not to be personally liable. See, e.g.: *Performing Right* [1924] 1 KB 1 (director was unaware that a band employed by him had played music in his absence in breach of copyright).
- 109 These answer to these questions might help to distinguish cases like *Australia Post* [2012] FCA 862 (where, although not sued as joint tortfeasors, the directors proceeded with the impugned mark after receiving legal advice that it would not infringe the plaintiff’s mark) from those such as *Clipsal* [2017] FCA 60 (where the director chose the infringing mark to benefit from the goodwill of the plaintiff’s business and sought to register the mark in bad faith).
- 110 In *Inverness* [2010] FCA 108, the director, a medical doctor by training, did not consider the possibility of patent infringement in respect of the pharmaceutical products which he chose to import into Australia but was held liable. Although clearly careless or negligent, the failure to consider third party IP rights may not amount to ‘bad faith’.
- 111 A director’s knowledge of the infringed product prior to committing the infringing acts points towards liability. See e.g.: *Inverness* [2010] FCA 108; *JR Consulting* [2016] FCAFC 20; and *Clipsal* [2017] FCA 60. However, prior knowledge of the infringed product will not always render the director liable. See: *Root Quality* [2000] FCA 980 and *State of Escape* [2020] FCA 1606.

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- 112 A director's prior knowledge of the plaintiff's registered rights points towards liability. See e.g.: *Allen Manufacturing* [2001] FCA 1838, [45], however lack of knowledge of the relevant registration did not excuse the director in *Inverness* [2010] FCA 108, [189], while actual knowledge of the design was not sufficient to fix liability on the director in *Keller* [2010] FCAFC 55.
- 113 *Complete Technology* [2011] FCA 1319, [97] (directors knew that the use of their trade mark was, or was likely to be, an infringing use, and were liable).
- 114 The director was found not to be liable as a joint tortfeasor partly for this reason in *State of Escape* [2020] FCA 1606, [176] (Davies J).
- 115 *Microsoft Corporation v PC Club Australia Pty Ltd* [2005] FCA 1522, [286] (the director, Mr Lee, was held personally liable after unlawfully reproducing the applicant's Windows XP software and attaching counterfeit Certificates of Authenticity to the copies); *Truong Giang Corporation v Quach* [2015] FCA 1097, [45], [81] (the director, a Mr Quach, was held to be personally liable after selling product that he knew to be counterfeit).
- 116 See e.g.: *Swancom* [2021] FCA 328, [286] (director did not intend to trade off goodwill and was not liable); *Clipsal* [2017] FCA 60 (director intended to suggest his products had an association with the applicants and was liable).
- 117 See e.g.: *Swancom* [2021] FCA 328, [286] (director did not believe that consumers would be confused or deceived and was not liable).
- 118 *Hashtag Burgers* [2020] FCAFC 235 (directors appeared to treat the allegations of infringement as a joke in internal correspondence).
- 119 It appears that the directors' flagrant disregard of a reasonable letter of demand contributed to the finding of liability in *Hashtag Burgers* [2020] FCAFC 235. However, refusing to comply with letters of demand was not fatal to the directors' cases in *Mentmore* (1978) 89 DLR (3d) 195 or *State of Escape* [2020] FCA 1606.
- 120 See: *Louis Vuitton Malletier SA v Toea Pty Ltd* [2006] FCA 1443, [136]. Although this was not a director's liability case, the owner of a market in which counterfeit goods were being sold escaped concurrent liability after taking appropriate (albeit not entirely effective) steps to prevent further infringements.
- 121 It would seem contrary to public policy to hold a director personally liable if that director first became aware of the infringement after being contacted by the plaintiff, and chooses to continue selling the product while mounting a reasonable defence in court. To use a designs infringement case as an example, there may be a real question as to whether the design registration is valid (e.g. because it was not new or distinctive), or a question as to whether the infringing article was substantially similar in overall impression to the registered design.
- 122 Doing so would point to a directors' personal liability. See: e.g.: *Allen Manufacturing* [2001] FCA 1838, [45] and *Clipsal* [2017] FCA 60.
- 123 The Explanatory Memorandum to the *Trade Marks Amendment Bill 2006* (Cth), the Bill which inserted s.62A into the *Trade Marks Act 1995* (Cth), nominated "a pattern of registering trade marks that are deliberate misspellings of other registered trade marks" as an example of making an application in bad faith. This suggests that the concept enables the consideration of the broader context of the defendants' conduct.
- 124 Within the context of s.62A of the *Trade Marks Act 1995* (Cth), it is permissible to consider whether the respondent has used the applicant's marks and other trade indicia: *DC Comics v Cheqout Ltd* [2013] FCA 478.

Incidental Copyright Infringement in Modern Content Creation: An Analysis of the Gaps in the Infringement Exception in Section 67 of the *Copyright Act 1968* (Cth)

Emma Berry¹

Introduction

A mural in the background of the opening credits of a television show. A canvas print featured on the set of another. At first it might seem odd that a seemingly innocuous display of a work would give rise to significant media attention. However, that is exactly what happened in 2019 when viewers of Ricky Gervais' Netflix series *After Life* noticed an unauthorised copy of a First Nations painting in the background. Gervais' production company rectified the infringing conduct by securing a retrospective licence for the first series and licensing an authorised copy of the painting for future use.² This inadvertent copyright infringement is not a lone occurrence either. In 1990, a dispute arose over the unauthorised use of an infringing mural in *The Cosby Show* which appeared in the background of the opening credits.³ Today, the risk of similar inadvertent infringement is not a problem solely for broadcasters, but also the general public. With the accessibility of high-quality cameras and social media tools enabling consumers to be instant publishers, it is increasingly likely that an individual will inadvertently infringe an artistic work.

Unauthorised use of a recognisable artistic work in a cinematograph film or broadcast (or indeed any other form of communication) gives rise to potential copyright infringement claims in Australia and overseas. However, in Australia and other countries, specific exceptions to copyright infringement exist where the inclusion of an artistic work is incidental to the work in question. The Australian exception for incidental inclusion of an artistic work is detailed in section 67 of the *Copyright Act 1968* (Cth). While equivalent exceptions in New Zealand, the United Kingdom and the United States protect incidental inclusion of an artistic work in any other work, the Copyright Act limits the exception to only artistic works incidentally included in a film or broadcast. Incidental inclusions of copyrighted works in photographs are not covered by the section 67 exception.

The underlying economic principles of copyright law are to ensure that creators of works are not deprived of potential profits and benefits to which they are entitled, and to encourage the development of creative works. Likewise, the exceptions exist to enable the general public to use copyrighted works without fear of infringement where they will not be adversely impacting the artist's rights. It is difficult to see how an artistic work incidentally appearing in the background of a photograph would impact a creator's rights, but a film or broadcast incidentally including the work would not. Further, the present gap in the section 67 exception is absurd given still images from a film can arguably be used and fall under the section 67 exception. Reform to the Copyright Act is required to adapt to today's media consumption and accessibility of technologies.

This article shall canvass issues pertaining to section 67 and specifically examine the flaws with the exception and present workarounds for content creators. This article will then explore the equivalent exceptions in New Zealand, the UK, and the US before outlining two available options to remedy the deficiencies in section 67 of the Copyright Act. The two options are to:

- (1) amend section 67 of the Copyright Act and remove its limitations; or
- (2) enact a new fair use exception like the exception presently available in the US.

Although the latter option is not without its critics, the analysis within this article demonstrates that adopting the fair use doctrine will not only remedy the deficiencies of section 67 but also have the flexibility to adapt to new uses which would otherwise require an exception.

Background

History of the Exception for Incidental Infringement

The concept of incidental copying is a direct result of developments in technology, largely stemming from the second Industrial Revolution. The exception for incidental infringement was a delayed legislative response in the UK to films and photographs incorporating artistic works in the background.⁴ The exception first appeared in sub-section 9(5) of the *Copyright Act 1956* (UK). It provided that:

[T]he copyright in an artistic work is not infringed by the inclusion of the work in a cinematographic film or in a television broadcast, if its inclusion therein is only by way of

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*background or is otherwise only incidental to the principal matters represented in the film or broadcast.*⁵

Australian copyright law has been influenced by UK copyright law. For example, this exception is largely replicated in section 67 of the Copyright Act. However, unlike UK copyright law, the Australian exception for incidental infringement has not evolved and has not been amended since the Copyright Act was first enacted in Australia. Not only did section 67 of the Copyright Act pre-date the household use of video recorders and digital cameras but it also pre-dated much of the widespread use of older cheap and accessible technology.⁶ Updated exceptions in the UK and New Zealand recognise incidental copying through new or evolved forms of technology is acceptable and economically unimportant,⁷ whereas Australia significantly lags in this respect.

Perhaps most significantly, section 67 and its historical counterpart in sub-section 9(5) only relates to the inclusion of artistic works in a film or broadcast. It does not capture films within films or other incidental inclusions. This presents its own questions, such as where a broadcast incidentally includes musical works. The English case of *Hawkes & Son (London) v Paramount Film Services Ltd* featured such an incidental inclusion when a newsreel included 50 seconds of a band's rendition of a march.⁸ At the time, UK copyright law did not have an explicit defence of incidental copying, and so the incidental inclusion was found to be copyright infringement. However, even if sub-section 9(5) had applied at the time, the inclusion of the musical work in the broadcast would not have been covered by the exception. If a similar situation occurred in present-day Australia, section 67 likewise would not be an exception to infringement. For example, if a person filmed a video in a public space where a band was performing nearby and the band's original song was incidentally included in the video, the section 67 exception would not be available to that individual. It is clear from the gaps in section 67 that this exception does not do enough to protect fair use. Given the progression of technology and the changing behaviours of content creation and sharing, it seems prudent that Australian copyright law should be amended to reflect the changing nature of the concept of incidental copying.

Section 67 of the Copyright Act

The exceptions contained within the Copyright Act exist to cover special scenarios where otherwise conduct would fall foul of the Copyright Act. The focus of this article concerns occasions where artistic works are captured incidentally, whether by film or photograph. Take the example of a person filming a video of themselves to post onto the newest social media platform, TikTok. That person, colloquially called a TikToker,⁹ films the video in front of a temporary mural and uploads it to TikTok. The TikToker has not infringed the artist's copyright because the video of the temporary mural was incidental, and the use and publication are

protected under the exceptions detailed in sections 67 and 68 of the Copyright Act. The TikToker had not intended to specifically capture that artistic work; it was merely in the background of the video. However, this scenario changes if the TikToker were to take a screenshot of their video (with the temporary mural visible in the background) and enlarge this for a canvas print to be sold online. The TikToker may not be protected by sections 67 and 68 of the Copyright Act because the published screenshot might not be considered a film or broadcast.

Modifications to this scenario result in different legal positions under the Copyright Act. For example, what if the TikToker films the video at their home, in front of a designated set-up where they have curated the background and such background includes a canvas artwork created by a local artist? Is that filming of the artwork still considered incidental? The answer to this may boil down to the facts and the context of the incidental filming, per commentary previously made by the Federal Court of Australia.¹⁰ However, it is likely this would not be protected by section 67.

Section 67 of the Copyright Act provides an exception to copyright infringement where a copyrighted work is incidentally included in a film or television broadcast. It reads:

*[T]he copyright in an artistic work is not infringed by the inclusion of the work in a cinematographic film or in a television broadcast if its inclusion in the film or broadcast is only incidental to the principal matters represented in the film or broadcast.*¹¹

Section 68 of the Copyright Act further provides an exception to copyright infringement where there is publication of a film or broadcast incidentally including a copyrighted work. This section states:

*The copyright in an artistic work is not infringed by the publication of a painting, drawing, engraving, photograph or cinematograph film if, by virtue of section 65, section 66 or section 67, the making of that painting, drawing, engraving, photograph or film did not constitute an infringement of the copyright.*¹²

Notably, the exception does not cover artistic works incidentally included in a photograph. This gap in the exceptions is inconsistent. Film is no more than a series of still images strung together in quick succession, typically 25 or 30 frames a second. Moreover, the Cambridge Dictionary defines the word "film" as "a series of moving pictures, usually shown in a cinema or on television and often telling a story."¹³ Similarly, the term "video" is defined by the Cambridge Dictionary as "a recording of moving pictures and sound, especially as a digital file, DVD, etc."¹⁴ It seems odd then that a film consisting of a series of still images is protected by section 67, but a single photograph is not.

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Suppose the TikToker records a video which incidentally includes someone else's artistic work, and then extracts a still frame from the video also depicting that artistic work. Would this constitute copyright infringement, or would the TikToker be protected under section 67 of the Copyright Act? Arguably, taking a series of still images as part of a film is permitted and therefore using one of those stills should also be exempt from infringement. This is not a theoretical risk either, particularly in today's media consumption where most of Generation Z uses videos to share moments with friends and followers, or to create artistic content shared with millions of users. These videos are no longer the kinds of home videos from the aughts, recorded on a large video recorder with a small megapixel camera. Today, most smartphones have 4k video recording which can produce 8 megapixel still images. A still image at that quality will give a high quality 8 x 10 inch print at 300 dots per inch. While professional and amateur photographers alike can currently purchase cameras that can produce 6k and 8k videos, increased camera quality is seeping into the mainstream. Camera quality on smartphones only continues to improve, with recent phone models producing 6k and 8k videos. This increases the opportunity for everyday users to produce high quality videos and photographs, making a workaround to section 67 even more practical.

In 2013, the Australian Law Reform Commission ("ALRC") released its *Final Report on Copyright and the Digital Economy*. The ALRC concluded that section 67 and other exceptions in the Copyright Act were uncertain and inadequate to protect incidental or technical uses.¹⁵ The ALRC acknowledged that such uncertainty "has adverse effects on innovation, incentives to build new services and products, and Australia's competitiveness as a place for technological investment" and that accordingly the exceptions should be repealed and replaced with a flexible fair use exception.¹⁶ It considered the fair use doctrine to "better accommodate technological change and foster lawful innovation."¹⁷ In the alternative, the ALRC recommended introducing a new fair dealing exception which includes "incidental or technical use" as a prescribed purpose.¹⁸ Although the Report did not consider the gaps present within section 67 of the Copyright Act, its recommendations should be expanded to address those gaps and apply to all works including photography. Indeed, many of the comments relating to data and text mining in the ALRC's Report could also apply to incidental use through other mediums like photography, such as the following comment submitted by Google:

[Closed exceptions] are antithetical to how the internet works and the dynamic nature of the creativity enabled by the internet. Australia's system of closed-purpose, prescriptively described exceptions means that new and innovative uses of copyright materials that do not fall within the technical confines of an existing exception are not capable of being permitted by exceptions, no matter how creative the new use,

*or how strong the public interest in enabling that new use may be.*¹⁹

In its submission about transformative uses, Google highlighted that content creation "is no longer the sole preserve of a 'media sector'".²⁰ Instead, the public drives content creation and so a broader application of section 67, or alternatively a new fair use exception, will protect content creators from incidental infringement when sharing photos, videos, or otherwise engaging in common place activities of creating works which would otherwise infringe copyright.²¹

The Hargreaves Review noted a significant problem was the "growing mismatch between what is allowed under copyright exceptions, and the reasonable expectations and behaviour of most people".²² In Australia, it makes no sense that a person can take a still from a video which incidentally includes a copyrighted work and be protected under section 67 but a person taking a photo which incidentally includes a copyrighted work would not be protected. Since anyone with a smartphone can be a photographer, incidental infringement is likely widespread and generally harmless. If incidental infringement in photographs has minimal or no social harm, then the section 67 exception should protect such infringement. By not allowing reasonable uses of works, such as incidental infringement of works in photographs, copyright law undermines "its legitimacy and the copyright system as a whole suffers".²³ Its legitimacy is further undermined given the loophole in the present section 67 exception. The strict application of copyright law in this instance may be too harsh and "risk stifling creation and encroaching" on content creators' freedom of expression.²⁴

Impracticalities arise when considering the impacts of copyright law on an amateur or semi-professional content creator who wishes to upload a photo to a social media platform, and that photo incidentally includes a copyrighted work. There would be significant difficulty in tracing the right owners of third party content to obtain permission.²⁵ It is clear then that the current exceptions, particularly section 67 of the Copyright Act, fail to provide proper protection for use of copyrighted works. Accordingly, Australia should look to other jurisdictions to determine the best resolution to the ineffectiveness of its present exceptions.

Incidental Recordings in Other Jurisdictions

New Zealand

The New Zealand version of Australia's section 67 exception is in section 41 of the *Copyright Act 1994* (NZ) ("NZ Copyright Act") which reads:

- (1) *Copyright in a work is not infringed by—*
 - (a) *the incidental copying of the work in an artistic work, a sound recording, a film, or a communication work; or*

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(b) *the issue to the public or copies of an artistic work, the playing of a sound recording, the showing of a film, or the communication of a work to the public, in which a copyright work has been incidentally copied; or*

(c) *the issue to the public of copies of a sound recording, film, or communication work to which paragraph (a) or (b) of this subsection applies.*

(2) *For the purposes of subsection (1) of this section, a musical work, words spoken or sung with music, or so much of a sound recording or communication work as includes a musical work or such words, must not be regarded as incidentally copied in another work if the musical work or the words, sound recording, or communication work is deliberately copied.*²⁶

The exception for incidental copying in New Zealand is not only applicable to copyright infringement, but also extends to performers' rights in section 175 of the NZ Copyright Act.²⁷ Further, Part V of the NZ Copyright Act also partially incorporates section 41 in relation to the moral rights of authors.²⁸ Section 41 of the NZ Copyright Act provides broader protections for incidental copying and would protect any occasions where an artistic work is incidentally captured in a photograph.

Looking to the definition of "copying" under section 2 of the NZ Copyright Act, the exception contained in section 41 has even broader application. Section 2 of the NZ Copyright Act defines "copying" as follows:

Copying—

(a) *means, in relation to any description of work, reproducing, recording, or storing the work in any material form (including any digital format), in any medium and by any means; and*

...

(c) *includes, in relation to an artistic work, the making of a copy in 3 dimensions of a two-dimensional work and the making of a copy in 2 dimensions of a three-dimensional work; and*

(d) *includes, in relation to a film or communication work, the making of a photograph of the whole or any substantial part of any image forming part of the film or communication work—*

*and copy and copies have corresponding meanings.*²⁹

The definition of "copying" in the NZ Copyright Act specifically covers creating a photograph a still from a film. If Australia chooses to amend section 67, sections 2 and 41 of the NZ Copyright Act will provide a good example from which Australia can base its amendments.

UK

The UK revised its copyright legislation in 1988 and along with it, its incidental copying provision changed

significantly. No longer does it limit incidental copying to film and broadcast, but the incidental copying exception is now extended to any copyrighted works. Section 31 of the *Copyright, Designs and Patents Act 1988* (UK) ("UK Copyright Act") states:

(a) *Copyright in a work is not infringed by its incidental inclusion in an artistic work, sound recording, film or broadcast.*

(b) *Nor is the copyright infringed by the issue to the public of copies, or the playing, showing or communication to the public, of anything whose making was, by virtue of subsection (1), not an infringement of the copyright.*

(c) *A musical work, words spoken or sung with music, or so much of a sound recording or broadcast as includes a musical work or such words, shall not be regarded as incidentally included in another work if it is deliberately included.*³⁰

The language of section 31 is generally the same as section 41 in New Zealand, except for certain wording. The NZ Copyright Act permits incidental "copying" whereas the UK Copyright Act permits incidental "inclusion".³¹ Not much should be made of this difference, however on the face of it, the phraseology of the NZ Copyright Act when compared to the UK Copyright Act appears limiting. "Copying" as defined under the NZ Copyright Act does not specifically encompass "adaptation" of works. However, section 92 of the NZ Copyright Act includes provisions for circumstances where an adaptation also may not infringe copyright.³² In this way, the UK Copyright Act's use of the word "inclusion" rather than "copying" more clearly covers adaptations.³³ If section 67 of the Copyright Act is to be amended, using the specific language from section 31 of the UK Copyright Act will be broader and more flexible for instances of incidental copyright infringement, though proper consideration should be given to specifically including "adaptation" within an amended provision for full clarity.

US

Copyright legislation in the US provides an express "fair use" statutory recognition whereby "fair use" of a work is not an infringement of copyright in certain circumstances, such as for criticism, comment, news reporting, education or research.³⁴ Section 107 of the *Copyright Act of 1976* (US) ("US Copyright Act") is flexible and broad, and so may provide an exception for incidental infringement. There is no definition in the US Copyright Act for "fair use", nor is there a rule that can be automatically applied.³⁵ Instead, the factors to be considered in determining whether the use of a work is a fair use are set out in section 107 of the US Copyright Act:

Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other

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means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

- (1) the purpose and character of the use, including whether it is commercial in nature or non-profit;*
- (2) the nature of the copyrighted work and the interest at stake;*
- (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and*
- (4) the effect of the use upon the potential market for or value of the copyrighted work and whether the new use serves the same functional purpose as the original.*

*The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.*³⁶

These factors are not exhaustive, and courts in the US have regularly considered other factors such as “size, context, medium, amount of time shown, and likelihood of confusion.”³⁷ The fair use doctrine is integral to the US copyright system and promotes internet-based creativity and innovation in the US.³⁸ Incorporating this doctrine into Australian copyright law is likely to have the same effect, as was reported in the cost-benefit analysis for adopting fair use in Australia, commissioned by the Australian Government following the ALRC’s Final Report.³⁹

The doctrine of fair use is intended to balance the interests of the author with the interests of the public.⁴⁰ Section 107 of the US Copyright Act was designed to be flexible to minimise the difficulties of new technology and techniques which could not at that time be contemplated by legislators.⁴¹ Often, it is unreasonable for would-be users to seek permission from the copyright holder. This remains true in the earlier examples of the TikTok. If the TikTok wanted to film at an open park where a nearby band was playing, they would need to seek the band’s permission in case the song was incidentally included in the video. Likewise, if a photographer took a landscape photo which incidentally included an artistic work, the photographer would need to seek permission from the owner of the artistic work before they could publish their photo. These are unreasonable hurdles when the infringement is incidental and not a primary part of the work. The doctrine of fair use predominately resolves those issues and should seriously be considered in Australia as not only a resolution to the gaps in section 67 but to the gaps present in other exceptions.

It should, however, be noted that the doctrine of fair use is not a perfect solution. The ALRC may have overestimated how much the doctrine of fair use can achieve. An illustration

of the limitations of the doctrine of fair use are evident in the US decision of *Ringgold v Black Entertainment Television Inc* (“*Ringgold*”).⁴² The decision in *Ringgold*, discussed in more detail later in this article, held that a poster appearing in the background of a television episode was not protected by the doctrine of fair use. The poster was not incidental to the episode, but rather served a purpose of adding ambience to the set design of the episode. The nature of television production means any prop included on a set is likely intentional and rarely incidental. Accordingly, while the doctrine of fair use would remedy the present gap in section 67 of the Copyright Act, it may inadvertently create other gaps in copyright law.

Reforming Section 67 of the Copyright Act

The present exception for incidental infringement under the Copyright Act is insufficient for today’s digital reality. Given the implications that ever-evolving technology will have and the increased exposure of individuals when creating content online, reform is required to the Copyright Act to promote creativity and innovation amongst an increasingly digital artistic landscape. As discussed earlier, the reforms available include amending the present section 67 to be broader and reflect similar provisions in New Zealand and the UK or introducing a fair use exception into the Copyright Act, building on the present doctrine in the US. Scholars have discussed at length the benefits and drawbacks of each option. The purpose of this article is not to add to those comments but rather to consider which option is best to resolve the gaps in section 67. It is apparent on the above analysis that there is a need for copyright reform, which has been supported by reports into Australia’s copyright system,⁴³ and each of the available options are explored below.

Amending the Section 67 Exception

Australia could amend section 67 in a similar fashion to New Zealand and the UK and expand it to protect photographers from incidental infringement. If this is the option pursued, specific inclusion of “adaptation” of works should be reflected in the amended section to encapsulate the exception to incidental infringement clearly and fully. Consideration should also be directed to whether “principal matters” requires further clarification or if this is a matter for the courts to determine. The determination of what is a “principal matter” will likely operate in the same way the courts consider whether a substantial part of a copyright work or subject matter is infringed. That is, the courts should factor in how the incidental inclusion affects the quality of the other work, rather than the quantity included (whether that be how much of the copyrighted work is incidentally included or how much of the other work the incidental inclusion contributes to).

When confronted with a gap in copyright law, both Australia and New Zealand have kept fair dealing narrowly defined and have instead created specific exceptions to resolve the

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gap.⁴⁴ However, although ad hoc exceptions “attempt to maintain a balance between the copyright owners and users”, it is not an adequate resolution.⁴⁵ Such an amendment, although resolving the present issue, does not consider further exceptions that may be required which the legislature simply cannot keep up with.⁴⁶ One prime example of this is the exception introduced in 2006 which enabled Australians to record television at home, an exemption spurred by VCR recording technology. This exception was introduced in Australia around the time VCRs became obsolete. It is evident that legislators cannot foresee the impacts of technology on copyright law, nor are they swift enough at amending legislation to reflect the challenges that technology developments create in copyright law.

The workaround enabling photographers to use stills from videos and be protected under section 67, and the broader implications of high-quality smartphone cameras on artistic works, demonstrates that legislation is outpaced by new uses and media consumption. Further, the rigidity of the current exceptions (and any amendments or additions to the present exceptions) does not enable organisations or individuals to innovate, including with how they use technologies available to them or how they create and share content on social media. Narrow exceptions like section 67 of the Copyright Act stifle competition and limit innovation, which is contrary to the purpose of copyright law.

If section 67 of the Copyright Act were to be broadened, it could be amended as follows (with the proposed amendments in bold and deletions in strikethrough):

*[T]he copyright in an artistic work **or adapted work** is not infringed by the inclusion of the work **or adapted work** in a cinematograph film or in a television broadcast **another work** if its inclusion in the ~~film or broadcast~~ **other work** is only incidental to the principal matters represented in the ~~film or broadcast~~ **other work**.*

This proposed amendment to section 67 would “align with the reality faced by photographers” and “provide for incidental inclusion of all types of works in any other work”.⁴⁷ This would also decrease the potential for infringement suits where a content creator unwittingly shares a photo which incidentally includes a copyrighted work and instead enables courts to focus on determining whether use by way of inclusion in a background would constitute infringement.⁴⁸ Including sub-sections to section 67 (like sub-sections 31(b) and (c) of the UK Copyright Act or sub-sections 41(1)(b) and (c) and sub-section 41(2) of the NZ Copyright Act) will also clarify instances where the exception does and does not apply.

The Fair Use Exception

The alternative avenue available to remedying the gaps in the present incidental infringement exception in Australia is to adopt a US-style fair use exception. Adopting a fair use

exception similar to section 107 in the US Copyright Act is not without its problems. The lack of a definition and deliberate vagueness of section 107 has resulted in judicial confusion and disparity (though as discussed above, the section 67 exception is also not void of any vague concepts).⁴⁹ Further, despite the amount of times US courts have ruled on the issue, no clear definition of fair use has emerged.⁵⁰ Instead, each case raising the fair use exception must be decided on the facts and tailored accordingly to relevant issues.⁵¹ In using the four factors detailed in section 107 that US courts consider in deciding whether infringement is allowed under the fair use exception, it is evident how the fair use exception would fill the gaps in Australia’s present section 67 exception.

Firstly, US courts will consider the purpose and character of the use of copyrighted works, including whether it was used for a profit or non-profit purpose.⁵² Commercial use of a work is particularly relevant because commercial use of copyrighted material lends weight to a finding of “an unfair exploitation of the monopoly privilege that belongs to the owner of the copyright.”⁵³ This is not a per se rule but rather a separate factor that often gives weight against a finding of fair use.⁵⁴ This is also not to say that every commercial use will be found to be copyright infringement, nor does this mean that non-profit use will be protected by a fair use exception.⁵⁵ In the TikTok example, the purpose and character of using the copyrighted works, although unintentional, will still be considered for a profit as generally TikTok influencers profit from their content (typically through advertising). Likewise, a photograph which incidentally includes an artistic work is also likely to be considered for profit.

The second consideration for deciding fair use is the nature of the copyrighted work, together with the relevant interest. In circumstances where the copyrighted work is more a collection of facts rather than a creative or imaginative work, use of that work may fall under the fair use doctrine.⁵⁶ US courts have also considered whether the copyright work is for educational, public-interest or entertainment purposes. In most circumstances, the artistic work which is incidentally included in a photograph will be for entertainment purposes. However, in the US this has not precluded a finding of fair use and the nature of the copyrighted work is not a factor weighed heavily in judicial analysis.⁵⁷

Substantiality of use is the third factor in the fair use doctrine and includes a determination of quantitative and qualitative substantiality.⁵⁸ US courts give weight to the amount and substantiality of the portion of the copyrighted work used in relation to the whole of the work.⁵⁹ The briefer the use and the less attention was focused on the copyrighted work, the greater likelihood that a court will consider use incidental and protected by the fair use doctrine.⁶⁰ When considering this factor, it is likely that a photograph incidentally including part of an artistic work will be protected by the fair

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use exception. Further, there are limited situations where the fair use exception will apply to protect the use of an entire work in another piece of work, where the functional purpose of the original work is different to that of the new work.⁶¹ For example, the US District Court for the Southern District of New York observed the following:

*Perhaps an apt analogy would be the instance of a person being photographed incidentally reading a current magazine in which the copyrighted cover of a magazine was reproduced as a matter of background. I doubt if it could be successfully contended, in the absence of some special circumstance, that the publication of the photograph with the magazine cover was anything more than a 'fair use' of the copyrighted cover, or that the statute intended to forbid such a use.*⁶²

Arguably then, a photograph wholly containing a temporary mural or the front cover of a magazine as merely a background in a broader landscape should fall under the fair use exception. However, who is to say whether the functional purpose of a photograph is different to a magazine cover or mural?

In *Ringgold*, a visual artist claimed that a sitcom had infringed her copyright when a poster depicting her art appeared in the background of several shots of an episode. The Second Circuit Court concluded that the use of the poster in the episode went beyond the fair use exception because it served the same purpose as the work of art itself – that is, to be decorative.⁶³ In this case, the purpose of the use was assessed from the point of view of the show's fictional characters, rather than assessing the purpose of the use from the point of view of the show's creators who arguably would not intend to decorate the viewers' homes with televised art.⁶⁴ Although it acknowledged that no one would purchase a copy of the episode as a substitute for the artwork, the Court still held that the show's incidental use was not transformative.⁶⁵ The Court was not proposing that the functional purpose of a television show may be the same as a piece of art. Rather, the Court considered that the functional purpose of the poster in the episode served to enhance the visual effect of the set of the television show (which happens to serve a commercial purpose). Turning to the earlier examples, if a temporary mural or the front cover of a magazine adds to the ambience or scenery of a photograph, then arguably it may serve a functional purpose. For example, a temporary mural enhances the streetscape and the streetscape is what a photographer or videographer is looking to include to add ambience to their work. In this way, the fair use exception may not always be fair.

This leads us back to our initial issue. Under the Copyright Act, a still from a video which incidentally includes an entire prior artistic work might be considered to serve a different functional purpose than a mural or magazine cover, however a photograph of the same would not. This seems rather absurd. Accordingly, if the fair use exception is adopted in

Australia, the courts should exercise caution in considering the functional purposes of a work. Courts must consider whether the use of the work is so excessive that it supersedes the copied work itself and strike an appropriate balance on a case-by-case basis when considering what does and does not serve a functional purpose.⁶⁶

The final element of the fair use doctrine is the effect the unauthorised use will have on the market for the copied work.⁶⁷ In particular, US courts have considered whether the use interferes with the sale of the copied work.⁶⁸ In *Mura v Columbia Broadcasting System, Inc.*, the US District Court for the Southern District of New York concluded that television images could not be substituted for an original physical work (in this case, puppets) and therefore the use would not prejudice the work's sales.⁶⁹ Further, the Second Circuit Court has found the fair use exception applies where subsequent use of a copyrighted work does not compete with the original work and there is no evidence showing that the use has reduced the value of the copyrighted work.⁷⁰ Conversely, the fair use exception does not apply in instances where the use of a copyrighted work diminishes or prejudices the potential demand, sale or profits of that work.⁷¹ In the example of a photograph incidentally containing a protected magazine cover or mural, the photographer would need to show that the photograph does not diminish or prejudice the original work's demand, sale or profits. Whether the fair use exception applies will largely depend on the facts of the case. If the mural only constitutes a small part of the photograph, it is unlikely that the unauthorised use will have much impact on the original work. However, if it forms a larger part of the photograph (even if the mural is not fully captured), the public may seek to purchase the photograph to have the mural (or part of it) on display in their home. This would then diminish or prejudice the original work and a claim of fair use would be rejected.

On the above analysis, it appears that adopting the fair use doctrine in Australia will resolve the gap in the exceptions in the Copyright Act, and in particular the gap in section 67. However, there is complexity in using the fair use doctrine and it can cause confusion even amongst the legal fraternity. Accordingly, the fair use doctrine may not provide enough comfort for photographers to publish photos which incidentally contain a copyrighted work and therefore may not entirely resolve the problem at hand. Although unpredictable, it should be noted that the fair use exception in the US is no more unpredictable than questions of authorship, infringement or violation of moral rights.⁷²

The flexibility of the fair use doctrine should not be detracted by potential uncertainty, because the unpredictability of the fair use exception can be addressed by legislation and the courts. Although contentious, a bold approach like the fair use doctrine is required to resolve the gaps contained within the exceptions under the Copyright Act. Entrenching

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this doctrine in the Copyright Act need not create more uncertainty though, as was noted by the Irish Copyright Review Committee in its consideration of fair use:

*Fair use is the issue which aroused the greatest passions both in the submissions and at the public meeting. On the one hand, its critics often characterised it as little better than parasitic larceny, allowing a user to take unfair commercial advantage of a right-holder's work. On the other hand, its enthusiasts argued that, in the context of innovation, it is better to be bold than to be timid, and that, to support innovation, Irish copyright law must itself be innovative and introduce an exception permitting reasonable uses of copyrighted works. It is impossible to reconcile these extreme positions, but a more balanced outcome may yet be achieved.*⁷³

Submissions to the ALRC, and commentary following its recommendations, reflected those made to the Irish Copyright Review Committee. An improved version of the fair use doctrine in Australia, addressing its shortfalls, would surely be an acceptable solution to fixing the present gaps in Australia's exceptions. If the fair use doctrine were to be adopted in the *Copyright Act*, to ensure the test is applied generally and consistently Australian courts should use the following guidelines proposed by scholar Alexandra Lyras:

[C]ourts should analyse:

- (1) the purpose and character of the use including whether it is profit or non-profit;*
- (2) the nature of the copyrighted work used and whether the work is used in the intended way;*
- (3) the amount of time the work is shown (whether the work is focused on or is quickly panned);*
- (4) the substantiality of the use and whether all or part of a work is used or shown;*
- (5) the context in which the work is shown;*
- (6) the medium (whether the copy or display is transmitted in a different and non-competitive market or whether the copy or display may be used as a substitute for the original); and*
- (7) the effect on the market and whether the use is more like free advertising that will boost sales or more like a devaluation from exposure.*⁷⁴

Further, Australian courts would not be starting from scratch when deciding fair use cases, but rather could rely on the US and other foreign case law when interpreting the fair use doctrine and applying it to relevant scenarios. The commentary for Australian courts to consider will also extend to similar fair use provisions in countries such as India, Singapore, South Korea, Israel, and the Philippines.

Applying those principles in an Australian version of the fair use exception would go towards protecting photos which incidentally include copyrighted work and will close the gap

in section 67 of the Copyright Act. Referring to the earlier example of a photograph partially containing a temporary mural in the background, this should fall into the fair use category under the above principles. First, the work is used in a reasonable way as forming part of the landscape of the photo and arguably brings no direct profit or commercial gain to the photographer as it would be difficult to claim that the partial appearance of a temporary mural in the background affects the value of the photograph. Additionally, the artist's interests in preserving the value of the work are not compromised by allowing the photograph to partially show the mural in the background. Further, the mural is shown in a way consistent with its intended use – in the streetscape but captured in the form of a photograph. Moreover, although the duration of the photograph could be infinite, the fourth and fifth factors identified above minimise the effect of the duration. The use of the mural in the background of the photo only forms a portion of the overall photograph and is purely part of the landscape. In the context of a photograph, depending on the depth and focus, the mural itself may not be clear and not a prominent feature of the photograph. The two-dimensional photo of the mural will also not replace the original mural and so the photo cannot substitute visiting the full mural in person. The photograph would not devalue the actual mural, does not make it commonplace, and does not over-saturate the market for the work. Therefore, a photograph partially containing a mural in the background would be considered incidental and would likely be allowed under the fair use exception.

Recommended Resolution

There are two possible solutions to the present gaps in section 67 of the Copyright Act. The first solution would be for section 67 to be simplified by making it fall equally on all types of works protected by copyright legislation. This amendment would be along the lines of section 31 in the UK Copyright Act. The other option is for Australian copyright law to move away from tightly restricted defences and instead embrace the much wider and more practical US-style fair use principle. Australian policy makers continue to avoid the latter option every time they are presented with recommendations for updates to copyright law, as was the case following the recent amendments to the Copyright Act following the ALRC's Report on Copyright and the Digital Economy. It seems that section 67 may be with us for some time. However, with the increasing prominence of social media and accessibility of technology, it is only a matter of time before copyright law is required to evolve.

Flexible copyright exceptions or a fair use exception is critical to both the distribution of copyrighted works and for innovative uses of such works, while having negligible downsides for rights holders.⁷⁵ Adopting either of the two options will also be consistent with Australia's international law obligations including the "three-step test" on limitations and exceptions in Article 9(2) of the *Berne Convention for the*

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Protection of Literary and Artistic Works 1886. Importantly, there were no concerns raised about section 107 of the US Copyright Act in the hearings leading up to the US becoming a signatory to the Berne Treaty.⁷⁶ However, Australian scholar Emeritus Professor Sam Ricketson AM has posited that the open-ended nature of the fair use doctrine may be non-compliant:⁷⁷

*It is quite possible that any specific judicial application of Section 107 will comply with the three-step test as a matter of fact; the real problem, however, is with a provision that is framed in such a general and open-ended way. At the very least, it is suggested that the statutory formulation [in section 107] raises issues with respect to unspecified purposes (the first step) and with respect to the legitimate interests of the author (third step).*⁷⁸

To ensure the doctrine would be compliant with Australia's international obligations under the Berne Convention, the legislation would need to be framed to provide adequate guidance and promote the interests of the copyright holder. Employing the seven factors detailed by Lyras will go towards ensuring this.⁷⁹ Regardless of the Berne Convention obligations, if a fair use exception is adopted, Australian policy makers would be wise to ensure the legislation provides structured guidance to provide assurance to rights holders and address the limitations of the US fair use doctrine.

Considering the above analysis, both options will succeed in resolving the present gaps in section 67 of the Copyright Act. Amending section 67 to incorporate broader language and include all works will provide a faster and more certain resolution to the immediate problems with Australia's copyright exceptions. However, it does not provide a long-term response to continued movement in the technology space and changes in the way we use and share information and creative content. Accordingly, this author recommends a carefully drafted fair use exception that is structured but flexible to preserve Australia's copyright position for decades to come.

Conclusion

This article has examined how speedy technology development and digitisation enables quick and inexpensive content creation and distribution, including of photographs, which may incidentally contain copyrighted works and infringe the rights of copyright holders. The above analysis demonstrates that Australian copyright law does not adequately address the issues presented by digitisation and does not protect users from incidental infringement. Changes to the Copyright Act are required to cater to the new digital landscape and to move away from archaic infringement exceptions. There are two options presented in this article to improve Australia's exceptions:

- (1) broadening the present section 67 exception; or
- (2) adopting the fair use doctrine into the Copyright Act.

The ever-changing shift in technology and content creation requires the Copyright Act to evolve and balance not only the interests of copyright holders and creators, but also the public. Amending the Copyright Act to close the present gap in section 67 (and ideally the other gaps likely to present themselves later) will not promote copying. Instead, it will legitimise the use of copyrighted works and promote creativity in the public. Following the above analysis on incorporating either a broad fair use exception or new ad hoc exceptions, one avenue is preferred. Although there is comfort in the certainty that legislated exceptions provide, these are insufficient in practice. It requires legislators to predict the necessity of new exceptions (or employ a "wait and see" approach) and draft new provisions in a manner which appropriately addresses the issue. Such a process where "every beneficial new copying application of digital technology waits years for a bespoke exception" is not desirable.⁸⁰

The solution to the present gaps in Australian copyright exceptions is to adopt a broad fair use exception with detailed factors to ensure it is applied consistently. While there are problems with the fair use doctrine, careful drafting of such an exception with consideration given to those relevant problems will ease concerns. Further, an open-ended fair use doctrine is likely to have "the largest net benefit" compared to the closed-ended fair dealing system.⁸¹ Not only will it ensure that incidental use of copyrighted works through photographs is exempt from infringement, but it will also remain flexible enough to adapt to future uses that we can only imagine.

Given Australia has been reluctant to introduce a fair use exception, if the fair use doctrine is not implemented soon, then the Australian Government should seriously consider updating the present section 67 exception to apply more broadly to address its present shortfalls. Without any update to section 67 of the Copyright Act, sharing creative content online is only going to present more uncertainty. Although clever, a workaround to using film stills when generating content can only go so far in reducing that uncertainty.

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Pharmaceutical Patent Extensions of Term: *Lundbeck v Sandoz* – “Another Instalment”

Paul Nolan¹

Introduction

Regulatory approval processes involved in bringing a patented pharmaceutical product to market lead to a diminution in the patent term and a loss in financial terms. For pharmaceutical companies investing large sums, patent term extensions are a crucial means of compensating for those losses. Consequently, patent term extension litigation has increased as drug companies seek to maximise their returns on what are often huge costs regarding research and development (“R&D”), clinical testing and regulatory approval.

The High Court of Australia earlier this year aptly described *H. Lundbeck A/S v Sandoz Pty Ltd; CNS Pharma Pty Ltd v Sandoz Pty Ltd* (“*Lundbeck v Sandoz*”) as:

*another instalment in long-running serial litigation concerning the extension under the Patents Act 1990 (Cth) of the term of a standard patent relating to a pharmaceutical substance known as escitalopram.*²

Whilst the decision turned largely on its peculiar facts, the Court did provide further guidance on a range of issues, particularly who is entitled to bring patent infringement proceedings, and when, in circumstances where an extension is granted after the expiration of the patent term.

This article will provide a brief overview of the history of pharmaceutical patent extensions before looking at the four primary issues that the High Court addressed and the implications that may flow from the judgment.

A Background to Pharmaceutical Patent Extensions in Australia

1. Introduction

In the pharmaceutical industry, patents are used to protect the active pharmaceutical ingredient and different aspects of the medicine, including dosage, coating, salt moiety, formulation and method of administration or treatment.³ In addition to the standard patent term in Australia of 20 years,⁴ pharmaceutical products are also eligible for an extension of patent term beyond that allowed for other products⁵ and also have the benefit of other forms of non-patent derived market exclusivity.⁶

Extension of the patent term under section 70 of the Patents Act is available where the patented invention satisfies either or both of the following conditions:

*(a) one or more pharmaceutical substances per se must in substance be disclosed in the complete specification of the patent and in substance fall within the scope of the claim or claims of that specification;*⁷

*(b) one or more pharmaceutical substances when produced by a process that involves the use of recombinant DNA technology, must in substance be disclosed in the complete specification of the patent and in substance fall within the scope of the claim or claims of that specification.*⁸

Further, in relation to at least one of those pharmaceutical substances, the goods containing, or consisting of, the substance must be included in the Australian Register of Therapeutic Goods (“ARTG”);⁹ the period beginning on the date of the patent and ending on the first regulatory approval date for the substance must be at least five years;¹⁰ and the term of the patent must not have already been extended.¹¹ As recently held by the Full Court of the Federal Court of Australia, patent term extensions must be based on the earliest first regulatory approval date of a good containing any of the substances disclosed and claimed in the patent, regardless of whether those goods are of the patentee¹² or of a competitor or third party.¹³

2. Pharmaceutical Patents

As noted by Lawson,

*[T]he perennial problem faced by patent schemes all around the world is determining a proper patent term – too short and it is insufficient incentive (or reward) and too long and it is imposing an unnecessary restriction on competition (contrary to the public interest and involving high social costs). Finding the appropriate patent term has never been, and is unlikely to ever be, determined to the satisfaction of everyone.*¹⁴

The loss of patent-protected exclusivity is characteristically followed by severe declines in sales and profit to incumbent companies, better known as the “patent cliff”.¹⁵ When patent protection expires, generic manufacturers enter the market with drugs equivalent to the originator’s drug but typically sold at a significantly lower price.¹⁶

In Australia, the Patents Act was amended in 1998 to introduce extensions of term for a period of up to five years

for pharmaceutical substances “in substance disclosed” and claimed therapeutic use in the complete specification.¹⁷ The aim of the amendments was to provide 15 years of effective life for the patent from the first date of regulatory approval to the end of the period of the extension, provided that the patent did not exceed a maximum term of 25 years.

The extension of term scheme was instituted by the *Intellectual Property Laws Amendment Act 1998* (Cth). The principal objects of the 1998 Act were summarised in the Revised Explanatory Memorandum for the relevant Bill:

The Bill amends the Patents Act 1990 to give effect to the government’s decision to provide for an extension of term scheme for pharmaceutical patents. An extension of up to five years will be available for a standard patent relating to a pharmaceutical substance that is the subject of first inclusion on the [ARTG]. The scheme will apply to all existing 20-year patents, as well as those patents granted after the commencement date.

The new arrangements make provision for ‘spring-boarding’ activities. This allows manufacturers of generic drugs to undertake certain activities at any time after the extension is granted solely for the purposes of meeting pre-marketing regulatory approval requirements.¹⁸

The rationale for reintroducing extension of term legislation was explained in detail:

The development of a new drug is a long process, estimated to average around 12 years, which requires a new chemical entity to be patented early in the process in order to secure its intellectual property rights. However, considerable research and testing is still required before the product can enter the market. As a consequence, patentees of new drugs usually have considerably fewer years under patent in which to maximise their return.

It is expensive to bring a drug to market, around US\$380 million, and involves considerable risk. As such, research based pharmaceutical companies rely heavily on patents to generate the substantial cash flows needed to finance the development of new drugs from the discovery stage, through the pre-clinical and clinical development phases, to eventual marketing.

A country’s patent system is also an important factor in contributing to a company’s decision on whether to invest or not. If Australia has a weak patent system, relative to its competitors, there is a risk that investment in research and development will be lost to those offering stronger patent protection.

The objective of this proposal is to provide an ‘effective patent life’ – or period after marketing approval is obtained, during which companies are earning a return on their investment – more in line with that available to inventions in other fields

of technology. It is also intended to provide a patent system which is competitive with other developed nations.¹⁹

As succinctly stated by the High Court majority in *Alphapharm Pty Limited v H Lundbeck A/S*:

The purposes of the extension of term scheme are to balance the competing interests of a patentee of a pharmaceutical substance whose exploitation of monopoly has been delayed (because of regulatory delay) and the public interest in the unrestricted use of the pharmaceutical invention (including by a competitor) after the expiration of the monopoly (that is, the term).²⁰

3. Spring-boarding

In the context of patents, “spring-boarding” is the process that allows a generic drug manufacturer to seek and obtain regulatory approval of their generic version of a patented drug, whilst the patent is still in force. This process enables generic manufacturers to rapidly launch their bioequivalent version of the drug onto the market as soon as the patent has expired. Without spring-boarding provisions, any use of the subject matter of the patent while it is in force constitutes patent infringement. Hence, without the ability to spring-board, it could be an unacceptably long period before a generic version may enter the market within any particular patent area.

Section 78 of the Patents Act broadly provides that if the Commissioner grants an extension of term, the exclusive rights of the patentee during the term of the extension are not infringed by a person who is “exploiting” either:

- (a) a pharmaceutical substance per se within the claimed scope of the extended patent for a purpose other than a therapeutic use; or
- (b) any form of the invention that is not a pharmaceutical substance per se disclosed in the specification and within the scope of the claims.

As noted above, the Explanatory Memorandum for the 1998 Amending Act referred to the amendments as spring-boarding provisions to permit generic pharmaceutical suppliers to take the necessary steps to satisfy pre-marketing regulatory requirements.²¹ The exclusive rights of the patentee, as defined in section 13 of the Act by reference to the definition of “exploit” in Schedule 1 of the Act,²² are reduced during the extended term.²³

Section 119A was inserted into the Patents Act in 2006.²⁴ It provides that the rights of a patentee of a “pharmaceutical patent” are not infringed by a person exploiting an invention claimed in the patent if the exploitation is solely for purposes connected with obtaining inclusion in the ARTG of certain goods intended for therapeutic use, or for purposes connected with obtaining similar regulatory approval under a foreign law. It seeks to strike a balance. On one hand, there should be incentive and reward for originator companies

in having undertaken the lengthy and expensive process of getting a new pharmaceutical onto market. On the other, there must be space for competing generic companies to enter the market and offer their cheaper alternatives to the public in a timely manner.

4. *The 2012 and 2016 Reviews*

In 2012, the Australian Government undertook a review of pharmaceutical patents to examine whether the national patent system was effective in securing timely access to competitively priced pharmaceuticals and supporting innovation and employment in the industry. An important part of the review was to examine the extensions of term for pharmaceutical patents under section 70 of the Patents Act.

The review found that the increased patent protection afforded by increasing patent life and establishing an extension of term did not lead to an increase in investment in Australian pharmaceutical R&D that was commensurate with the costs of the term extension to Australia.²⁵ Accordingly, the Review Panel recommended the exclusivity period of pharmaceutical patents be reduced by either:

- (a) reducing the maximum length of extensions, which would allow extensions to continue, but the extensions would be shorter; or
- (b) reducing the maximum effective patent life from 15 years, which would result in granting less extensions.²⁶

The recommendations remained dormant before the report was eventually addressed in 2016 by the Australian Productivity Commission as part of its review. It was considered that extensions of pharmaceutical patent terms were “not only ... unwarranted, but they are also expensive”.²⁷ The Commission made the following recommendations:

The Australian Government should reform extensions of patent term for pharmaceuticals such that they are only:

- (i) *available for patents covering an active pharmaceutical ingredient, and*
- (ii) *calculated based on the time taken by the Therapeutic Goods Administration for regulatory approval over and above 255 working days (one year).*²⁸

The Australian Government noted the recommendations but indicated that it had no plans to proceed with them and that “any consideration of changes to the extensions of term regime must strike a balance between ensuring that new pharmaceutical products are developed and that they are safe and effective, but also ensuring that they are accessible and affordable.”²⁹

As noted by Sidick, both reviews were “destined to fail for originators given that they were conducted by economists whose primary focus was short-term cost”, when the long-term goal for both policy makers and pharmaceutical

companies is to supply innovative medicines and improve the quality of life. Both reviews assumed that originators would keep innovating in the absence of patent term extensions and both reviews were hasty to conclude that extensions of term had no apparent benefits simply on the basis that Australian R&D investment had not increased.³⁰

Escitalopram and Lundbeck

Depression is a common illness worldwide, with an estimated 3.8 per cent of the population affected, including 5 per cent among adults and 5.7 per cent among adults older than 60 years. Approximately 280 million people in the world suffer with depression.³¹ When it is recurrent and of moderate or severe intensity, depression may become a serious health condition that can cause the affected person to suffer greatly and function poorly at work, at school and in the family.³²

The COVID pandemic has seen depression rates soar.³³ The global antidepressants market was expected to decline from AU\$26.25 billion in 2020 to AU\$15.87 billion in 2021 at a compound annual growth rate (“CAGR”) of -39.5 per cent. This change in growth was primarily due to the companies stabilising their output after providing for the exponential demand during the COVID pandemic in 2020. The market, however, is expected to reach AU\$21.28 billion in 2025 at a CAGR of 7.6 per cent.³⁴ In light of these figures, it can be appreciated why patent terms, licensing arrangements and the timing of the introduction of generic medicines translates into large revenue, and why rights protecting against infringement are carefully guarded.

Escitalopram is used as a treatment for depression. Two pharmaceutical products containing escitalopram are included in the ARTG. One is known as Cipramil, the other as Lexapro. Between them, they have given rise to a string of decisions stretching from the Australian Patent Office to the High Court of Australia for a period approaching two decades.³⁵

Lundbeck, applied for the Escitalopram Patent on 13 June 1989, for an invention entitled “(+)-Enantiomer of citalopram and process for the preparation thereof”. It claimed a compound (an enantiomer) known as “(+)-citalopram” and its non-toxic acid addition salts, and also a pharmaceutical composition comprising that compound. As noted, the pharmaceutical substance disclosed in the complete specification, (+)-citalopram, is used to treat depression.

Citalopram, a racemate, also an invention of Lundbeck’s, was the subject of the Citalopram Patent, dated January 1977. A racemate, or racemic mixture, comprises two enantiomers in equal measure. On 9 December 1997, Lundbeck successfully obtained the inclusion of a pharmaceutical product called Cipramil in the ARTG based on the Citalopram Patent. Cipramil comprises two enantiomers: (+)-citalopram; and the mirror image enantiomer (-)-citalopram.

On 16 September 2003, Lundbeck successfully obtained the inclusion in the ARTG of a second pharmaceutical product, Lexapro, based on the Escitalopram Patent, which consisted of (+)-citalopram. It was claimed that the isolated enantiomer (+)-citalopram is therapeutically more active and more than 100 times more effective in treating depression than the racemate.³⁶

History of the Litigation

The March 2022 High Court decision in *Lundbeck v Sandoz* is another chapter in the long-standing serial litigation in relation to products containing escitalopram between the Lundbeck companies³⁷ and CNS Pharma in one corner, and several pharmaceutical companies providing generic products, including Sandoz, in the other. Lundbeck Denmark was the patentee of a standard patent relating to escitalopram granted on 13 June 1989. As noted above, it was sold under the brand names Lexapro and Cipramil.

In the interests of brevity and with gratitude to Liberman following his article in Issue 123 (March 2021) of this Journal examining the Full Court decision and its implications, the chronology outlined there is adopted and updated where necessary to include events since that time.³⁸

- 13 June 1989: Application for the Patent filed.
- 22 December 2003: First application filed by Lundbeck A/S to extend the term of the Patent based on the registration of escitalopram oxalate on the ARTG on 16 September 2003 (the “Lexapro registration”).
- 27 April 2004: The term of the Patent based on the Lexapro registration was extended by the Commissioner of Patents to 13 June 2014.
- 26 September 2005: Date of deed between Lundbeck A/S as licensor and Lundbeck Australia as licensee, “which constituted an exclusive licence within the meaning of the Act”.³⁹
- 13 April 2006: Sandoz initiates proceedings in the Federal Court seeking revocation of the Patent.
- Late February 2007: Sandoz and Lundbeck enter into a Settlement Agreement in relation to the revocation proceedings. The decisive provision of the Settlement Agreement is clause 3 which states as follows:

3. Licence to exploit the Patent

(1) Lundbeck Denmark and Lundbeck Australia jointly and severally grant Sandoz an irrevocable non-exclusive licence to the Patent effective from:

- (a) 31 May 2009 if the Patent expires on 13 June 2009;*
- (b) 26 November 2012 if the Patent expires on 9 December 2012;*
- (c) 31 May 2014 if the Patent expires on 13 June 2014; or*

(d) 2 weeks prior to the expiry of the Patent if the Patent expires on a date other than a date described in clause 3(1)(a) to (c).

(2) In addition to the licence granted under clause 3(1), Lundbeck Denmark and Lundbeck Australia jointly and severally grant Sandoz an irrevocable non-exclusive licence to the Patent effective from the beginning of the calendar month in which the licence granted under clause 3(1) becomes effective, for the sole purpose of manufacturing, importing, marketing and offering to sell (but not selling or supplying) pharmaceutical products containing escitalopram.

(3) For the avoidance of doubt, nothing in this Agreement is to be taken as granting a licence of, or authorisation to exploit, any patent other than the Patent.

- 24 April 2008: Lindgren J in *Alphapharm Pty Ltd v H Lundbeck A/S* holds that the extension of term to 13 June 2014 was invalid because the relevant date under s.71(2) of the Patents Act was the date of the Cipramil registration on the ARTG – 9 December 1997 – and not the Lexapro registration.⁴⁰
- 19 June 2008: Lindgren J orders that the Register of Patents should be rectified by removing reference to the extension of term to 13 June 2014. This order is stayed, pending Lundbeck A/S’s appeal.
- 11 June 2009: The Full Court dismisses Lundbeck A/S’s appeal.⁴¹ The stay of the rectification order continues pending Lundbeck A/S’s application for special leave to the High Court.
- 12 June 2009: The day after the abovementioned Full Court ruling, Lundbeck A/S applies for an extension of time to 12 June 2009 (being the date on which Lundbeck A/S lodged its application for extension) in which to make an application to extend the term of the Patent to 9 December 2012, based on the Cipramil registration.
- 13 June 2009: The term of the Patent expires.
- 15 June 2009: Sandoz and various other generic suppliers commence the supply of their generic escitalopram oxalate products in Australia.
- 11 December 2009: The application for special leave is refused by the High Court.
- 9 February 2010: The Register is rectified by removing the entry extending the Patent’s term to 13 June 2014.
- 9 December 2012: Expiration of the term of the Patent based on the Cipramil registration – valid.
- 13 June 2014: Expiration of the term of the Patent based on Lexapro registration – invalid and removed from Register on 9 February 2010.

- 25 June 2014: The Commissioner grants an extension to the term of the Patent to 9 December 2012 based on the Cipramil registration.⁴²
- 26 June 2014: Lundbeck A/S commences infringement proceedings against Sandoz and other generic companies in respect of their sales for the period from 13 June 2009 to 9 December 2012. Lundbeck A/S relies on s.79 of the Act in bringing those proceedings. Pharma also commences proceedings against Sandoz in the Federal Court. Being neither the patentee nor an exclusive licensee, Pharma cannot bring proceedings for patent infringement. Rather, Pharma puts its separate claim for declaratory relief, damages and pre-judgment interest on the basis that Sandoz also engaged in misleading or deceptive conduct within the meaning of s.52 of the Trade Practices Act 1974 (Cth) and s.18 of the Australian Consumer Law in Sch. 2 to the Competition and Consumer Act 2010 (Cth).⁴³
- 21 November 2018: Jagot J finds against Sandoz in both proceedings. Her Honour makes declarations and awards damages and pre-judgment interest to Lundbeck Denmark and Lundbeck Australia and to Pharma for loss due to conduct on the part of Sandoz that is held to be misleading or deceptive.⁴⁴
- 4 August 2020: The Full Court upholds Sandoz’s appeal and overturns the primary judge’s decisions ordering that both proceedings be dismissed. The Full Court holds that Sandoz had a non-exclusive licence from Lundbeck Australia from 31 May 2009 to 9 December 2012 through the operation of clause 3 of Settlement Agreement. Accordingly, Sandoz’s sales between 15 June 2009 and 9 December 2021 do not amount to acts of infringement.⁴⁵
- 11 February 2021: Lundbeck and CNS Pharma are granted special leave to appeal to the High Court.⁴⁶

The High Court Decision

The matter was heard in the High Court on 8 October 2021 with judgment being delivered on 9 March 2022.⁴⁷ Lundbeck’s appeal was upheld whilst the appeal from CNS Pharma was dismissed.⁴⁸ The High Court, in essence, decided four issues:

- 1) The competing constructions of clause 3 in the Settlement Agreement;
- 2) Whether Lundbeck Australia, as exclusive licensee, had rights to bring infringement proceedings during the extended term;
- 3) When did a cause of action for damages for infringement during the extended term arise for the purpose of calculating pre-judgment interest; and
- 4) Whether Sandoz’s failure to warn the purchasing pharmacists that its supply of escitalopram products might infringe the Lundbeck (Denmark) patent (if and

when an extension of term was granted) constituted misleading and deceptive conduct.

1. Construction of Clause 3

Clause 3 is outlined in its entirety above and in the High Court decision.⁴⁹ The majority found that whilst the parties agreed that clause 3(1)(a) was triggered thereby rendering the licence effective from 31 May 2009, it was only Lundbeck who used the word “Patent” consistently such that the licence expired with the expiration of the original patent term on 13 June 2009. The argument from Sandoz that the licence had not only had no fixed end date but was irrevocable and indefinite was inconsistent with the other subclauses and failed to be “attentive to the internal logic of the settlement clause”.⁵⁰

Further, it was inferred that that was the “commercial result” that was intended by the parties thereby allowing Sandoz to sell the generic products during the final two weeks of the patent term, to the exclusion of other suppliers. That consideration for Sandoz agreeing to forego its challenge to the validity of the Patent was described by the majority as a “modest but valuable commercial benefit of a two-week head start over competing suppliers”.⁵¹

Following a discussion dealing with “expressions”, “implications”, “inferences” and expressly referring to the oft-cited judgment of Mason J in *Codelfa Construction Pty Ltd v State Rail Authority of New South Wales*,⁵² Edelman J, in a separate judgment, held that neither of the parties treated the term of the licences as the term of the Patent with any extensions. As stated by Edelman J:

*Such an interpretation would not have been contemplated by a reasonable person in the position of the parties since it would leave the licences in a form of suspended animation between the expiry of the initial term of the Patent and any subsequent post-expiry extension of the term.*⁵³

Whilst his Honour was of the view that “something went wrong with the manner in which the parties expressed themselves”, the background facts provided “sufficient satisfaction that a reasonable person in the position of the parties would have intended to limit the term of the licences to the initial term of the Patent.”⁵⁴ This effectively gave Sandoz a short head start before they were placed in the same position as their generic pharmaceutical competitors upon the expiry of the Patent term. Edelman J held that to submit that Lundbeck would give up “such valuable rights” to exclude others from exploiting escitalopram products for three and a half years without royalties, could not be accepted.⁵⁵

2. Rights to Bring Infringement Proceedings by Lundbeck Australia

The question here was whether Lundbeck Australia as exclusive licensee, could bring infringement proceedings against Sandoz.

Section 79 of the Patents Act provides:

If:

- (a) a patentee applies for an extension of the term of a standard patent; and
 - (b) the term of the patent expires before the application is determined; and
 - (c) the extension is granted.
the patentee has, after the extension is granted, the same rights to start proceedings in respect of the doing of an act during the period:
 - (d) commencing on the expiration of the term of the patent; and
 - (e) ending on the day on which the extension was granted.
- as if the extension had been granted at the time when the act was done.⁵⁶

Noting that section 76 gives power to the Commissioner to extend the term of a patent, with such extension being calculated according to section 77, the majority summarised the position as follows:

The position, in short, is that the power conferred by s 76 to extend the term of a standard patent relating to a pharmaceutical substance contained in goods included in the ARTG is a power to grant further exclusive rights to the patentee to exploit the invention from the date of the grant of the extension to the date of the expiration of the period that commences with the date of the expiration of the term of the original grant and that ends on the date determined in accordance with s 77. Where the power conferred by s 76 is exercised after the expiration of the term of the original grant, there is a temporal gap in the conferral of exclusive rights on the patentee. The function of s 79 is to fill that gap. In conferring rights to start proceedings in respect of acts that occurred between the expiration of the term of the original grant and the subsequent grant of an extension, s 79 operates to impose a substantive liability for those acts which does not arise merely by force of the exercise of the power conferred by s 76. In respect of acts that occurred between the expiration of the term of the original grant and the subsequent grant of an extension of the term, the rights to start proceedings conferred by s 79 (as qualified by s 78) are substantive and exhaustive.⁵⁷

Having laid that platform and stating that the text of the Act is “intractable and unambiguous”,⁵⁸ the majority went on to hold that the rights to bring proceedings in respect of those acts occurring between the date of the expiration of the original term of a patent and the date of the grant of an extension of the term of that patent, are limited to the patentee.

Accordingly, Lundbeck Denmark could bring proceedings as patentee, but Lundbeck Australia, as exclusive licensee, could not.⁵⁹ Justice Edelman held that to attempt to read

the words “or exclusive licensee” into section 79 was “such a large implication” that could not be permitted and agreed that that ground of appeal should be dismissed.⁶⁰

3. When Did the Cause of Action for Damages for Infringement Arise?

The *Federal Court of Australia Act 1976* (Cth) makes provision for interest on judgment sums between the date when the cause of action arose and when judgment is entered.⁶¹ The majority looked at when a “cause of action” arises and held that this is only when “all of the facts which the applicant must prove to obtain judgment for the recovery of the money have come into existence”.⁶² Reference was made to the High Court decision in *Do Carmo v Ford Excavations Pty Ltd* where it was held that the “concept of a ‘cause of action’ would seem to be clear. It is simply the fact or combination of facts which gives rise to a right to sue”.⁶³

Consequently, the only rights that Lundbeck Denmark had against Sandoz for infringement were those conferred by section 79 and the facts needed to establish those rights had become crystallised when the extension was granted on 25 June 2014, not at an earlier date. It will be recalled that the primary judge held that the cause of action for Lundbeck Denmark arose annually from 15 June 2009 and for Lundbeck Australia at the time of each infringing sale.⁶⁴

Justice Edelman stated that the expression “cause of action” is “slippery” and referred to the oft-cited passage from Diplock LJ in *Letang v Cooper* where his Lordship held that a cause of action is “simply a factual situation the existence of which entitles one person to obtain from the court a remedy against another person”.⁶⁵ Justice Edelman succinctly summarised the position as follows:

In other words, s 79 creates a new cause of action from the date of the grant of the extension, with that cause of action operating on past facts. It does not deem a cause of action to have arisen at that earlier date. The Full Court was therefore correct that interest under s 51A(1)(a) of the Federal Court Act could only accrue for Lundbeck Denmark’s claim from 25 June 2014, being the date on which the Commissioner of Patents granted the extension to the term of the Patent.⁶⁶

Accordingly, section 79 does not create a further fiction deeming a patentee as having a right to obtain a remedy at an earlier date, and interest on the judgment sum was only available from that June 2014 date when that cause of action arose.

4. Misleading and Deceptive Conduct

This aspect of the appeal involved the notice of contention that was raised by CNS Pharma’s allegation that Sandoz had engaged in misleading and deceptive conduct in supplying its generic escitalopram products either by:

- (a) failing, refusing, or neglecting to warn its customers (or potential customers) that the sale of the product could infringe the Patent; and
- (b) Sandoz impliedly representing that such products could be used by those customers (and potential customers) without infringing the Patent.

The primary judge found that Sandoz had engaged in misleading and deceptive conduct. Given that the Full Court held that there was no patent infringement, that aspect of the CNS Pharma case fell away.⁶⁷

The majority dismissed this aspect of the appeal as there was an insufficient evidentiary basis for this remote possibility and held it unnecessary to revisit earlier authorities dealing with misleading and deceptive conduct, save to highlight two principles:

- 1) where the conduct is not said to be directed to identified individuals, the need “to isolate by some criterion” a representative member of the class of persons to whom the conduct is directed;⁶⁸ and
- 2) where the misleading or deceptive character of the conduct is said to lie in non-disclosure of some circumstance, the need to ordinarily establish that the representative member of the class to whom the conduct is directed would hold a reasonable expectation that the circumstance would be disclosed if the circumstance exists.⁶⁹

Justice Edelman upheld the notice of contention and dismissed CNS Pharma’s appeal on a different point. His Honour recognised that it is possible for an implied representation of fact to be misleading or deceptive if the representation, whilst true, is subject to a qualification which is not disclosed.⁷⁰ That qualification must be material though. Whilst any implied representation by Sandoz that the products sold did not infringe any patent was found to be true at the time the representation was made, his Honour held that a remote possibility that a future extension to the term of a patent might permit proceedings to be brought against the purchaser, was not material.⁷¹

Accordingly, there was no material qualification to which any implied representation by Sandoz should have been measured against and the remoteness of the possibility that a future extension to the term of a patent might permit proceedings to be brought against the purchasers did not meet the threshold for a misleading and deceptive conduct claim against Sandoz.⁷²

5. *Litigation Epilogue*

There is a famous movie line: “Just when I thought I was out, they pull me back in!”⁷³ Despite success in the High Court, that decision is possibly not the end of the road for Lundbeck and the escitalopram litigation. In an earlier proceeding, it was held that the Commissioner of Patents

had power to determine licence applications under section 223(9) of the Act.⁷⁴ Sandoz’s application for such a licence was heard by the Deputy Commissioner of Patents who granted it.⁷⁵ An appeal by Lundbeck against the Deputy Commissioner’s decision was stayed pending the High Court’s determination.⁷⁶ To suggest that an agreement will be reached between the parties in lieu of an appeal may be stretching things too far in light of the longstanding history between the parties concerning escitalopram.

Conclusion

The decision in *Lundbeck v Sandoz* is largely confined to its own specific facts but there are several takeaways. First, what is clear from the judgment of the High Court is that in any settlement arrangement, it is critical how the parties frame their commercial intentions when entering an agreement and reducing that to writing. Documents reflecting those agreements should be unambiguous and use terms consistently where they are derived from the Patents Act. Ideally, future contingencies, even if remote, should be factored in and expressly provided for where possible, and not left open or vague.

Secondly, if the initial patent term expires and an extension is subsequently granted, only the patentee is entitled to bring an action for infringement that occurred during that extended term and that cause of action only accrues when that extension is granted. Exclusive licensees are not entitled to bring infringement proceedings under section 79 – that is reserved for patentees only. This has clear implications for multinational pharmaceutical companies like Lundbeck, where the patent is held by a foreign parent company and an exclusive license is granted to a domestic subsidiary.

Finally, on the misleading and deceptive conduct issue, much will turn on the reasonable expectation of the persons to whom the conduct is directed, that is, whether they would be exposed to patent infringement proceedings, and should a warning have been given. There has to be a sufficient evidentiary basis not only of an existing fact, but of the remote possibility that there may be exposure to infringement proceedings at some future time in the event that an extension is sought and granted. Although each case will turn on its own facts, that threshold may prove difficult to meet, particularly where an application for extension is made out of time. The majority in the High Court found it unnecessary to revisit earlier authorities on the topic.

Pharmaceutical Patent Extensions of Term: *Lundbeck v Sandoz* – “Another Instalment”

- 1 Paul Nolan, Barrister, NSW Bar, LLM (University of Sydney), MIP (University of Technology, Sydney).
- 2 *H. Lundbeck A/S v Sandoz Pty Ltd; CNS Pharma Pty Ltd v Sandoz Pty Ltd* (2022) 399 ALR 184, 186 [1].
- 3 Alison Sidick, ‘The Dispute of The Patent Term Extension in Australia’ (2019) *Journal of Intellectual Property Law & Practice* 699, 700.
- 4 *Patents Act* 1990 (Cth), s.67.
- 5 *Patents Act* 1990 (Cth), s.70.
- 6 Trade-Related Aspects of Intellectual Property Rights Agreement (“TRIPS”), Art. 39.3; *Therapeutic Goods Act 1989* (Cth), s.25A.
- 7 *Patents Act* 1990 (Cth), s.70(2)(a).
- 8 *Patents Act* 1990 (Cth), s.70(2)(b). See also: *Commissioner of Patents v AbbVie Biotechnology Ltd* (2017) 349 ALR 142 [55]: “[T]he matter claimed must be the pharmaceutical substance or substances so produced, not other methods or processes involving those substances”.
- 9 *Patents Act* 1990 (Cth), s.70(3)(a).
- 10 *Patents Act* 1990 (Cth), s.70(3)(b).
- 11 *Patents Act* 1990 (Cth), s.70(4).
- 12 *Merck Sharp & Dohme Corp & Anor v Sandoz Pty Ltd* [2022] FCAFC 40.
- 13 *Commissioner of Patents v Ono Pharmaceutical Co. Ltd & Anor* [2022] FCAFC 36.
- 14 Charles Lawson, ‘How Are Pharmaceutical Patent Term Extensions Justified? Australia’s Evolving Scheme’ (2013) 21 *Journal of Law and Medicine* 379, 379.
- 15 Chie Hoon Song and Jeung-Whan Han, ‘Patent Cliff and Strategic Switch: Exploring Strategic Design Possibilities in the Pharmaceutical Industry’ (2016) 5(1) *SpringerPlus* 692.
- 16 John Pearce, ‘How Companies Can Preserve Market Dominance After Patents Expire’ (2006) 39(1) *Long Range Planning* 71.
- 17 “Pharmaceuticals substances” is defined in Sch. 1 of the Act as: “a substance including a mixture or compound of substances for therapeutic use, whose application involves either a chemical interaction, or physico-chemical interaction with a human physiological system, or action on an infectious agent, or on a toxin or other poison in the human body but does not include a substance that is solely for use in in vitro diagnosis or in vitro testing.”
- 18 Australian Senate, *Intellectual Property Laws Amendment Bill* (1998), Revised Explanatory Memorandum, 2.
- 19 Australian Senate, *Intellectual Property Laws Amendment Bill* (1998), Revised Explanatory Memorandum, 3–4. See also 8–9.
- 20 *Alphapharm Pty Limited v H. Lundbeck A/S* (2014) 254 CLR 247, [60] (per Crennan, Bell, and Gageler JJ). See also John Pearce, ‘How Companies Can Preserve Market Dominance After Patents Expire’ (2006) 39 *Long Range Planning* 71.
- 21 Australian Senate, *Intellectual Property Laws Amendment Bill* (1998), Revised Explanatory Memorandum, 2.
- 22 *Patents Act* 1990 (Cth), Sch. 1: “exploit”, in relation to an invention, includes: (a) where the invention is a product – make, hire, sell or otherwise dispose of the product, offer to make, sell, hire or otherwise dispose of it, use or import it, or keep it for the purpose of doing any of those things; or (b) where the invention is a method or process – use the method or process or do any act mentioned in paragraph (a) in respect of a product resulting from such use.
- 23 See, *Merck Sharp & Dohme Corp. v Sandoz Pty Ltd* [2022] FCAFC 40.
- 24 *Patents Act* 1990 (Cth), s.119A.
- 25 T Harris, D Nicol and N Gruen, *Pharmaceutical Patents Review Report* (2013), Commonwealth of Australia, viii.
- 26 T Harris, D Nicol and N Gruen, *Pharmaceutical Patents Review Report* (2013), Commonwealth of Australia, Recommendation 4.1, 81–85.
- 27 Australian Government, *Intellectual Property Arrangements, Productivity Inquiry Commission Inquiry Report*, No. 78, 23 September 2016, 297 (Online) <<https://www.pc.gov.au/inquiries/completed/intellectual-property/report/intellectual-property.pdf>>
- 28 Australian Government, *Intellectual Property Arrangements, Productivity Inquiry Commission Inquiry Report*, No. 78, 23 September 2016, Recommendation 10.1, 310.
- 29 Australian Government, *Australian Government Response to the Productivity Commission Inquiry into Intellectual Property Arrangements*, August 2017, 11–12. <<https://www.pc.gov.au/inquiries/completed/intellectual-property/intellectual-property-government-response.pdf>>.
- 30 Alison Sadick, ‘The Dispute of The Patent Term Extension in Australia’ (2019) *Journal of Intellectual Property Law & Practice* 699, 709–10.
- 31 Institute of Health Metrics and Evaluation, *Global Health Data Exchange (GHDx)* (Web Page) <<https://vizhub.healthdata.org/gbd-results/?params=gbd-api-2019-permalink/d780dfbe8a381b25e1416884959e88b>>.
- 32 World Health Organization, *Depression* (Fact Sheet, 13 September 2021) <<https://www.who.int/news-room/fact-sheets/detail/depression>>.
- 33 Juan Bueno-Notivol et al, ‘Prevalence of Depression During the Covid-19 Outbreak: A Meta-Analysis of Community-Based Studies’ (2021) 21(1) *International Journal of Clinical and Health Psychology*, 100196.
- 34 ‘Global Antidepressants Market Report 2021: COVID-19 Causes a Surge in Demand for Antidepressant Drugs as Mental Health Problems Rise – ResearchAndMarkets.com’, *Business Wire* (Web Page, 26 April 2021) <<https://www.businesswire.com/news/home/20210426005303/en/Global-Antidepressants-Market-Report-2021-COVID-19-Causes-a-Surge-in-Demand-for-Antidepressant-Drugs-as-Mental-Health-Problems-Rise---ResearchAndMarkets.com>> .
- 35 *H. Lundbeck A/S v Commissioner of Patents* [2005] FCA 1718; *H. Lundbeck A/S v Commissioner of Patents* 67 IPR 654; *H. Lundbeck A/S v Alphapharm Pty Ltd* (2006) 69 IPR 629; *Alphapharm Pty Ltd v H. Lundbeck A/S* (2008) 76 IPR 618; *H. Lundbeck A/S v Alphapharm Pty Ltd* (2009) 177 FCR 151; *Alphapharm Pty Ltd, Sigma Pharmaceuticals (Australia) Pty Ltd, Apotex Pty Ltd, Sandoz Pty Ltd v H. Lundbeck A/S* (2011) 92 IPR 628; *Aspen Pharma Pty Ltd and Ors and Commissioner of Patents and Anor* [2012] AATA 281; *Aspen Pharma Pty Ltd and Ors and Commissioner of Patents and H. Lundbeck (Joined Party)* [2012] AATA 851; *Aspen Pharma Pty Ltd v H. Lundbeck A/S* [2013] FCA 324; *Aspen Pharma Pty Ltd v H. Lundbeck A/S* (2013) 216 FCR 508; *Alphapharm Pty Ltd, Apotex Pty Ltd, Aspen Pharma Pty Ltd, Sandoz Pty Ltd v H. Lundbeck A/S* (2014) 109 IPR 323; *Alphapharm Pty Ltd v H. Lundbeck A/S* (2014) 254 CLR 247; *Alphapharm Pty Ltd v H. Lundbeck A/S* (2014) 110 IPR 59; *Alphapharm Pty Ltd v H. Lundbeck A/S* (2015) 234 FCR 306; *H. Lundbeck A/S v Alphapharm Pty Ltd and Ors* [2016] APO 45; *H. Lundbeck A/S v Alphapharm Pty Ltd* [2016] FCA 1232; *H. Lundbeck A/S v Commissioner of Patents* (2017) 249 FCR 41; *H. Lundbeck A/S v Sandoz Pty Ltd* 137 IPR 408; *H. Lundbeck A/S v Sandoz Pty Ltd* [2019] APO 18; *Sandoz Pty Ltd v H. Lundbeck A/S* (2020) 384 ALR 35; *H. Lundbeck A/S v Sandoz Pty Ltd; CNS Pharma Pty Ltd v Sandoz Pty Ltd* (2022) 399 ALR 184.
- 36 Devin Pastoor and Joga Gobburu, ‘Clinical Pharmacology Review of Escitalopram for The Treatment of Depression’, (2014) 10(1) *Expert Opinion on Drug Metabolism & Toxicology*, 121, 122.
- 37 *H. Lundbeck A/S* (“Lundbeck Denmark”) and Lundbeck Australia Pty Ltd (“Lundbeck Australia”). Lundbeck Denmark, a Danish pharmaceutical company, is the owner of the Patent. Lundbeck Australia is its Australian subsidiary.
- 38 Adam Liberman, ‘The Decision of the Full Federal Court of Australia in *Sandoz v Lundbeck* and its Implications in Pre-Grant and Post Patent Term Environments’ (2021) 123 *Intellectual Property Forum* 56.
- 39 *Sandoz Pty Ltd v H. Lundbeck A/S* (2020) 384 ALR 35 [111].
- 40 *Alphapharm Pty Ltd v H. Lundbeck A/S* (2008) 76 IPR 618.
- 41 *H. Lundbeck A/S v Alphapharm Pty Ltd* (2009) FCR 151.
- 42 *Alphapharm Pty Ltd v H. Lundbeck A/S* (2014) 109 IPR 323.
- 43 *Trade Practices Act 1974* (Cth), s.52; *Competition and Consumer Act 2010* (Cth), Sch. 2 Australian Consumer Law, s.18.
- 44 *H. Lundbeck A/S v Sandoz Pty Ltd* (2018) 137 IPR 408.
- 45 *Sandoz Pty Ltd v H. Lundbeck A/S* (2020) 384 ALR 35 (Nicholas, Yates, and Beach JJ).
- 46 *H. Lundbeck A-S & Anor v Sandoz Pty Ltd; CNS Pharma Pty Ltd v Sandoz Pty Ltd* [2021] HCATrans 13 (11 February 2021).

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- 47 *H. Lundbeck A/S v Sandoz Pty Ltd* (2022) 399 ALR 184 (Kiefel CJ, Gageler, Steward, and Gleeson JJ; Edelman J delivered a separate judgment).
- 48 CNS Pharma Pty Ltd is a subsidiary of Lundbeck Australia who sold a generic version of Lexapro in Australia that is also manufactured by and purchased from Lundbeck Denmark. Pharma failed before the High Court on the “misleading and deceptive” issue.
- 49 *H. Lundbeck A/S v Sandoz Pty Ltd* (2022) 399 ALR 184, 195.
- 50 *H. Lundbeck A/S v Sandoz Pty Ltd* (2022) 399 ALR 184, 197.
- 51 *H. Lundbeck A/S v Sandoz Pty Ltd* (2022) 399 ALR 184, 197.
- 52 (1982) 149 CLR 337.
- 53 *H. Lundbeck A/S v Sandoz Pty Ltd* (2022) 399 ALR 184, 207.
- 54 *H. Lundbeck A/S v Sandoz Pty Ltd* (2022) 399 ALR 184, 207.
- 55 *H. Lundbeck A/S v Sandoz Pty Ltd* (2022) 399 ALR 184, 208.
- 56 *H. Lundbeck A/S v Sandoz Pty Ltd* (2022) 399 ALR 184, 198 [40].
- 57 *H. Lundbeck A/S v Sandoz Pty Ltd* (2022) 399 ALR 184, 194.
- 58 *H. Lundbeck A/S v Sandoz Pty Ltd* (2022) 399 ALR 184, 198 [64].
- 59 *H. Lundbeck A/S v Sandoz Pty Ltd* (2022) 399 ALR 184, 198.
- 60 *H. Lundbeck A/S v Sandoz Pty Ltd* (2022) 399 ALR 184, 211.
- 61 *Federal Court of Australia Act 1976* (Cth), s.51A(1)(a).
- 62 *H. Lundbeck A/S v Sandoz Pty Ltd* (2022) 399 ALR 184, 199.
- 63 *Do Carmo v Ford Excavations Pty Ltd* (1984) 154 CLR 234, 245 (per Wilson J).
- 64 *H. Lundbeck A/S v Sandoz Pty Ltd* (2018) 137 IPR 408, 467-468, 472, 532.
- 65 *H. Lundbeck A/S v Sandoz Pty Ltd* (2022) 399 ALR 184, 211 [117] (citing *Letang v Cooper* [1965] 1 QB 232, 242-3).
- 66 *H. Lundbeck A/S v Sandoz Pty Ltd* (2022) 399 ALR 184, 212 [119].
- 67 Ben Miller and Jenny Wong, ‘When Is a Patent Licence Not a Licence to Exploit the Invention? The High Court Answers a \$26 Million Question’, *Maddocks Insights*, (Web Page, 24 May 2022) <<https://www.maddocks.com.au/insights/when-is-a-patent-licence-not-a-licence-to-exploit-the-invention-the-high-court-answers-a-26-3-million-question>>.
- 68 *H. Lundbeck A/S v Sandoz Pty Ltd* (2022) 399 ALR 184 [69] citing *Campomar Sociedad, Limitada v Nike International Ltd* (2000) 202 CLR 45 [103].
- 69 *H. Lundbeck A/S v Sandoz Pty Ltd* (2022) 399 ALR 184 [69] citing *Miller & Associates Insurance Broking Pty Ltd v BMW Australia Finance Ltd* (2010) 241 CLR 357 [18]–[21].
- 70 *H. Lundbeck A/S v Sandoz Pty Ltd* (2022) 399 ALR 184, 212 [122].
- 71 *H. Lundbeck A/S v Sandoz Pty Ltd* (2022) 399 ALR 184, 212.
- 72 *H. Lundbeck A/S v Sandoz Pty Ltd* (2022) 399 ALR 184, 212.
- 73 *This line is spoken by Michael Corleone, played by Al Pacino, in the film The Godfather: Part III, directed by Francis Ford Coppola (1990).*
- 74 *H. Lundbeck A/S v Commissioner of Patents* (2017) 249 FCR 41 (per Beach J).
- 75 *H. Lundbeck A/S v Sandoz Pty Ltd* [2019] APO 18 (per Dr Barker).
- 76 A merits review of the decision of the Deputy Commissioner in *H. Lundbeck A/S v Sandoz Pty Ltd* [2019] APO 18 was to be determined following the High Court decision. At the time of writing, the application remains stayed by consent.

Judicial Management of Intellectual Property Cases

The Honourable Justice Ian Gault¹

I would like to reflect on the judicial management of intellectual property cases, focusing on some differences between our countries. So this is not a hard law topic – albeit I will make passing reference to one or two IP cases along the way. It is more general in nature. Indeed, as a practitioner with experience in IP – more in soft IP than in patents – but also in other areas of commercial and regulatory litigation, I was something of a generalist.

That is all the more so since I joined the Bench given that the New Zealand High Court is our superior court of general jurisdiction, hearing the more serious civil and criminal cases, exercising significant supervisory and appellate jurisdiction over lower courts and tribunals, and with principal responsibility for the maintenance of legality through a supervisory and administrative jurisdiction. As you all know, New Zealand does not have a federal system.

IP and commercial matters are of course important, and not just to us, but even so, they mostly cannot take priority over criminal cases and other matters involving state power. Plus, COVID-19 lockdowns forced the postponement of criminal jury trials for months at a time, which meant that since then we have also had to prioritise addressing the backlog.

This combination means that my diet of IP cases is now modest. You may say that is a good thing. But, stats I have obtained indicate that nationally in our Court there are currently only 16 matters categorised as IP proceedings (eight in the Auckland circuit, six in the Wellington circuit and two in the Christchurch circuit). Even allowing for under-reporting, that is a surprisingly low figure. So I am not alone. Size of market, globalisation and – in some contexts – New Zealand's policy settings have no doubt had an effect on the number of cases.

Unsurprisingly, interim injunctions and other interlocutory applications dominate. Indeed, I haven't heard a substantive IP case or appeal since 2020, a case I recall hearing remotely during our first COVID-19 lockdown. That was the interesting dispute concerning the VAGISAN and VAGISIL trade marks,² which was also litigated in the Federal Court – at first instance before my hearing, and in the Full Court subsequently.³ In both countries, ultimately, registration of VAGISAN was successfully opposed on the ground it was deceptively similar to VAGISIL.

I am not complaining about my lack of IP cases. Rather, I make the observation to preface discussion about the different approach to the way IP matters are managed on either side of the Tasman. I will also update you as to some changes we are considering in New Zealand to improve case management and civil justice more broadly.

The difference in scale and the general jurisdiction of our Court partly explain the different approach. Before explaining what else I have in mind, I should briefly mention a couple of the Federal Court's practice notes for those Kiwis in the audience who may be unfamiliar with them. The Federal Court has a specific Intellectual Property Practice Note,⁴ which I looked at with interest. But the relevant starting point for my purpose is the Federal Court's very transparent Central Practice Note – National Court Framework and Case Management.⁵ For today's purpose, it is sufficient to refer to the Court's national approach, with Judges designated to deal with matters in specific national practice areas, including IP, also broken into sub-areas, and particularly the Court's docket system which involves early allocation of cases to an individual Judge in the nominated practice area for case management and disposition. Our Court operates without any such detailed practice notes.

We do not have a docket system for all cases. The wider range of criminal cases is but one reason why. Longer criminal trials, particularly if away on circuit, can present problems when assigned matters need case management. And criminal trials are getting longer on average, given the number of multidefendant trials. The Federal Court's allocation system and scale no doubt means that Australian IP Judges are much more specialised than we are – whether that specialisation has been derived in practice or on the Bench. Although I understand that the proportion of IP cases is not as high for some designated Federal Court Judges as those in New Zealand might think. Specialisation brings real advantages in terms of expertise and resulting efficiency. It may help develop the confidence of the profession and the relevant sector of the community, particularly in areas like IP where practitioners require specialised skill and knowledge. Such a reputation has significance overseas given the international nature of the work. Another consideration is a competing efficiency argument – based on the scheduling view that, because civil cases so often settle shortly before trial, early allocation of cases to individual Judges leads to more down time. Our Court has tended to resist specialisation more generally. Judges are expected to deal with the full range of cases across the Court's jurisdiction. Possible advantages of this include the work variety and the different perspective

Judicial Management of Intellectual Property Cases

that brings. The variety is extraordinary. It is not uncommon for Judges in our Court appointed from the commercial bar and with little or no previous experience of criminal jury trials to remark how stimulating as well as challenging they find that work.

In terms of different perspective, our previous Chief Justice, Dame Sian Elias, was of the view that there is no legitimate judicial common sense solution to a legal problem which is not grounded in a lot of learning – learning of the whole sweep of law and its principles, not a narrow speciality.⁶

In that regard, Justice Jagot's observations this morning about the value of the gymnastic ritual of "sequential unmasking" by experts to avoid hindsight bias resonate with me – both in the sense of being more trouble than it's worth and maybe even giving a false sense of security.⁷ A specialised focus might not take into account that hindsight bias is recognised in other contexts without requiring sequential unmasking. More generally, avoiding pretence seems a good idea.

Although in New Zealand we do not generally designate Judges by practice area, we do have a Commercial Panel with designated Judges, and while we do not have a full docket system, a number of other cases are also assigned.

Independence of the judiciary of course requires that case allocation is under judicial control. In terms of the Commercial Panel, on filing, parties may nominate a proceeding for assignment to a Commercial Panel Judge. Claims arising out of or relating to IP rights are eligible to be assigned to a Commercial Panel Judge provided they exhibit a significant commercial element and involve a real dispute.⁸ The decision is made by the Chief High Court Judge. But I believe not one of the current IP cases is on the Commercial Panel. Other proceedings, including IP matters, are reviewed at the outset by a triaging Judge in a process that identifies cases by subject area and complexity. List Judges then consider whether a case should be assigned to an individual Judge for case management and disposition. Counsel can and should suggest this in appropriate cases. Assignment of a particular matter takes into account the expertise and capacity of the Judges in the relevant circuit.

Once assigned, a matter can be case managed more proactively rather than being party driven. Where matters are not assigned, case management has tended to be more dependent on counsel – since the first case management conference is at an early stage and counsels' memoranda may not permit much engagement by the Judge. Discovery is often a disproportionate early focus.

We are looking to improve processes to facilitate access to civil justice. Even in commercial and IP cases, the cost of document and expert intensive litigation means that access to justice can be an issue. Litigation can be too expensive and take too long. The problem is more acute in civil matters

that do not justify or receive top class representation.

There are some lessons that we are looking to extrapolate from experience with the Earthquake List established in our Court to manage the very large number of insurance and building defect cases following the Canterbury earthquakes in 2010 and 2011. The Judges managing that list engaged in more proactive case management involving early identification of issues, seeking exchange of expert reports as early as possible and requiring conferral of experts. They attempted to limit lawyer involvement in expert conferencing. With that combination, settlements were more forthcoming.

I see that the Federal Court's Expert Evidence Practice Note provides that, unless the Court otherwise orders, the parties' lawyers will not attend the conference.⁹ I would be keen to hear how this works in the Federal Court since our current High Court Rules preclude a direction that the experts confer in the absence of the lawyers unless the parties agree.¹⁰

A related issue is procedural complexity. A recent example may suffice. In the copyright case of *Burden v ESR Group (NZ) Ltd*, where furniture was copied from the plaintiffs' collection, manufactured in Vietnam and ordered by the New Zealand defendant.¹¹ Dealing briefly with the substantive decision first, Downs J accepted the submission of Andrew Brown KC, in relation to primary copyright infringement, that the "issue of copies of a work to the public" means the act of putting into circulation copies in New Zealand not previously put into circulation in New Zealand by or with the consent of the owner – thus rejecting the argument that the first act of putting into circulation can occur outside New Zealand.

That is interesting, but I mention the history of the litigation, which the Judge described as approaching the Byzantine. It commenced in 2014. Following a hearing in 2015, the defendant was found liable for secondary infringement in 2016. In substance, this was upheld on appeal in 2017. However, the date of the defendant's knowledge was such that its liability for secondary infringement was less than NZ\$10,000. Belatedly, the plaintiff sued for primary infringement seeking a larger sum. Attempted strike out and further appeal followed. No doubt COVID-19 interrupted. A remedies hearing finally took place before a different Judge in June 2022. Given the primary infringement finding, the net profit award increased by approximately NZ\$210,000, still a relatively modest sum given the likely litigation cost.

More formally, our Rules Committee is nearing completion of a reform project on improving access to civil justice aimed at introducing greater efficiency and reducing the cost of civil litigation. It has consulted on proposed reforms and, relevant to the High Court, is actively considering a number of proposals that would change the shape of civil litigation, including IP litigation, and enable more effective and proactive case management.

Proposals under active consideration include:

- (a) First, extending initial disclosure to “known adverse documents” as proposed in England and Wales following a disclosure pilot for the Business and Property Courts. Under their Practice Direction,¹² “known adverse documents” are documents (other than privileged documents) that a party is actually aware¹³ (without undertaking any further search for documents than it has already undertaken or caused to be undertaken) both: (a) are or were previously within its control; and (b) are adverse.¹⁴
- (b) Secondly, early provision of briefs of evidence that are limited in content. Early meaning as soon as possible following initial interlocutories such as security for costs, strike out or summary judgment applications. Limited meaning focused on admissible direct evidence that witnesses can give on the facts that are not revealed by the contemporaneous documents, rather than regurgitating them. Witnesses would not be expected to address the chronology of events revealed by the documentation. The rationale includes to avoid the possibility that witnesses may adjust their evidence to match disclosed documents and to ensure that the case proceeds in a focused manner.
- (c) Thirdly, a subsequent, but still relatively early, Issues Conference involving comprehensive engagement by Judges. Given the prior steps outlined, the Judge will be better placed to identify and manage the necessary further steps in the proceeding, including the need for any further disclosure of documents. This has some similarity to the approach adopted in the Equity Division of the Supreme Court of New South Wales, where I understand the Court will not make an order for disclosure of documents until the parties have served their evidence, unless there are exceptional circumstances necessitating disclosure.¹⁵ Also, Singapore has recently amended its rules applicable to all civil proceedings so that the Court has the discretion to order the filing of affidavits of evidence-in-chief before the exchange of documents (not confined to exceptional circumstances).¹⁶
- (d) Fourthly, the use of expert evidence would be more tightly controlled – with a presumptive limitation of one expert witness per topic per party; mandating conferral by providing that expert evidence is not to be received unless there has been a joint expert conference, except by leave; and providing for facilitation of conferral.
- (e) Fifthly, related to the second point, enabling direct reliance on the contemporaneous documents at trial to avoid unnecessary reference (and attempted recharacterisation) by witnesses in their evidence. To achieve this, it is proposed that documents in the

common bundle would be admissible as to the truth of their contents, subject to a challenge being advanced.

- (f) Finally, a guiding principle of proportionality, including when deciding what further interlocutory steps are required, assessing what will be needed for trial, and identifying how the trial itself should proceed.

I hope that changes of this type occur sooner rather than later in New Zealand, and get buy in from the profession, so that together we can better manage civil litigation, including IP matters, and reduce the associated cost and delay.

1 Judge of the High Court of New Zealand. This report was originally given as a presentation at the 35th Annual IPSANZ Conference in Melbourne on 18 September 2022.

2 *Dr August Wolff GmbH & Co KG Arzneimittel v Combe International Ltd* [2021] 3 NZLR 236.

3 *Dr August Wolff GmbH & Co KG Arzneimittel v Combe International Ltd* [2020] FCA 39, (2020) 149 IPR 1; and *Combe International Ltd v Dr August Wolff GmbH & Co KG Arzneimittel* [2021] FCAFC 8, (2021) 157 IPR 230.

4 Federal Court of Australia, Intellectual Property Practice Note (IP-1), Chief Justice J L B Allsop, 20 December 2019.

5 Federal Court of Australia, Central Practice Note: National Court Framework and Case Management (CPN1), Chief Justice J L B Allsop, 10 August 2022.

6 Dame Sian Elias, ‘Judgery and the Rule of Law’ (2015) 14 *Otago Law Review* 6.

7 See Justice Jagot, *Some Evidentiary Issues in Patent Law*, published in this issue of the Journal.

8 Senior Courts (High Court Commercial Panel) Order 2017, cl 5.

9 Federal Court of Australia, Expert Evidence Practice Note (GPN-EXPT), Chief Justice J L B Allsop, 25 October 2016, 7.4.

10 High Court Rules 2016, r 9.44(2).

11 *Burden v ESR Group (NZ) Ltd* [2022] NZHC 1818.

12 Practice Direction 51U – Disclosure Pilot for the Business and Property Courts.

13 For this purpose, a company or organisation is “aware” if any person with accountability or responsibility within the company or organisation for the events or the circumstances which are the subject of the case, or for the conduct of the proceedings, is aware. It is also necessary to take reasonable steps to check the position with any person who has had such accountability or responsibility but who has since left the company or organisation.

14 A document is “adverse” if it or any information it contains contradicts or materially damages the disclosing party’s contention or version of events on an issue in dispute, or supports the contention or version of events of an opposing party on an issue in dispute.

15 Practice Note SC Eq 11.

16 Supreme Court of Singapore, Rules of Court 2021, with effect from 1 April 2022.

Book Review: *Intellectual Property in the Conflict of Laws: The Hidden Conflict-of-law Rule in the Principle of National Treatment*

Sam Ricketson¹

By Sierd J Schaafsma

[Edward Elgar Publishing 2022 pp 608. The e-Book version is priced from £148/\$AU266 from e-Book vendors while in print the book can be ordered from the Edward Elgar Publishing website <www.e-elgar.com>.]

This is an interesting but demanding book that deals with a frequently ignored or misunderstood issue, namely the relationship between intellectual property laws and conflict of laws. Indeed, as Dr Schaafsma himself states at the outset, the intersection between these two areas of law is a “thorny issue”. He notes further:

*For one thing, the two sides seem to avoid each other: it is regularly observed that experts in these branches of law have difficulty in understanding each other; they speak different languages. Apparently there is a fault line between the two groups of experts. But, more importantly, the subject is unanimously characterized as terribly complicated, as ‘a very difficult domain’, as ‘très difficile et très controversée’.*²

From personal experience, I can only agree and the writing of a comprehensive review of Dr Schaafsma’s book has been something a challenge, as I am not an expert on private international law.³ I have therefore sought in this review to be careful not to misstate or mischaracterise Dr Schaafsma’s arguments. In part, this is because, while I have a familiarity with many of the primary sources to which he refers, my perspective has usually been from that of public international law, in particular the traditional IP Conventions (the *Berne Convention for the Protection of Literary and Artistic Works* 1886 and the *Paris Convention for the Protection of Industrial Property* 1883) and the obligations that these cast upon member states with respect to the protection of foreign authors, inventors, etc., in the territory of each contracting state, rather than on the private international law aspects that arise in relation to the protection of foreign intellectual property rights (“IPRs”) per se. An instance of the latter would be where a French author seeks protection in an Australian court for an infringement of her Australian copyright (protected here by virtue of the Berne Convention) but wishes to join this to a proceeding here concerning infringement of her New Zealand and US copyrights (where she also receives protection, courtesy of Berne). Another example would be that of a French patent which the US-based patentee seeks to enforce by proceedings in Australia against an Australian-based infringer who is committing his egregious conduct within France. And a good trade mark example would be a proceeding by an owner who is registered for the same mark in a number of Paris Union countries (courtesy of the Paris Convention and the Madrid Protocol, but including Australia), who wishes to bring consolidated proceedings in an Australian court with respect to multiple uses of the mark on websites that are accessible in all these jurisdictions through websites

located in yet another country. These might be termed issues of subject matter jurisdiction⁴ – whether the Australian court would entertain such proceedings in the first place. And, assuming that the court is prepared to proceed to hear cases with foreign elements of these kinds, a choice of law question then arises as to whether the court should apply its own law in resolving the case or some other law, such as that of the country which has the closest connection with the right in question and/or the owners of that right. These are questions that presently receive somewhat halting answers under Australian private international law: in matters of subject matter jurisdiction, the *Moçambique* rule which precludes proceedings with respect to foreign property still has some notional sway until finally resolved by the High Court,⁵ although recent United Kingdom authority holds that this preclusion should no longer apply to unregistered rights, such as copyright.⁶ The choice of law question, once the court has assumed jurisdiction, is probably clearer, with a preference now for the law of the place of infringement (*lex loci delicti*) by analogy with the rules applying to torts⁷ and, more generally, the law of the situs of the right (*lex situs*) in the case of proceedings raising questions of entitlement and exploitation.⁸ These rules, largely common law in character, broadly reflect those to be found in other legal systems, although it must at once be said that they are more clearly codified in some, such as within the European Union.

The principal observation to be made here is that these private international law rules appear to have been developed without direct reference to the international IP Conventions. The latter are effective in gaining IP owners access to other legal systems, including a system of priorities under Paris in relation to filings where registration is required. They provide for foreign owners to be treated the same as nationals of that state once they are there (under the principles of national treatment and independence of protection) and even set the level and content of that protection, notably in the case of Berne (“rights specially granted by this Convention”)⁹ and now through the provisions of the TRIPS Agreement.¹⁰ However, they do not necessarily provide guidance on the knotty issues that arise where a foreign element is involved and the question of applicable law arises, as in the various instances given above. While there are provisions in these Conventions that appear to have a choice of law aspect, such as the comparison of terms in Article 7(8) in Berne,¹¹ these are usually seen as permissible limits on the scope of national treatment to be accorded (by reference to the law of the country of origin or the *lex originis*) rather than a

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mandatory direction that this is the law to be applied. More generally, it has not been thought that there is a conflict of laws rule contained with the national treatment provisions of Berne and Paris (or the TRIPS Agreement, for that matter).

This apparent gulf between IP law and conflicts of law is where Dr Schaafsma's book comes into play, noting at this point that he uses the expression "conflict of laws" to refer to the set of legal rules that "indicate which national (private law) legal system is applicable in international cases... (... also known as "private international law").¹² Questions of jurisdiction and recognition and enforcement of judgments, usually topics included in private international law subjects in common law curricula, are not covered in this definition, although Dr Schaafsma touches upon them at various points in his treatise. His principal focus is upon choice of law or applicable law rules in cases involving a foreign element and his thesis is that there is, indeed, a conflict of law rule contained in the international Conventions, such as Berne and Paris, and that this has been long obscured/misunderstood and/or forgotten. It is to be found hidden in the principle of national treatment that is central to each of the principal IP Conventions and that has been a feature of IP treaties, both bilateral and multilateral, from the very start (for the ease of readers, the relevant Articles of the Berne and Paris Conventions are set out in the Appendix to this review). This is a highly detailed, well researched and carefully structured argument that is now presented to an English-speaking audience for the first time (the book was originally published in Dutch more than a decade ago, and the present English translation by Chris P Odijk and Xandra Lammera is stated to be an almost word-for-word translation of the Dutch original and was presumably carried out under the close supervision of Dr Schaafsma).¹³ This translation, moreover, has been supplemented by quite extensive commentary that updates the original work to the end of 2021. It should also be said at this stage that Dr Schaafsma is a distinguished Dutch private international law scholar, who has held a chair in this area at the University of Leiden and has recently become a Justice of the Dutch Supreme Court. He is also an expert in IP law who is fully conversant with all the historical primary and secondary sources relating to the principal IP Conventions, such as Berne and Paris.

Dr Schaafsma's objective is to bridge this gap between the "two sides" identified in the quotation at the start of this review. It is, at once, a project to state the correct legal view of this relationship in light of the history and development of the traditional IP Conventions, and to disentangle what he believes to be longstanding but mistaken views concerning it. He is not primarily involved in a normative exercise here or exploring how better rules could be developed in this area; rather, his purpose is to achieve a clear understanding of how the present rules are to be interpreted and should be applied. Having said this, towards the end of the book he does engage in a discussion of why these rules, appropriately modernised, remain workable from a broader policy perspective.

He achieves his objective with a carefully structured and systematic treatment that begins with an investigation of the "Genesis of the Principle of National Treatment" in Part 1 (Chapters 1 to 4). Using extensive primary sources – treaties and national laws, proceedings of diplomatic conferences and the writings of learned commentators – he sketches, first, the birth of the principle of national treatment in copyright laws, then its adoption in bilateral treaties in the 19th century and, then, in the original Berne Convention of 1886, and finally its "perfection" in the current Paris text of 1971 (Chapters 1 to 3). He then examines the same developments that occurred in the Paris Convention (Chapter 4). Dr Schaafsma's discussion of these matters is multi-layered and sometimes uses terminology that is unfamiliar to readers from a common law background, although he does develop his argument in stages, with useful summaries after each section. The following description can hardly do justice to the many points of detail contained in it, but I hope it will provide a broad overview of his argument in this part of the book.

Thus, national treatment, as we all know, is the foundation stone of the principal IP Conventions, such as Berne and Paris, but Dr Schaafsma's account of its history, stretching back to earlier bilateral treaties that were negotiated, principally in Europe, from the mid-19th century on, casts new light on the way in this concept is to be understood. Essentially, national treatment provides the mechanism by which foreign authors and inventors and foreign works and inventions can achieve protection in countries other than their own. Prior to this, such persons and subject matter were in a law-free zone, or state of "lawlessness" (to use Dr Schaafsma's terminology) with no expectation of protection outside their countries of origin. Over time, however, this void came to be gradually filled under national laws, as foreign claimants were assimilated to local claimants or assimilated in particular circumstances, for example, if they were domiciled or resident in the countries where they now sought protection. Thus, their state of "lawlessness" in that country became one of "lawfulness", as this form of discrimination against foreigners was removed: this, indeed, could be seen as part of a developing law of aliens ("aliens law", as Dr Schaafsma terms it), that placed foreign authors and inventors on the same level as local authors and inventors, by "taking it [the foreign element] under the wing of national law – by 'treating it nationally'".¹⁴ A notable instance of this occurred with the famous French decree of 1852 which extended protection to the works of foreign authors in France without any corresponding need to show that French authors would receive similar protection in the country of origin of these foreign authors. This was the starting point for what was to become known as the principle of national treatment "pure and simple", although, as Dr Schaafsma shows, there were to be many variations in the way this was adopted and applied in subsequent bilateral treaties and, ultimately, in the Berne Convention (Dr Schaafsma's treatment concentrates mainly on copyright, but

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also covers the corresponding developments under the Paris Convention).

In both political and pragmatic terms, the principle of national treatment can be readily understood and justified: “political”, in that the implied altruism in extending unqualified protection to foreigners might operate to encourage their own countries to extend similar protection to authors from the country extending national treatment; “pragmatic”, in that it provided the courts of the country extending national treatment with the simple solution of applying their own law without having to bother with the possibility that the treatment given to claimants and subject matter in other countries might well be different or even non-existent.

At the same time, nothing was ever as seamless as the explanation above might suggest: national treatment, at least in some circumstances, might be qualified, for example, in relation to the matter of compliance with formalities or the term of protection. Dr Schaafsma is sensitive to all these variations on the theme of national treatment and examines them with some care, particularly in the context of the Berne Convention. Three particular limitations touching on the status of a foreign work arose under Berne where reference back to the law of a work’s country of origin (referred to here by Dr Schaafsma as the *lex originis*) was required. The first was in relation to the matter of formalities: for the first two decades of the life of the Convention, it was necessary for the foreign claimant to show that the formalities of a work’s country of origin had been complied with, in addition to any that the country where protection was sought might impose; it took until the Berlin Revision of 1908 before this restriction was removed, to be replaced by the present no formalities rule in what Dr Schaafsma refers to as the “country of importation”, that is, the country where protection was now sought for the foreign work. The second, which continues today, was in relation to the term of protection where the term accorded by the country of importation need be no longer than that accorded under the work’s country of origin (the *lex originis*).¹⁵ The third, which Dr Schaafsma suggests arose as a matter of national practice, was one that required the “existence” of protection in the country of origin before protection under national treatment in the country of importation could be required.¹⁶ While it may be less certain that Dr Schaafsma really establishes that there was such a practice in this third instance, it was effectively ended under the Convention at the time of the Berlin Revision of 1908 when the principle of independence of protection was introduced: under this (see now Article 5(2)), protection in the importing country is independent of whatever protection the work enjoys in its country of origin, thereby “perfecting” the principle of national treatment.¹⁷ Other provisions requiring some form of material reciprocity or reference to the *lex originis* have subsequently been introduced to the Convention, for example, with respect to works of applied art and resale rights, but these do not affect

the general proposition that the fundamental principle of the Convention is to be found in national treatment, as confirmed by the further requirement of independence of protection.

At one level, this appears to be an orthodox account of the fundamental principle underlying the Berne Convention (the same can be said of the Paris Convention, although there are differences under that treaty arising from the fact that it deals with some IPRs that are registered and has a system of priorities). Furthermore, each Convention contains other substantive rules or standards that countries are required to apply to foreign works, in addition to national treatment and regardless of the level of protection otherwise accorded to locals or in their own countries (these rules are sometimes referred to as the “*ius conventionis*”, of which the Berne Convention now contains quite a number, Paris much less so).¹⁸ As noted above, there are both practical and political benefits that the recognition and application of the principle of national treatment entails. However, Dr Schaafsma discerns more in the principle than this when regard is had to the history of its adoption in the international Conventions. This was not only a principle affecting the law of aliens – the treatment of foreign works and persons in each country and the removal of any source of discrimination against foreigners – but it also contained within it a conflict of laws aspect which removed the “legal vacuum” into which such persons and works previously fell and directed the law that was to be applied to those works. This was the law of the country where protection was sought. Dr Schaafsma describes this as “formal territoriality”, meaning that the court was to apply only its national law to the previously unprotected alien and the latter’s work, invention or trade mark. This was a simple but effective way of proceeding for national courts – having to apply only their own law – but it nonetheless involved a conflict of laws element in that it provided an applicable law to fill the previous legal vacuum that arose with respect to foreigners. According to Dr Schaafsma, this dual aspect of national treatment was so well understood at the time of the negotiation of the Berne and Paris Conventions that it needed hardly to be expressed. However, we have lost sight of this duality in the intervening years and have come to regard the national treatment rule in the Conventions as being silent on conflict of law questions, thereby leaving this as a matter for national laws to resolve for themselves. In the case of Australia, as noted above, our approach to this has been somewhat halting, although probably now moving to a situation where we are prepared to apply the law of the country for which protection is sought, rather than denying protection altogether in the case of foreign rights (at least, those of the unregistered kind). Other countries, it appears, have been firmer in moving in this direction, and it now seems to be well-established under EU law. Dr Schaafsma, however, argues that that there is a clear rule of a similar kind to be found in the principle of national treatment embodied in the Conventions, and it is there waiting to be uncovered and applied if we understand now where and why we have gone wrong. He claims that this

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is a new insight, but one that is consistent with the history and development of the international Conventions. More generally, he argues that it provides a workable solution to many of the problems of cross-border disputes of which we are ever more aware today and which he argues is the most appropriate on policy grounds.

He develops this argument in Part II of the book, beginning with Chapter 5.1 which is headed, beguilingly, “Conceptual obfuscation with respect to the conflict of law rule in the principle of national treatment”. For readers from a common law background, Dr Schaafsma’s argument is not immediately easy to comprehend, although his ultimate solution may well be. Thus, if we start at the end, it may be stated as follows. In cases where protection for a foreign work or subject matter is claimed in a Berne or Paris Union country, national treatment requires that the law of the country *for whose territory protection is sought* should be applied – the *les loci protectionis*. Where this is the territory of the country in which protection is sought – the majority of situations – this will be the law of the country to be applied (the law of the country of importation, to use Dr Schaafsma’s terminology, rather than the *lex fori*). This seems quite straightforward and it is obviously easy for the court to apply its own law. But where it is for another territory outside the forum, it will be the law of that country. The first situation simply parallels the application of aliens law – removing discrimination against foreigners claiming protection within the forum – but is also a choice of law rule in that it directs application of the law of the importing country. The second, however, is more clearly a choice of law rule which directs the court how to proceed where the IPR in question relates to a territory outside the forum. This obviously has more far-reaching implications and is one which, from a common law perspective, we may applaud as an eminently sensible and practical solution. It is also simple to apply and would move us past the difficulties presented in the past by the *Moçambique* rule, albeit now ameliorated (hopefully) in the case of unregistered rights by the *Lucasfilm* decision¹⁹ and torts choice of law rules and the double actionability rule of *Phillips v Eyre*,²⁰ now also a matter of the past in most common law countries. In this respect, Dr Schaafsma’s formulation may hardly be radical, as it is probably the case that most Anglo-Australian lawyers would now argue that the *lex loci protectionis* rule is the appropriate choice of law to apply, both as a matter of principle and policy. Nonetheless, Dr Schaafsma’s formulation is comforting, in that it argues that this approach can be taken consistently with the international Conventions by which we have been bound for more than a century.

How he reaches this conclusion is more complicated. If his formulation is an admirable one – and it is developed, stage by stage, in Part II – the historical and legal arguments that he provides to establish this are less clear or perhaps less meaningful from an Australian perspective. Thus, he

argues that the Berne and Paris Conventions were drafted by civil lawyers who were schooled in the statist school of private international law, and readily understood the national treatment rule they embodied in those Conventions as having both an aliens law and a conflict of laws aspect. Later conceptions of private international law, influenced by the writings of Von Savigny, the notable German legal theorist, have misunderstood or obfuscated the conflict of laws aspect of the national treatment rule, and have therefore seen it purely as a provision dealing with non-discrimination against aliens and nothing more. A “Savignian lens” (to use Dr Schaafsma’s terminology) has therefore distorted our understandings of national treatment, noting that the original Berne and Paris drafters did not suffer from this perspective (they certainly knew about Von Savigny, but did not regard his approach as being applicable in the area of IP laws, at least in the late 19th century).²¹ This changed from the early twentieth century when Savignians began to apply his analysis to IPRs and to look for an applicable law wherever a foreign element arose in a case (from a Savignian perspective, there is always an applicable law – the problem is to identify it), but they did not appreciate that there was already a rule about this to be found in the national treatment principle. While brief treatments of the statist and Savignian approaches will be found in many common law writings on private international law,²² it is probably correct to say that neither statist or Savignian perspectives are to be found in contemporary scholarly treatments of the Berne and Paris Convention by either common law or civil law commentators. It is probably equally correct to say that none of these have perceived the existence of a conflict of laws rule lurking in the interstices of the national treatment rule in the same way as Dr Schaafsma, although it is possible to point to other Articles of Berne, in particular, as having a conflict of law aspect them, such as Articles 5(2) and 14^{ter}(3). Thus, Dr Schaafsma’s conclusion that there is such a rule can be properly described as “new”. Furthermore, to the extent that one agrees that his formulation of this rule is a good thing in a normative sense, it is also comforting to be told that this can be applied without the need to change the existing IP Conventions – a near impossible project, in any event – although a reformulation of their language would clearly be helpful. Dr Schaafsma sets out his arguments in a detailed scholarly way in Part II,²³ with a careful examination and evaluation of successive revisions of Berne and Paris, their *travaux préparatoires*, and the writings of past commentators.²⁴ He concludes, in the last part of the book, with an analysis of the pros and cons of such a conflict of laws rule in contemporary times, including some proposed “desirable reforms” in the international Conventions that would clarify this.²⁵

Having said this, there are points in Dr Schaafsma’s central argument where it is not clear how one proposition leads to another, and how one consequence rather than another follows. In particular:

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1. Notwithstanding his carefully structured arguments, I find the leap from his description of the national treatment rule in statuist terms to a “modernised” formulation that is consistent with Savignian approaches a difficult one to make. Central to my uncertainty here is that I did not fully understand the critical distinction that is made here between “formal territoriality” and “material territoriality”. Also confusing is the notion that the “principle of formal territoriality” appears to embrace both.²⁶ In crude terms – and I may have misunderstand this completely – formal territoriality is the situation where a court only applies its own national law (in other words, national treatment from the statuist perspective), while “material territoriality” refers to the situation where another law may apply but it is only the national law for that territory (a possibility that embraces Savignian notions that there should always be an applicable law or *Sitz* for any foreign element).
2. Assuming this understanding is correct, I then have difficulty in understanding how a choice of law rule based on “material territoriality” is to be read into the national treatment provisions of Berne or Paris, which on their face appear to be concerned only with the position of foreigners claiming protection in a member state and the level of protection they are to receive once there (national treatment plus rights specially granted). On the other hand, as Dr Schaafsma argues, during the 20th century at the national and regional levels (including the EU), rules based on *lex loci protectionis* were being developed and applied, although not necessarily with any reference to either Berne or Paris. In his view, modern national and regional IP laws have now discarded notions of formal territoriality in favour of the *lex loci protectionis* (material territoriality).
3. At this point, Dr Schaafsma makes, what is to me, a novel, even daring, suggestion, that this developing practice (in which Australia may be said to share) can lead to a reinterpretation of the national treatment requirements of Berne and Paris as “any subsequent practice in the application of the treaty which establishes the agreement of the parties regarding its interpretation”.²⁷ By this route a *lex loci protectionis* rule can be read into the national treatment requirements of these Conventions. From a public international law perspective, this is the most interesting and radical aspect of Dr Schaafsma’s book, and he develops this argument with some force. Beginning from the position that only formal territoriality can be read into the original Berne and Paris texts, in the light of the purpose and object of the Conventions and the *travaux préparatoires*, he argues that this interpretation can now be “disapplied” in the light of subsequent State practice that is “concordant, common and consistent”. This is certainly allowable from the perspective of treaty interpretation, including the provisions of the Vienna Convention on the Law of Treaties (the “VCLT”), but I have several reservations about the basis for his arguments here. It is not clear that the national and regional practices he refers to were actually directed at

the relevant provisions of the Conventions in question and their interpretation, as distinct from being state or regional solutions to a common problem; secondly, I am unsure that he has, in any event, marshalled sufficient evidence of a “concordant, common and consistent” practice to meet the requirements of Article 31(3)(b). These may be insuperable barriers to acceptance of his argument. Nonetheless, it is a bold and interesting one to advance.

If Dr Schaafsma’s argument in favour of a *lex loci protectionis* rule being contained in the national treatment requirements of Berne and Paris were to be accepted, what would be the implications of this from the perspective of Australia, as a law-abiding and treaty-observant member of the international IP system? The most obvious arises in relation to the Berne Convention where the conclusion must follow that this instrument does, in fact, contain a conflict of law rule which we, as treaty signatories, are obliged to apply as part of our public international law commitments with respect to the protection of foreign works and authors. In a flash, the difficulties posed by the *Moçambique* rule disappear: Australian courts should be free to hear cases involving foreign copyrights (*Lucasfilm* in the UK has already led the way here, but without reference to the possibility that such a conclusion was already embodied in the Berne Convention). The choice of law rule then to be applied in such cases follows seamlessly: this will be the law of the place of infringement or the law of the situs of the copyright as the laws of the territories for which protection is sought (again, it seems that our courts have reached, or are moving towards, such a position, but without reference to Berne). We can therefore take some comfort, and even some wry amusement, from the fact that our courts have been working towards solutions that are now mandated under our treaty obligations (if, course, Dr Schaafsma’s arguments based on the VCLT are accepted).

Whether this is a good thing from a wider policy perspective is another matter, particularly in the online and networked environment where there may be a multiplicity of countries and laws involved, and where different and more nuanced choice of law rules might be preferable, for example, with respect to the localisation of particular aspects of infringing conduct and other transactions (it may be noted that these are matters that have received close and detailed attention by groups of experts in North America and Europe²⁸). Dr Schaafsma acknowledges these difficulties, but argues that, on balance, his approach will still be workable in an overall sense, particularly as it does not involve the need for change in the international Conventions applying his suggested interpretation based on subsequent State practice (although some clarification in this respect would obviously be helpful). There is clearly scope for argument here, but Dr Schaafsma puts his arguments forcefully and with conviction. It is less clear, however, how his formulation of the national treatment principle maps onto the Paris Convention when it comes to

registered rights such as patents and trade marks, and where there has been a strong tendency to reserve subject matter jurisdiction in relation to such matters as validity to the law of the country of grant, perhaps a reflection of strong notions of comity and public policy. Dr Schaafsma recognises this but appears to see this as being outside conflict of laws issues in any event (see his definition of “conflict of laws” referred to above). Nonetheless, he does suggest that there will be instances in which foreign registered rights other than validity could still be dealt with by a national court and makes various proposals in this regard.²⁹

There is no doubt that this is a work for specialists and Dr Schaafsma’s historical account will be of more immediate interest to European, rather than Australian, readers. Having said this, there are insights and perspectives that will be illuminating for those more generally concerned with international IP law, particularly copyright. Thus, his treatment of the specific instances in which the Berne Convention provides for material reciprocity (in particular, for works of applied art and resale rights) is both insightful and highly instructive;³⁰ likewise, his discussion of the temporal aspects of treaty interpretation raises important practical questions of public international law.³¹ His short excursions in the many footnotes also contain little gems and repay careful reading, as do his updates on more recent developments after 2010, notably within the EU. And if anyone is in any doubt as to the thrust of his overall thesis, there are lots of short summaries and recapitulations along the way to ensure that the reader does not get lost (even if one has doubts about the leaps from one step to the next). This culminates in the closing chapter in which he puts forward reformulated texts of the Berne Convention so as to reflect what he argues should now be the way that national treatment is to be interpreted under this instrument.³² Explaining that his concern has been to state the law as it should be properly understood rather than to consider what it should be, nonetheless at the very end he does enter the world of the ideal, and provides suggested texts for desirable reforms of Berne (his suggestions for Paris are similar, but he also has proposals there concerned with jurisdictional matters)³³. There is much in this last chapter to provoke discussion and debate.

Dr Schaafsma’s style, even in translation, is clear and refreshingly straightforward: he is unafraid, at times, to call out those authors and/or views with whom or with which he disagrees, with blunt statements that “this is incorrect” or that “X is wrong”. His command of the primary sources, in particular treaty records, is impressive, as is his coverage (and critique) of the writings of both older and contemporary scholars. Edward Elgar is to be congratulated on bringing such a volume to the attention of English-speaking readers and the translators are to be highly commended for providing such an excellent text. However, in one respect, there may be a difficulty for readers who do not have fluency in French or

German, as the text is replete with quoted passages in both languages with no English translation provided, for example, in the footnotes (fortunately, there are English translations of Dutch authors and legal texts). Mostly, the quoted passages serve to confirm points already argued in the principal text, but one may query the need for so much or all of them. At the end of the day, this may only be a minor irritant to the reader, but it also highlights an aspect of the civil law tradition where the views of legal scholars or commentators are given more weight than in the common law tradition where we would more usually quote extracts from cases and less from other commentators. There is also the alluring consideration that some things simply sound better or more emphatic in French, German or Latin in any event, particularly in the case of terminology. Thus, *lex fori*, *ius conventionis* and *lex originis* sound more authoritative and succinct than “law of the forum”, “convention right” or “law of the country of origin”. And would anyone want to abandon such well-established private international law terms as *renvoi* and *dépeçage* (even more resounding in German as *Zersplitterung*) for their more quotidian English equivalents?

I recommend this text to readers who are interested in international IP law and its intersection with private international law. While there may be disagreement with Dr Schaafsma’s interpretation of the present national treatment requirements in the Berne and Paris Conventions, and the route by which he arrives at this interpretation, his discussion is always interesting and thought provoking, while the range of his legal and historical research is most impressive.

APPENDIX

National treatment provisions in the Berne and Paris Conventions

Berne Convention

Article 5

(1) *Authors shall enjoy, in respect of works for which they are protected under this Convention, in countries of the Union other than the country of origin, the rights which their respective laws do now or may hereafter grant to their nationals, as well as the rights specially granted by this Convention.*

(2) *The enjoyment and the exercise of these rights shall not be subject to any formality; such enjoyment and such exercise shall be independent of the existence of protection in the country of origin of the work. Consequently, apart from the provisions of this Convention, the extent of protection, as well as the means of redress afforded to the author to protect his rights, shall be governed exclusively by the laws of the country where protection is claimed.*

(3) *Protection in the country of origin is governed by domestic law. However, when the author is not a national of the country of origin of the work for which he is protected*

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under this Convention, he shall enjoy in that country the same rights as national authors.

Paris Convention

Article 2

(1) Nationals of any country of the Union shall, as regards the protection of industrial property, enjoy in all the other countries of the Union the advantages that their respective laws now grant, or may hereafter grant, to nationals; all without prejudice to the rights specially provided for by this Convention. Consequently, they shall have the same protection as the latter, and the same legal remedy against any infringement of their rights, provided that the conditions and formalities imposed upon nationals are complied with.

(2) However, no requirement as to domicile or establishment in the country where protection is claimed may be imposed upon nationals of countries of the Union for the enjoyment of any industrial property rights.

(3) The provisions of the laws of each of the countries of the Union relating to judicial and administrative procedure and to jurisdiction, and to the designation of an address for service or the appointment of an agent, which may be required by the laws on industrial property are expressly reserved.

1 Emeritus Professor AM, Melbourne Law School.

2 Sierd J Schaafsma, *Intellectual Property in the Conflict of Laws: The Hidden Conflict-of-law Rule in the Principle of National Treatment* (Edward Elgar Publishing, 2022) [2].

3 I should at this stage acknowledge, and thank, my colleague, Professor Richard Garnett, for his comments and guidance in writing this review, but hasten to add that any errors contained herein are mine alone.

4 To be distinguished from the question of personal jurisdiction, that is, whether the forum court will or can assume jurisdiction over the actual defendant.

5 *British South Africa Co v Companhia de Moçambique* [1893] AC 602. See also, in relation to patents, *Potter v BHP* [1905] VLR 612, (1906) 3 CLR 479 (on appeal).

6 See now *Lucasfilm Ltd v Ainsworth* [2012] 1 AC 208; [2011] UKSC 39.

7 In the case of infringements, the choice of law rule for torts – the law of the place of infringement – should be applicable, by analogy: see now *Regie Nationale des Usines Renault SA v Zhang* (2002) 210 CLR 491; 76 ALJR 551; 187 ALR 1; [2002] HCA 10.

8 See, for example, *Campbell Connelly & Co v Noble* [1963] 1 All ER 237; 1 WLR 252.

9 Berne Convention, Article 5(1). See also Paris Convention, Article 2(1).

10 World Trade Organization, *Agreement on Trade-Related Aspects of Intellectual Property Rights* (1994) (“TRIPS Agreement”), Parts II-IV.

11 Others can be found in Article 14ter(3) (“droit de suite”), 14bis (2) (ownership of cinematograph films). Historically, there was a requirement of compliance with the formalities requirements of both the country of origin and country where protection was sought – this was removed at the time of the Berlin Revision Conference of 1908: see now Article 5(2) of the Stockholm-Paris revised text of the Convention.

12 Sierd J Schaafsma, *Intellectual Property in the Conflict of Laws: The Hidden Conflict-of-law Rule in the Principle of National Treatment* (Edward Elgar Publishing, 2022), 528 (Glossary).

13 Sierd J Schaafsma, *Intellectual Property in the Conflict of Laws: The Hidden Conflict-of-law Rule in the Principle of National Treatment* (Edward Elgar Publishing, 2022), xii (Foreword).

14 Sierd J Schaafsma, *Intellectual Property in the Conflict of Laws: The Hidden Conflict-of-law Rule in the Principle of National Treatment* (Edward Elgar Publishing, 2022), [1251].

15 Berne Convention, Article 7(8). It remains up to the country of importation as to whether it will limit the term of protection of foreign works in this way: whether from considerations of altruism or simple neglect, Australian law applies its full term of protection to foreign works even they come from countries with less than 70 years post mortem auctoris protection.

16 Sierd J Schaafsma, *Intellectual Property in the Conflict of Laws: The Hidden Conflict-of-law Rule in the Principle of National Treatment* (Edward Elgar Publishing, 2022), [234]ff.

17 Sierd J Schaafsma, *Intellectual Property in the Conflict of Laws: The Hidden Conflict-of-law Rule in the Principle of National Treatment* (Edward Elgar Publishing, 2022), Ch 3, in particular 3.1 and 3.2

18 But Part II of the TRIPS Agreement now contains a considerable body of such rules in relation to registered rights such as trade marks, designs and patents.

19 See *Lucasfilm Ltd v Ainsworth* [2012] 1 AC 208; [2011] UKSC 39.

20 *Phillips v Eyre* (1870) LR 6 QB 1 but see now *Regie Nationale des Usines Renault SA v Zhang* (2002) 210 CLR 491; 76 ALJR 551; 187 ALR 1; [2002] HCA 10.

21 See, in particular, Sierd J Schaafsma, *Intellectual Property in the Conflict of Laws: The Hidden Conflict-of-law Rule in the Principle of National Treatment* (Edward Elgar Publishing, 2022), [474] ff.

22 See, for example, PM North and JJ Fawcett, *Cheshire and North Private International Law* (Butterworths, 11th ed, 1987), Chap 2. Compare, however, a distinguished Australian commentary that makes no such reference: M Davies, AS Bell and PLG Brereton, *Nygh's Conflict of Laws in Australia* (LexisNexis, 8th ed, 2010).

23 Including an “Interlude” in Schaafsma, Ch 5.2, where he describes the development of statist approaches and that of Savigny at some length, but excuses readers if they skip this section (see [601]).

24 Sierd J Schaafsma, *Intellectual Property in the Conflict of Laws: The Hidden Conflict-of-law Rule in the Principle of National Treatment* (Edward Elgar Publishing, 2022), Ch 1–4.

25 Sierd J Schaafsma, *Intellectual Property in the Conflict of Laws: The Hidden Conflict-of-law Rule in the Principle of National Treatment* (Edward Elgar Publishing, 2022), Ch 8.2 and 8.3.

26 Sierd J Schaafsma, *Intellectual Property in the Conflict of Laws: The Hidden Conflict-of-law Rule in the Principle of National Treatment* (Edward Elgar Publishing, 2022), 328–9 (Glossary).

27 VCLT, Article 31(3)(b).

28 See, for example, the work of the American Law Institute: *Intellectual Property: Principles Governing Jurisdiction, Choice of Law and Judgments in Transnational Disputes* (American Law Institute Publishers, 14 May 2007) (the “ALI Principles”); and that of the Max Planck Institute for Innovation and Competition, Munich: *Conflict of Laws and IP (CLIP), Proposal for Rules establishing the law applying to existence, scope and infringement of IP Rights* Max Planck, (4th revised version, September 2007) (the “CLIP Principles”).

29 Sierd J Schaafsma, *Intellectual Property in the Conflict of Laws: The Hidden Conflict-of-law Rule in the Principle of National Treatment* (Edward Elgar Publishing, 2022), Ch4, 8.1 and 8.2. In this respect, it might also be said that the Paris Convention does contain an express rule on jurisdiction in Article 2, para 3, which reserves matters of jurisdiction to countries where protection is sought and which therefore provide a basis for leaving such matters to the courts and laws of the country where the right is registered.

30 Sierd J Schaafsma, *Intellectual Property in the Conflict of Laws: The Hidden Conflict-of-law Rule in the Principle of National Treatment* (Edward Elgar Publishing, 2022), Ch 6.3 (“A closer look at the material-reciprocity tests in the Berne Convention”).

31 Sierd J Schaafsma, *Intellectual Property in the Conflict of Laws: The Hidden Conflict-of-law Rule in the Principle of National Treatment* (Edward Elgar Publishing, 2022), Ch 5.3.1.

32 Sierd J Schaafsma, *Intellectual Property in the Conflict of Laws: The Hidden Conflict-of-law Rule in the Principle of National Treatment* (Edward Elgar Publishing, 2022), Ch 8.1 and 8.2.

33 Sierd J Schaafsma, *Intellectual Property in the Conflict of Laws: The Hidden Conflict-of-law Rule in the Principle of National Treatment* (Edward Elgar Publishing, 2022), Ch 8.3.

Book Review: *Copyright, Creativity, Big Media and Cultural Value: Incorporating the Author*

Associate Professor Jani McCutcheon¹

By Kathy Bowrey

[Routledge 2021 pp 228. The e-Book version is priced from AU\$55.19 and can be ordered from the Routledge website <www.routledge.com> as can the in-print book.]

Professor Kathy Bowrey is justifiably confident in her claim that this meticulously researched book “bring[s] to light the dynamic and complex layers of negotiation that affect the cultural economy to disrupt existing simplistic ideas about what copyright law is and how it works”.²

Bowrey is a legal historian and socio-legal scholar. This book is no dry reckoning of copyright’s history. Readers should not therefore seek a comprehensive history of copyright, although there is reference to it in her bibliography. The author’s treatment is an attempt to, as she notes, move away from conventional legal historiography which focuses “predominantly on the origins of copyright, rather than inquiring into the value of copyright in practice”.³ Rather, it situates copyright in a broader story. It is an unabashedly socio-legal account. At times, copyright is almost lost in that story, most evidently in the chapter providing a feminist reading of the recording industry. Bowrey’s attentiveness in foregrounding the intricate web of factors that in reality explain the production, distribution and reception of technology and culture has the practical effect of relegating copyright to the shadows somewhat. In terms of reader enjoyment, this isn’t a problem as the story is fascinating and Bowrey’s account is eloquent. We can also read this as Bowrey’s point – sometimes we overvalue what copyright does and is, and undervalue the mesh of contributing factors – historical, cultural, commercial, that shape everything that surrounds copyright, and correspondingly shape copyright. It is perhaps right that copyright’s appearance in her chapters is so obscured by other discourse which accurately shows the liminal role copyright sometimes played in these complex interactions and developments.

As all good histories should, the book prompts reflection on the ties between the past and the present. Bowrey’s tales of 19th century authors burdened with a poor understanding of copyright law show that little has changed since that time. As authors did then, modern authors are also appealing “to the conscience of publishers and the public rather than to the law for support”.⁴ One need only consider the minuscule dribbles making their way to musicians through the Spotify platform to see the past revealed in the present. One author of a successful 19th century sensation novel, spoke of how he was unable to write owing to illness and “want of money to keep him going” and how he was “much in need of rest and comfort”. The subsequent launching of a public appeal

for him brings to mind today’s crowd-funding efforts which so many authors and creators are turning to as a form of modern-day patronage to fund their creative efforts, eschewing traditional commercialisation pathways. We also see parallels in attempts to push back against the dominance of American cinema and television. It seems this has been going on for a long time. While not directly influential in the text of copyright law, the author portrays how particularly in the 1920s, the common interests of Commonwealth nations resulted in cooperative strategising to protect the interests of countries of the British Empire from American cultural submersion. This led to the introduction of cultural quotas in many of these countries, mandating a certain percentage of locally produced cultural content, a practice which continues today.⁵ Another important theme in the book which remains equally resonant today is the critical role that contract law plays in constructing the cultural economy. The book details how the homogenisation of contractual terms in the film industry led to a kind of anticompetitive collusion amongst industry stakeholders, even if they were technically in competition. This parallels the emergence of the standard form contract in modern times and the inequity such standard terms can cause.

It is at times difficult to discern an overarching linking theme or thread through the book. It does not follow a linear narrative through the chapters. It ranges through different approaches, exploring theoretical critiques of authorship, explaining how copyright was commercially exploited in different ways in the nascent detective fiction genre, exploring the contemporary effects of copyright’s imperial heritage, the industrialisation of authorship following the emergence of film, and a feminist reading of the history of the international recording industry. However, this diversity does not detract from the value of the book. The chapters can be appreciated as interesting stand-alone cultural, legal and commercial histories and the role (or non-role) of authors and copyright in those trajectories.

A particular strength of the book is the author’s ability to clearly explain sometimes confoundingly complex historical copyright law. This is enriched with an exploration of the frequent dissonance between the rights actually ascribed by copyright law and actors’ understanding of what they were entitled to, a misalignment which continues today. This underscores a major theme of the book – while copyright

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might say one thing, industry practise, contract law and stakeholder advocacy might say something completely different. Both the law and practice shaped rights, real and perceived.

At the end of the book, the reader has a good understanding of, as the author puts it “the considerable distance travelled by copyright law in the 20th century from the conventional idea of it as a form of protection of an author’s literary property”⁶ and why “authorship and inventorship are not the drivers of technological and social change in the way this is often conceived”⁷. This in turn is of great assistance in helping readers understand copyright’s origins and situate copyright within the larger cultural ecosystem. In illuminating the multifactorial pressures at the peripheries of copyright, it is somewhat paradoxically a book which is as much about copyright as it is about copyright’s irrelevance.

- 1 UWA Law School.
- 2 Kathy Bowrey, *Copyright, Creativity, Big Media and Cultural Value: Incorporating the Author* (Routledge, 2021), 6.
- 3 Kathy Bowrey, *Copyright, Creativity, Big Media and Cultural Value: Incorporating the Author* (Routledge, 2021), 25.
- 4 Kathy Bowrey, *Copyright, Creativity, Big Media and Cultural Value: Incorporating the Author* (Routledge, 2021), 51.
- 5 Kathy Bowrey, *Copyright, Creativity, Big Media and Cultural Value: Incorporating the Author* (Routledge, 2021), 127.
- 6 Kathy Bowrey, *Copyright, Creativity, Big Media and Cultural Value: Incorporating the Author* (Routledge, 2021), 136.
- 7 Kathy Bowrey, *Copyright, Creativity, Big Media and Cultural Value: Incorporating the Author* (Routledge, 2021), 141.

Book Review: *Regulatory Insights on Artificial Intelligence: Research for Policy*

Rob Clark¹

Edited by Mark Findlay, Jolyon Ford, Josephine Seah and Dilan Thampapillai

[Edward Elgar Publishing 2022 pp 304. The e-Book version is priced from £25/\$AU45 from e-Book vendors while in print the book can be ordered from the Edward Elgar Publishing website <www.e-elgar.com>.]

Introduction

The release of *Regulatory Insights on Artificial Intelligence: Research for Policy*, edited by Professor Mark Findlay, Professor Jolyon Ford, Josephine Seah and Associate Professor Dilan Thampapillai, is timely. The themes of the various chapters in the book, such as risks to privacy, overbroad data collection, the impact of technology on the law, and risks to stable employment² are, or should be, front of mind as technological development proceeds apace.

The revolution is happening as I write. Machines can create spectacular works of art.³ Machines can produce reams of text.⁴ There are those that say that machines' output should be protected by intellectual property laws, and have commenced litigation throughout the world (including Australia) to make the point.⁵ The High Court of Australia is to shortly hear the appeal from *Commissioner of Patents v Thaler* [2022] FCAFC 62.⁶ At the same time, very large organisations which hold troves of data, being the raw input for this revolution, seem quite unable to hold onto such information.⁷ That is, one does not need to look far into the future for the consequences of this technological revolution, those consequences are occurring now.

Therefore, there is much to talk about. Indeed, if I have one criticism of the book, it is that there is potentially *too* much to talk about. The book is split into multiple chapters, each written by different authors, with various chapters being grouped together based on themes. While the book title refers to Artificial Intelligence, its subject matter covers a broad range of topics which are technology adjacent, rather than AI specific. Thus, at times, there can be somewhat of a disconnect between the chapters. Nonetheless, given how much there is to consider, there is no filler.

The first introductory chapter, written by Findlay and Ford, and titled the same as the book, summarises the core thesis of the book: the importance of pre-emptive regulation of technological developments related to AI to prevent harm occurring *and to spread its benefits*, rather than attempting to regulate it after the fact and only in response to harms which have occurred. The chapter refers to a "Call to Arms" for a research driven and multi-disciplinary approach to regulating AI, precisely the approach adopted within the book.

Data

The book then splits into groups of chapters, preceded by short reflections on these chapters written by Findlay and Ford. The first group of chapters relate predominantly to issues of data and privacy.

The first chapter, "Artificial intelligence and sensitive inferences: new challenges for data protection laws", is written by Damian Clifford, Professor Megan Richardson and Associate Professor Normann Witzleb. It helpfully summarises and categorises regulatory regimes in respect of protection of private information in multiple jurisdictions, including Europe, Australia and the United States, and is a useful chapter for that reason alone. However, the core insight of the chapter is to draw attention to the fact that AI and other data processing technologies blur the distinction recognised in most privacy laws between sensitive personal information (deserving of greater protection) and other kinds of personal information. This is because with sufficiently large data sets it is often possible to glean sensitive personal information about persons from data which is more innocuous. The Cambridge Analytica scandal some years ago is an example of this phenomenon. Clearly, this is an area needing further regulatory consideration, though, as indicated above, in Australia we may be somewhat further back down Maslow's hierarchy of privacy needs at the "putting systems in place to prevent personal data being stolen" stage.

The second chapter, "Revaluing labour? Secondary data imperialism in platform economies", is written by Findlay and Seah. The chapter focuses on the gig economy and particularly the platforms on which they operate, such as Uber and Deliveroo. The discussion notes that data is one of the most valuable assets arising from ownership of those platforms. However, that data is created by the users of the platforms (whether that be the persons ordering the goods or delivering them), not the platform creators. Particularly for those delivering the goods, the platforms represent a valuable source of work, but a fairly mercurial one. The chapter proposes regulation to provide greater transparency and control over data created by platforms to those using them, as a means of rebalancing the power in their direction and away from the platform operators.

The third chapter, "Gauging the acceptance of contract-tracing technology: an empirical study of Singapore residents' concerns and trust in information sharing" is written by

Ong E Ing and Associate Professor Loo Wee Ling. As the title suggests, the chapter discusses research conducted in 2019 which is of relevance to trust in contract-tracing apps in Singapore. The research demonstrated that: (a) respondents were (in 2019 at least) more concerned about businesses collecting their data than the Singaporean government; and (b) most concerned to protect their credit card information, personal contact information and communication history from the government, with concerns about purchase history data, demographics data and location data being much lower. One wonders whether these opinions would have been the same after a contract-tracing app was deployed in Singapore, with the authors discussing a prominent controversy in 2021 where data collected by the Singaporean Government for one purpose (health) was used by it for another purpose (law enforcement). One also wonders whether the lack of concern about collection of location data particularly would have also remained as low.

The fourth chapter, “Regulating personal data usage in COVID-19 control conditions”, is written by Findlay and Associate Professor Nydia Remolina. Like the previous chapter, it focuses on the particular privacy and data concerns associated with data collection for COVID control purposes, such as contract tracing, and provides suggestions for the regulation of such data collection.

Technology and the Law

The second group of chapters relates more particularly to the impact of technology on the law.

The fifth chapter, “Coding legal norms: an exploratory essay”, is written by Associate Professor Will Bateman. The chapter is a very engaging read on a potentially dry topic, and identifies the difficulties associated with coding the law (i.e. rendering it into computer code so that it can be automated), and whether that is in fact something that is worthwhile or even possible. Bateman draws a distinction between “law as rules” and “law as project management”. The former is rigid and deterministic. The latter is normative and flexible, involving concepts such as reasonableness or good faith, where reasonable minds might differ. Therefore, it is difficult to conceive of a code being written to replace it, let alone producing the single “right” answer. Bateman’s point is that the law includes both “law as rules” and “law as project management” and therefore (thankfully for the practitioners among us), his work draws attention to the fundamental difficulty in attempting to “code” the law, or at least its entirety. However, that does not mean that some types of disputes and relationships could not come to be partially governed by such code, should the parties or legislature prefer that approach and the certainty that it provides.

The sixth chapter, “Artificial intelligence and the unconscionability principle”, is written by Thampapillai.

This interesting chapter focuses on a quite specific problem, the propensity for AI to do unpredictable or unforeseen things, particularly when deployed on platforms or other technologies which are too vast for humans to completely monitor. For example, social media content may be promoted, or banished, entirely automatically. Equally, AI may in practice exploit parties using platforms to sell or deliver goods and services. In both cases this may occur with no intention on the part of the operator of the platform. Thampapillai proposes that the law of unconscionable conduct be shaped to deal with the realities of AI where human intention and trust cannot be the determinative factor, because the actions of the AI occur without any human intervention at all. This is a valuable contribution to a vexed area, which will only become more important: the attribution of consequence to legal actors of actions which are caused by machines with no human input.

The seventh chapter, “The possibilities of IF-THEN-WHEN” is written by Sally Wheeler. Developing in more specific detail the topic addressed by Bateman, Wheeler investigates smart contracts, where the code *is* the contract and replaces a written document. The first section of Wheeler’s chapter discusses how the transition from oral agreements to text fundamentally changed the nature of agreements, with a move away from subjective understanding of what the bargain was to the objective understanding of the written agreement. The second section discusses scholarship regarding the nature of agreements in many commercial contexts where repeat transactions and complexity require a high degree of trust, cooperation and transparency between the parties, and there is socialisation against relying on the “contract” in all except bargains which have failed completely. The final section discusses the significance of this background for smart contracts, which, because of their self-executing nature, do not have a clear demarcation between contract creation and contract enforcement. That is, the enforcement is self-executing because of the code. Wheeler points out that this new world of efficient and frictionless smart contracts might be contrary to the manner in which many commercial parties have come to govern their relationships.

The eighth chapter, “Doing it online: is mediation ready for the AI age?”, is written by Professor Nadja M Alexander. The chapter discusses technological developments which have occurred in the context of mediation, and highlights the potential benefits of those technologies to the mediation process. This is not an analysis of mediation over Zoom or Teams as a result of Court and COVID regulations (an experience many of us have had, and may wish we didn’t), but rather provides insights into platforms specifically tailored to the mediation context and the benefits they can provide. That is, where a fundamental principle of mediation is the *flexible* resolution of disputes (as compared to litigation, which is more formal), technology provides potentially new ways to facilitate that resolution. Examples

include automated negotiation, where parties can enter bids of settlement offers, and software specifically tailored towards settlement negotiations in family law proceedings, which can assist participants in advance of a mediation to think through what they particularly value in any settlement. Finally, the chapter outlines a framework for ensuring that the embrace of new technologies in a mediation context achieve the best outcomes.

The final group of chapters are focused on regulation.

The ninth chapter, “Ethical AI frameworks: the missing governance piece”, is written by Ford. The chapter criticises the current Australian approach to the regulation of AI (which is common to many other jurisdictions), which is to *not* regulate AI, but promote voluntary self-regulation on the part of market participants by way of abstract “frameworks” or “principles”. As Ford persuasively argues, there is an inconsistency between governmental policy documents noting the enormous potential transformative consequences of AI on the one hand, and the failure to regulate it on the other. If AI could have enormous transformative consequences, that would appear to be a good reason to properly regulate it. Ford points out that many of the arguments about the difficulties of regulation of AI (the difficulty of predicting the course of technological development, avoiding stifling development and so on), may well be reasonable concerns, but they hardly provide a justification for the avoidance of the attribution of legal responsibility for the consequences of the technological development by means of regulation.

The 10th chapter, “The accountability of algorithms on social media platforms”, is written by Associate Professor Philippa Ryan. In her chapter, Ryan outlines the potential pitfalls of algorithms, mostly within a social media context. Algorithms are written by people, and they are based on datasets created by people. This means they can be racist, sexist, biased and promote undesirable content, such as the Christchurch massacre or the “fake news” of the 2016 Brexit referendum or 2016 and 2020 US presidential elections. In a social media context, the fundamental purpose of the algorithm is engagement, to keep the user on the platform to sell advertising to them, but as Ryan points out, not all that engages is good. Ryan concludes with some thoughts as to better means to regulate these algorithms, with a focus on transparency.

The final chapter, “Models and data trade regulation and the road to an agreement”, is written by Associate Professor Henry Gao. Gao’s chapter addresses regulation surrounding international trade in data itself, a logical consequence of the increasing importance to data to business generally, as identified in other chapters of the book. Gao distinguishes between key international regulatory regimes which are underpinned by differing conceptions of the role of data: the EU model, with its focus on protecting privacy; the US model with its focus on removing protectionist policies

and facilitating e-commerce; and the Chinese model which has included fewer data-related regulations in its trade agreements. Gao then proposes that the best path for international regulation will be to propose basic standards for all participants, and with tiers of additional obligations depending on the degree of the development of the particular country. Gao argues that the basic standards should include freedom for data flow for the provision of certain services, prohibition of data localisation requirements and commitment amongst members to maintain an agreed level of privacy protection in their own domestic laws.

Conclusion

As should be readily apparent from this summary, *Regulatory Insights on Artificial Intelligence* is bursting with ideas. While many more questions are asked than answered, those questions require one to think deeply about important issues associated with AI. That thinking is sorely needed *now*, if this technology is to benefit us, rather than harm us.

- 1 Barrister, 5 Wentworth Chambers: <<https://www.5wentworth.com/barristers/rob-clark/>>.
- 2 Both for those in the “gig” economy, and perhaps more alarmingly for the audience of this publication, smart machines eating our lunch as lawyers.
- 3 Kevin Roose, ‘An A.I.-Generated Picture Won an Art Prize. Artists Aren’t Happy’ *New York Times* (online, 2 September 2022) <<https://www.nytimes.com/2022/09/02/technology/ai-artificial-intelligence-artists.html>>.
- 4 James Vincent, ‘OpenAI’s latest breakthrough is astonishingly powerful, but still fighting its flaws’ *The Verge* (online, 31 July 2020) <<https://www.theverge.com/21346343/gpt-3-explainer-openai-examples-errors-agi-potential>>.
- 5 <<https://artificialinventor.com>>.
- 6 Editor’s note: on 11 November 2022, the High Court of Australia refused the special leave application from *Commissioner of Patents v Thaler* [2022] FCAFC 62 with costs: High Court of Australia, Case No. M26/2022.
- 7 Michael Slezak and Marty Smiley ‘Medibank, Optus, Woolworths data hacks show how a ‘decade of anti-security policy’ is putting Australia at risk, experts say’ *ABC News* (online, 21 October 2022) <<https://www.abc.net.au/news/2022-10-21/medibank-optus-data-hack/101558932>>.

Reinstating a Company to Address a Gap in a Patent Chain of Title

Mary Wyburn¹

Introduction

Legal proceedings to enforce registered patents in the United States of America can be stalled when the alleged infringers claim there is a gap in the chain of title for the patents. This was the circumstance in which AMHC, Inc (“AMHC”) and its subsidiary MediaPointe, Inc (“MP”) found themselves when MP brought patent infringement actions, in separate proceedings, against Akamai Technologies, Inc (“Akamai”) and Microsoft Corporation (“Microsoft”).

The patents in question concerned methods for distributing streamed media content over the internet and were based on a Patent Cooperation Treaty (“PCT”) application made in respect of an Australian invention. Unfortunately for the current patent owners, documents evidencing an assignment of the rights to the invention by one of the previous owners in the chain of title could not be located. There was an added complication because the Australian company that had then owned and purportedly assigned the rights, was no longer in existence. It had been deregistered several years earlier.

This report briefly explains the background to the problem faced by AMHC and MP. It then focuses on one of the steps they needed to take before the issue of the missing documents could be addressed i.e. a court application to reinstate the deregistered Australian company. The report examines what the patent owners were required to establish as part of the application and the role of the corporate regulator in the process. It discusses the response of the Federal Court of Australia per Justice Cheeseman to the application. The decision is *AMHC, Inc. v Australian Securities and Investments Commission* [2022] FCA 896.

Orders were made by Justice Cheeseman on 29 July 2022 and the judgment was published on 2 August 2022. While it was not a decision about the ultimate ownership of the intellectual property rights in dispute, it provides a useful illustration of the issues that will be raised when reinstatement of a previous corporate rights owner is a necessary step before a claimed gap in title can be rectified.

Patent Title Background

The invention that formed the basis of the two US patents had its origins in Australia. On 11 January 2000, Ben Lear and Joseph Hayes lodged a provisional patent application for their invention (“A Method for Distribution of Streamed Data Packets on a Switched Network Utilising an Intelligent Distribution Network”) at the Australian Patent Office.² Two days later a company, then known as Norton (No. 325) Pty Ltd, was incorporated.³

A letter dated 14 January 2000 evidenced an agreement by Lear and other parties (who appear to have been directors of the company, along with Lear and Hayes) to transfer to the company the business then being conducted under the business name “Streaming Media Australia”, including all intellectual property rights in the provisional patent application, in consideration of the issue of shares in the company to Lear, Hayes and these other parties.⁴ The letter indicated the parties had agreed to enter into a formal agreement “continuing the terms and conditions” set out in the letter within seven days.⁵

A change of company name, from Norton (No. 325) Pty Ltd to Streaming Media Australia Pty Ltd (SMA), was recorded on 19 January 2000.⁶ A PCT application was filed for the invention by SMA on 11 January 2001.⁷ This formed the basis for the two US patents (“System and Method for Distribution of Data Packets Utilising an Intelligent Distribution Network” – Patent Nos. 8,559,426 and 9,426,195) the subject of the current US litigation.

The next documents forming part of the patent title history were two identical deeds, one between Lear and SMA and the other between Hayes and SMA, both dated some time in March 2001. The deeds acknowledged the inventors had intended to assign title in the intellectual property rights in the invention to SMA pursuant to the earlier 14 January 2000 letter. They provided that to the extent the earlier assignment was ineffective, there was a further assignment of the rights to the invention, including the PCT application, to SMA, along with any rights to take action for infringement of the intellectual property rights.⁸

A corporate restructure then took place. It was intended to relocate the business from Australia to the US. Under the restructure, SMA shares were swapped for shares in Conferserv, Inc (“CSI”), a US company incorporated in 2003.⁹ SMA subsequently became a subsidiary of Conferserv Australia Pty Ltd (a subsidiary of CSI). There was evidence the parties to the restructure intended that SMA’s assets, including its intellectual property, be transferred to CSI. On

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completion of the restructure, both SMA and Conferserv Australia Pty Ltd were deregistered.¹⁰

Ownership of the intellectual property rights in the invention was subsequently transferred from CSI to Advanced Media Design, Inc (“AMDI”), another US company, and later, in June 2011, sold to AMHC.¹¹ The US patents were granted, one in 2013 and one in 2016.¹²

On 2 August 2021, AMHC assigned its interest in the US patents to its subsidiary, MP. On 25 August MP assigned the rights in the US patents back to AMHC and MP became the exclusive licensee of the patents.¹³

Gap in Title Revealed

The potential gap in the title to the US patents emerged as an issue in litigation commenced by MP. On 16 August 2021, in the US District Court for the Western District of Texas, MP commenced proceedings against Akamai (Case 6:21-cv-852) and separate proceedings against Microsoft (Case 6:22-cv-955), for patent infringement. Both respondents in the actions questioned MP’s standing to sue. MP relied upon its agreement with AMHC and AMHC asserted its rights as the current assignee of the patents. On 10 February 2022, MP dismissed both actions but on a without prejudice basis, leaving it free to later refile its claims.¹⁴

Shortly thereafter, Akamai (on 11 February – Case 2:22-cv-00982) and Microsoft (on 14 February – Case 2:22-cv-01009), in separate proceedings, brought actions in the US District Court for the Central District of California against MP and AMHC. Among the remedies sought were declarations of noninfringement of the two patents and of MP’s and AMHC’s lack of standing to sue because MP and AMHC had failed to establish their rights in the patents, in particular the transfer of rights from SMA to either of the companies or any other company.¹⁵

Unfortunately for MP and AMHC, documents evidencing the transfer of title from SMA to CSI could not be located.¹⁶ As SMA no longer existed, it could not provide evidence of the transfer of ownership or otherwise act to rectify the claimed gap in title.

SMA’s Deregistration and its Consequences

It is not clear under which section of the companies legislation then in operation the deregistration of SMA occurred. However, it would appear the company was deregistered by the corporate regulator, the Australian Securities and Investments Commission (“ASIC”) under provisions that permit deregistration to occur voluntarily when, among other prerequisites, all members of the company agree, the company is not carrying on business and its assets are worth less than AU\$1,000 (the current equivalent provision is s.601AA(2) *Corporations Act 2001* (Cth)).¹⁷

What happened when SMA was deregistered? When a company is deregistered it no longer exists as a legal entity. Any property held by the company at the time of deregistration, if held by it on trust, vests in the Commonwealth and other property vests in ASIC (s.601AD(1A),(2)).¹⁸ The property so vested is held subject to any “security or other interest or claim” on it that subsisted at the time of deregistration (s.601AD(3)). The Commonwealth or ASIC “may do an act” on behalf of the deregistered company but they must be satisfied the company “would be bound to do the act if the company still existed” (s.601AF).

Reinstatement and its Consequences

Before steps could be taken to rectify the gap in the transfer of rights from SMA, it would need to be reinstated.¹⁹ The reinstatement application was a matter of some urgency because “motions to strike and dismiss” were pending in the US litigation.²⁰

AMHC and MP applied for a court order directing ASIC to reinstate SMA (s.601AH(2)).²¹ If they were successful, SMA would be taken to have continued in existence as if it had not been deregistered (s.601AH(5)).²² When reinstated, the company is reinstated for all purposes, not just the purpose behind the bringing of the application for the court order.²³

When reinstatement occurs, anyone who was a director at the time of deregistration becomes a director once again but with effect only from the date of reinstatement and not for the intervening deregistration period (s.601AH(5)).

The reason for the reinstatement application brought by AMHC and MP was to enable SMA to clarify the transfer of title, including transferring any potential residual rights to the inventions that may have been retained by SMA at the time of its deregistration. If the reinstatement application was successful, any SMA property still vested in the Commonwealth or ASIC would revert in the reinstated company (s.601AH(5)).

An important feature of the reinstatement provisions is the discretion of the court to validate anything done during the period of deregistration and to make any order it considers appropriate (s.601AH(3)(c),(d)). A crucial issue for any reinstated company will be its lack of funds and the court may consider it appropriate to order the applicant for reinstatement to pay the costs of the reinstated company, including the costs of any later deregistration.

Bringing the Application for Reinstatement of SMA

The first hurdle for AMHC and MP was to convince the Federal Court they were eligible to bring the application for reinstatement. The applicant must either be a “person aggrieved” by the deregistration or a former liquidator of the deregistered company (s.601AH(2)(a)). The term “person aggrieved” refers to a person whose “legal rights and legal

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interests” have been affected by the deregistration.²⁴ It is “construed liberally.”²⁵ The threshold for determining the issue is “low.”²⁶

AMHC and MP were able to satisfy the Court they were eligible to bring the application for reinstatement. The Court found they had established an “arguable claim” that at the time of the restructure, the relevant parties had intended SMA’s assets be transferred to CSI and CSI and its successors in title had acted on that understanding. It was “at least arguable” there had been a transfer of beneficial title in the intellectual property from SMA to CSI and to its successors in title and “at least arguable” that it was inequitable for SMA to retain any residual interest in the intellectual property as against the successors in title in light of CSI and its successors’ reliance on the assumption they owned the patents.²⁷ As successor in title to CSI, AMHC had an “arguable claim” against SMA as the possible holder of a residual interest in the patents and it was necessary for SMA to be reinstated so the question of ownership of the patents could then be resolved.²⁸

Other Parties Interested in the Application

AMHC was not the only party with an interest in the application for reinstatement of SMA. If the application is successful, the court order directs ASIC to reinstate the company. For its part, ASIC will generally not oppose an application for reinstatement provided the requirements set out in its Regulatory Guide No 83 have been satisfied.²⁹ The matters listed include meeting the requirements of s.601AH(2), such as satisfying the court the application is “just” and providing evidence to support the grounds on which the application is brought. ASIC also requires the application to provide “sufficient information” to satisfy the court that the reinstated company will be solvent on reinstatement.

Evidence will also be needed that persons who had been directors at the time of deregistration have been given notice of both the application and that their “roles and responsibilities as officeholders” will resume if reinstatement occurs.³⁰ ASIC expects the application for reinstatement to be served on it “so the court can seek ASIC’s position before it decides the application.”³¹ It requires any court order for reinstatement to be lodged with it.³²

Although not initially a party to the reinstatement application brought by AMHC and MP, ASIC was eventually joined as a party. Correspondence from ASIC indicated it did not oppose the application for reinstatement provided no costs orders against it were sought.³³ ASIC chose not to enter an appearance and did not seek to be heard.³⁴

Others potentially interested in the application for reinstatement of SMA were Akamai and Microsoft, the applicants in the US proceedings, whose questioning of the AMHC’s title to the patents led to the reinstatement

application being brought. The Court did not see them as appropriate parties to the reinstatement application proceedings. Although they would receive a “commercial benefit” if the reinstatement application failed, their legal rights and interests would not be affected directly.³⁵ Their “commercial interest” did not support a right to be heard in relation to the reinstatement application and did not “detract” from the ultimate conclusion of the Court as regards the application.³⁶ The determination of AMHC’s title to the US patents, once SMA had been reinstated, was not an issue for the Court deciding the application for reinstatement.³⁷

Convincing the Court to Order Reinstatement

Once AMHC and MP had been recognised as eligible to bring the application for reinstatement of SMA, the next step was for them to convince the Court to grant the reinstatement order. To succeed they had to satisfy the Court it was “just” that SMA’s registration be reinstated (s.601AH(2)).³⁸

The Court’s discretion to make the reinstatement order is wide and it will look at a number of factors. These factors include the circumstances of the deregistration, the time that has elapsed since deregistration, the conduct of the applicant, any disadvantage to the applicant should the application be refused, the solvency of the company, the potential effect of reinstatement on the rights of third parties and any disadvantage to the general public.³⁹ Each application will “turn on its own facts.”⁴⁰

There was no issue arising in relation to SMA’s solvency. The Court had been assured by the applicants that any fees due to ASIC for the period of deregistration would be paid on reinstatement, the company had no creditors and there was no intention for it to trade or bring claims against any third party.⁴¹

There was also no issue concerning the management of the reinstated company. Steps had already been taken by AMHC and MP to communicate with the five former directors of SMA. Two former directors had decided to resign if the reinstatement application was successful.⁴² There had been no response to communications sent to one of the former directors, so the applicants sought a court order under s.601AH(3)(d) that on reinstatement of SMA the director would be removed from office.⁴³ Two former directors had agreed to act as directors of the reinstated company for a limited period and to appoint the former company secretary as a director (s.201H).⁴⁴ The former company secretary had agreed that if appointed a director, he would ensure fees due by the reinstated company to ASIC would be paid and he would execute a deed of assignment intended to transfer to AMHC any residual assets held by SMA.⁴⁵

The Court noted Conferserv Australia Pty Ltd, SMA’s only shareholder at the time of its deregistration, had been deregistered at the same time as SMA. However,

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the evidence in support of the reinstatement application included affidavits of one of its former directors and its former company secretary.⁴⁶

With these practical issues resolved by the applicants, could the Court be convinced to exercise its discretion in favour of the application? The Court granted the order for reinstatement of SMA. It was satisfied the evidence established the applicants had “at least, an arguable claim to a proprietary interest in the intellectual property” in the US patents.⁴⁷ To refuse the application would mean the title to any intellectual property owned by SMA at the time of its deregistration would remain vested in ASIC or the Commonwealth and the applicants would be unable to take the steps necessary to perfect their interest in the US patents.⁴⁸

The Court found no public policy reasons weighing against reinstatement. Instead, it considered public policy favoured reinstatement where the parties who sought SMA’s deregistration had not intended its intellectual property be vested in ASIC or the Commonwealth.⁴⁹ There was an arguable case that at the time of the restructure of the business, the relevant parties had intended to transfer SMA’s assets to CSI. Successors in title to those assets had proceeded on this assumption and, relying on that assumption, had undertaken further development of the intellectual property. The Court considered public policy was “in favour of enabling the means by which the reasonable expectations upon which investors relied and proceeded may be vindicated.”⁵⁰

An order was made under s.601AH(2) reinstating SMA’s registration. A further order was made under s.601AH(3)(d) that the former director the applicants had been unsuccessful in communicating with, be removed as a director of the company. The Court noted that upon reinstatement of SMA the resignations of two of the former directors would be immediately effective.

Conclusion

The case involving AMHC and MP is an example where a gap in the intellectual property chain of title could not be rectified without first obtaining a court order for the reregistration of the deregistered company that had earlier held the rights. While each application for reinstatement of a company will turn on its own facts, the application to reinstate SMA illustrates some of the key issues rights owners will need to consider when making such an application.

One issue is the need to financially support the reinstated company to ensure there is no question as to its solvency, even if the period of reinstatement will be short. Another issue is the return of the company directors to their positions. Persons willing to act in a management role during the reinstatement period will need to be found. The application for reinstatement of SMA was relatively straightforward because its deregistration had occurred voluntarily, when, as

then thought, its assets were below AU\$1,000 and it had no creditors. There was no third party claiming a competing interest in any assets SMA may have had when it was deregistered. A more complicated legal picture will exist when prior to deregistration the company was being wound up, either by way of voluntary or compulsory winding up. In these circumstances there will be the interests of the liquidator and company creditors to be considered in the application.

For the US patent owners, the claimed gap in patent title would not be cured by the reinstatement of SMA but it was a necessary preliminary step. Once SMA was reinstated, a deed of assignment between SMA and AMHC was to be executed confirming the transfer of any residual interest in assets held by SMA at the time of its deregistration, including the PCT application.⁵¹ For the parties in the US patent litigation the issue remains whether these measures will be sufficient to rectify the claimed gap in title to the patents.

- 1 University of Sydney Business School.
- 2 *AMHC, Inc. v Australian Securities and Investments Commission* [2022] FCA 896 (“*AMHC v ASIC*”), [2].
- 3 The reinstatement judgement refers to Notron (No 325) Pty Ltd. A search of ASIC records indicates the former name of SMA was Norton (No. 325) Pty Ltd.
- 4 *AMHC v ASIC*, [23].
- 5 *AMHC v ASIC*, [23].
- 6 *AMHC v ASIC*, [23].
- 7 *AMHC v ASIC*, [21].
- 8 *AMHC v ASIC*, [24].
- 9 *AMHC v ASIC*, [25].
- 10 Deregistration of both companies occurred on 21 December 2003: *AMHC v ASIC*, [14].
- 11 Documents in the US proceedings instigated by Microsoft Corporation against MP and AMHC indicate the transfer of assets from CSI to AMDI occurred in 2005, CSI was dissolved shortly after the transfer and AMDI was dissolved in 2012: *Microsoft Corporation v MediaPointe, Inc*, Complaint for Declaratory Judgment of Non-Infringement, Invalidity of US Patent Nos. 8,559,426 and 9,426,195, and Bad Faith Assertion of Patents, Case No. 2:22-cv-01009, 8.
- 12 *AMHC v ASIC*, [30]–[31].
- 13 *AMHC v ASIC*, [33]. The assignment from MP to AMHC occurred shortly after MP instituted patent infringement proceedings against Akamai and Microsoft in the US.
- 14 *Akamai Technologies, Inc v MediaPointe, Inc*, Complaint for Declaratory Judgment of Patent Noninfringement, Case No. 2:22-cv-00982, 3.
- 15 *Akamai Technologies, Inc v MediaPointe, Inc*, Complaint for Declaratory Judgment of Patent Infringement, Case No. 2:22-cv-00982; *Microsoft Corporation v MediaPointe, Inc*, Complaint for Declaratory Judgment of Non-Infringement, Invalidity of US Patent Nos. 8,559,426 and 9,426,195, and Bad Faith Assertion of Patents, Case No. 2:22-cv-01009.
- 16 *AMHC v ASIC*, [25].
- 17 The judgement identified the basis for deregistration was that SMA was not carrying on business and the company’s assets were worth less than AU\$1,000. It refers to a declaration made at the time of deregistration that SMA did not have assets over AU\$1,000. It indicates SMA did not have any creditors at the time of its deregistration: *AMHC v ASIC*, [5], [27], [56].

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- 18 The provision relating to vesting of company property was introduced from 1 July 2007 (*Governance Review Implementation (Treasury Agencies Portfolio) Act 2007* (Cth) Schedule 1). Prior to that time all property vested in ASIC.
- 19 The court documents in the proceedings brought by Akamai indicate MP's application for reinstatement of SMA was made on 8 November 2021: *Akamai Technologies, Inc v MediaPointe, Inc*, Complaint for Declaratory Judgment of Patent Noninfringement, Case No. 2:22-cv-00982, 7.
- 20 *AMHC v ASIC*, [15].
- 21 ASIC may reinstate a deregistered company in certain circumstances (administrative reinstatement under s.601AH(1) where it is satisfied the company should not have been deregistered and under s.601AH(1A) where an unpaid levy imposed under the *ASIC Supervisory Cost Recovery Levy Act 2017* (Cth) has been paid): ASIC, *Reinstatement of Companies*, Regulatory Guide 83 (March 2018), ("ASIC, *Reinstatement of Companies*"), 8. One of the instances identified in the ASIC regulatory guide as a circumstance in which ASIC 'may' reinstate a company's registration under s.601AH(1) is where the deregistered company had assets of more than AU\$1,000 at the time it was voluntarily deregistered: ASIC, *Reinstatement of Companies*, 9. As discussed later in this report, if SMA retained residual rights in the invention at the time it was deregistered and if deregistered under the voluntary deregistration procedures, the AU\$1,000 asset limit would not have been met. Presumably an argument based on this ground would have been a difficult one to make to ASIC when key documentation could not be located. The court application for reinstatement was perhaps a more appropriate process in which issues such as whether any residual rights in intellectual property remained with SMA after the corporate restructure could be considered.
- 22 The legislation does not state that the company comes back in the form in which it existed prior to deregistration. There may be circumstances that require court orders placing the reinstated company under a form of external administration or a different form of external administration than that which applied immediately prior to deregistration. Where the pre-deregistered company has been in liquidation (voluntary or compulsory), the court may make orders which provide for a different form of external administration, for instance orders for the appointment of a provisional liquidator or liquidator to operate under a compulsory winding up. The court may make orders placing the reinstated company into liquidation under ss.459A or 461 of the *Corporations Act 2001* (Cth): Robert Austin and Ian Ramsay, *Ford, Austin and Ramsay's Principles of Corporations Law*, LexisNexis online, 27.760.39. It may also order the liquidation be terminated under s.482: ASIC, *Reinstatement of Companies*, 17. No such orders were required in the circumstances before the court in the application to reinstate SMA.
- 23 Robert Austin and Ian Ramsay, *Ford, Austin and Ramsay's Principles of Corporations Law*, LexisNexis online, 27.760.30, John Tarrant, *Deregistration and Reinstatement of Companies and Schemes* (LexisNexis, 2013), 203-206.
- 24 *AMHC v ASIC*, [38]; citing a string of references, which ultimately refer to Austin] in *Australian Competition and Consumer Commission v Australian Securities and Investments Commission* (2000) 174 ALR 688 ("*ACCC v ASIC*")
- 25 *Re Austral Bronze Co Ltd* (2020) 149 ACSR 221, 255 [127].
- 26 *AMHC v ASIC*, [45].
- 27 *AMHC v ASIC*, [47]–[48].
- 28 *AMHC v ASIC*, [48].
- 29 ASIC, *Reinstatement of Companies*, 14–15.
- 30 ASIC, *Reinstatement of Companies*, 14.
- 31 ASIC, *Reinstatement of Companies*, 14
- 32 ASIC, *Reinstatement of Companies*, 15.
- 33 *AMHC v ASIC*, [7].
- 34 *AMHC v ASIC*, [6]–[7].
- 35 *AMHC v ASIC*, [54].
- 36 *AMHC v ASIC*, [54].
- 37 *AMHC v ASIC*, [54].
- 38 The question of whether there is a "residual discretion" exercisable once it has been established the applicant is an "aggrieved person" and reinstatement is "just" was not decided but the Court considered any such discretion should in these circumstances be exercised in favour of the applicants for the same reasons as for the finding that reinstatement was "just": *AMHC v ASIC*, [58].
- 39 *ACCC v ASIC*, 694 [35].
- 40 *AMHC v ASIC*, [36], citing *In the matter of Re ERB International Pty Ltd (deregistered)* [2014] NSWSC 200 [5].
- 41 *AMHC v ASIC*, [55]
- 42 *AMHC v ASIC*, [11].
- 43 *AMHC v ASIC*, [11].
- 44 *AMHC v ASIC*, [10], [12]
- 45 *AMHC v ASIC*, [12].
- 46 *AMHC v ASIC*, [14], [17].
- 47 *AMHC v ASIC*, [18].
- 48 *AMHC v ASIC*, [53].
- 49 *AMHC v ASIC*, [56].
- 50 *AMHC v ASIC*, [57]
- 51 *AMHC v ASIC*, [4], [12].

Esports: An Overview of a New(ish) Frontier in Digital Entertainment

Andrea Rizzi and Francesco de Rugeris¹

Pardon me: an e-...what?

According to the definition in the *Oxford Advanced Learner's Dictionary*, an esports is “a video game played as a competition for people to watch as entertainment”. Albeit with some approximation, this definition captures the essence of the phenomenon and helps us introduce this first very important point: any videogame (whether it's a virtual simulation of a traditional sporting activity or not) can be an esports.

Only a small fraction of esports involves virtual simulators of traditional sports like soccer or basketball. *League of Legends*, the videogame developed by Riot Games, is one of the most popular “esports” worldwide and yet, on the face of it, it has nothing to do with a “sport”. It's a battle-based videogame set in a fantasy world where teams of fanciful characters fight for victory and glory.

The significance of esports

The significance of esports should be appreciated both from an economic and a communications standpoint. In economic terms, in 2022, the esports industry is expected to generate US\$1.38 billion, up from US\$1.11 billion in 2021, with year-on-year growth of 16.4 per cent, according to Newzoo's *2022 Global Esport & Live Streaming market report*.

From the communications perspective, esports can connect with both newer and older generations with a high spending capacity. As such, they are becoming an interesting target for big brands such as Louis Vuitton and Mastercard, which until recently, were totally unrelated to the gaming world. Their ability to reach a broader and more varied audience is appealing. In 2019 the League of Legends World Championship Final had roughly 100 million viewers, while the NFL Superbowl had “only” 98 million spectators.

Esports as IP protected videogames

For there to be an esports, there must be a videogame. This has meaningful implications from a legal standpoint. If we think of a videogame as being, in essence, a layer of software (or game engine) on top of which sit audio visual components, such as animations, images, text, sound effects and music, which are IP-protectable subject matter, then the legal complexity surrounding esports becomes clearer. Copyright is arguably the category of IP rights that is most immediately relevant to videogames. However, virtually every category of IP rights is potentially pertinent.

From a European perspective, the Court of Justice of the European Union (“CJEU”), in its Decision No. C-355/12 (the Nintendo case), has clarified that:

videogames ... constitute complex matter comprising not only a computer program but also graphic and sound elements, which ... are protected, together with the entire work, by copyright ...²

As IP rights are proprietary/inherently monopolistic rights, their owners can, in principle, exclude others from using the relevant subject matter. Unlike in traditional sports, where nobody “owns” the game as such, in videogames a whole host of (physical or legal) persons may have proprietary rights to the game or its components: coders, artists, writers, music composers and performers, to name a few.

The IP rights to videogames are typically owned or controlled by the publisher, who acquires them for their distribution and commercial exploitation. Such exploitation takes place, at core, through the sale of licenses to end users, the terms of which are governed by the End User License Agreement/Terms of Service (“EULA/ToS”). Under these agreements, the publisher's license is virtually always limited to personal/non-commercial uses. This leads us to the second fundamental point: unlike that of a soccer tournament, the organisation of an esports tournament requires, authorisation, in principle, from the videogame's publisher.

Esports as complex ecosystems

Here's the third crucially important point: the presence and the interaction between stakeholders and their respective IP rights create a complex ecosystem, as outlined in Figure 1 – The esports' ecosystem.

economic burden of financing and marketing its game. It is also the most efficient arrangement as nobody understands their product/service (and the associated user community) better than the publisher. As such, publishers are best placed to make the game ecosystem flourish.

Some argue, however, that from an esports market perspective, the substantial monopoly individual publishers enjoy over their games is not the optimal solution. Those who see a risk in leaving the ecosystem in the hands of the publishers argue that the interests of other stakeholders may not always be aligned with the publishers' interests. They argue for the need to counterbalance the publisher's power to protect third party stakeholders' interests and investments.

Some advocate regulatory intervention by the State, which may take two forms. First, bespoke regulation (ranging from a "light touch" intervention limited to rectifying the shortcomings of the existing regulatory framework, to more comprehensive legislative intervention). And second, to bring esports within the regulatory framework applicable to traditional sports, and thereby within the remit of the International Olympic Committee ("IOC").

In April 2021, the IOC released the *Olympic Agenda 2020+5*,³ which notes a distinction between virtual sports (i.e., virtual versions of recognised sports) and videogames. While the IOC acknowledged the importance of videogames in reaching young people and encouraging them to engage in sport, its recommendations make it clear that the IOC's focus is on virtual sports, in relation to which it sees room for International Federations to assume governing and regulatory responsibilities (recommendation no. 9). This leaves out the numerous esports that are not virtual simulators of traditional sports, to which a different regulatory regime will apply.

In May-June 2021, the first Olympic Virtual Series took place. It saw eplayers compete in virtual sports (ebaseball, erowing, eycling, esailing and emotor-racing) and the involvement of the five International Federations governing the corresponding sports.

While the roles and responsibilities of the Federations at both international and national levels are still to be defined, their inclusion is bound to add complexity to the esports ecosystems. Why? First, because the Federations will inevitably impose extra layers of rules on esports organisations, and second, because the Federations' governing and regulatory responsibilities envisaged by the IOC may, if not carefully managed, cause friction with the publishers.

The dispute between the developer/publisher Blizzard Entertainment and KeSPA (the Korean e-Sports Association established by the South-Korean Government to oversee the local professional scene) offers an indication of the problems that may arise. The dispute centred around the

management of broadcasting rights relating to the airing of Blizzard's Starcraft videogame on television. The dispute was eventually settled (on undisclosed terms) but only after Blizzard sued KeSPA.⁴

Summing up

The esports landscape is expanding and esports are growing in popularity as videogames become an increasingly important entertainment and communication medium for younger generations.

Esports are complex ecosystems, which historically the publishers have administered, leveraging the powers and flexibility that IP and contract laws confer upon them, with little or no interference from the State and its legislation. This may, and often does, create problems. However, the lack of bespoke State-made rules leaves room for courts and regulatory authorities to apply existing regulations (e.g., often burdensome prize promotion and/or gambling/regulated gaming regulations) that were created before esports emerged. This, in turn, generates a regulatory risk and may represent a disincentive for potential investors.

Equally, the lack of ad hoc national rules carries the risk of leaving important gaps in the system, for example, in relation to player-visa issues. Such issues arise when players enter a foreign country to attend an esports event. As professional eplayers, they are technically "workers," and need to comply with local immigration laws, which may require a work visa. However, it is often impractical, if not impossible, for an esports player to obtain an "ordinary" work visa. This is why, in traditional sports, pro athletes benefit from bespoke, simplified, visa rules). On the other hand, bringing videogames into the remit of traditional sports organisations may not be entirely satisfactory either, as an overly regulated environment may collide with the prerogatives of publishers.

It remains to be seen how, from a governance perspective, the role of international and national sports Federations may be shaped, and which rules will apply to esports that are not virtual simulators of sports. The goal, however, is for a governance system that is both beneficial to the industry and respectful of the IP rights of the publishers to avoid disputes like the Blizzard-KeSPA case.

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2 Judgment of 23 January 2014, C-355/12 (Nintendo), ECLI:EU:C:2014:25, [23].

3 International Olympic Committee, *Olympic Agenda 2020+5* <<https://olympics.com/ioc/olympic-agenda-2020-plus-5>>.

4 See Andrew Miesner, 'Blizzard and KeSPA settle over SC broadcasting rights', *Complexity* (Web Page, 9 May 2011) <<https://complexity.gg/blizzard-and-kespa-settle-over-sc-broadcasting-rights/>>.

Current Developments — Australia

IP Australia

Diana Bogunovic, Michelle Catto, Sarah Dixon, Esther Lestrell and Andrea Ruhmann
FB Rice

Indigenous Knowledge project

A range of documents relating to IP Australia's Indigenous Knowledge ("IK") project were recently released. Stemming from the Enhance and Enable Indigenous Knowledge Consultations, IP Australia has now made available online the *Indigenous Knowledge Consultation Report 2021*, along with a summary version of the Report. Guided by these consultations, IP Australia has produced its *Indigenous Knowledge Work Plan 2022–23*, detailing next steps for the IK project in tandem with the *Reconciliation Action Plan*. Finally, an *Interim Report on Stand-alone legislation on Indigenous Knowledge* and fact sheet are now available. IP Australia invites feedback on the interim report, which can be provided via its consultation hub webpage.

Strategic Corporate Plan launch

IP Australia has recently launched a new *Strategic Corporate Plan*, which covers the period 2022–23 to 2026–27. IP Australia affirms its commitment to continuous improvement, adaptation and innovation in providing a modern, effective and efficient IP system and services to ensure that all Australians benefit from intellectual property. The Plan addresses IP Australia's operating context, including key considerations of environment, cooperation, capability and risk management, as well as setting several performance measures. The updated Plan is accompanied by a revised *Customer Service Charter*. Copies of the documents can be accessed through the IP Australia website.

IP Australia's most asked questions

IP Australia has produced a series of short videos providing answers to several key and recurring questions asked by customers. The videos cover fundamentals of identifying IP protection requirements, as well as obtaining, maintaining and enforcing IP protection. The hope is that these videos will be a useful resource and will address common knowledge gaps for customers of IP Australia.

Plant breeder's rights research and proposals for reform

IP Australia is currently researching Australia's plant breeding ecosystem and the role of plant breeder's rights ("PBR"). Between October 2021 and early January 2022, IP Australia conducted 70 interviews and 30 conversations with various stakeholders across Australia. Several reports, videos and illustrations have now been published on the PBR Reform

page on the IP Australia website. In addition to supporting and improving protection of IK in the PBR system, four key themes have emerged as areas for further research:

1. qualified Persons, and better alignment of the examination process with industry needs;
2. areas for legislative and regulatory reform;
3. improved public education and awareness to enable informed decisions about PBR; and
4. the extent to which PBR incentivise investment and commercialisation of new plant varieties.

More information, as well as links to participate in the research, can be found on the IP Australia website.

Resilience and Ingenuity: Global Innovation Responses to COVID-19 (eBook launch)

IP Australia's economics team contributed to Chapter 10 of the latest publication from the Centre for Economic Policy Research, written in collaboration with the European Patent Office, United States Patent and Trademark Office and World Intellectual Property Organization. The eBook, *Resilience and Ingenuity: Global Innovation Responses to COVID-19*, explores the innovation sector's response to the pandemic, including the use of IP assets in times of uncertainty and rapid adoption of new digital and health technologies. Australia's record trade mark applications featured as part of an analysis of global growth in innovation and IP activity, reinforcing Australia's relevance to the global IP landscape.

Updating trade mark opposition requests

IP Australia commenced sending surveys seeking customer feedback about the existing Statement of Grounds and Particulars ("SGP") and Notice of Intention to Defend ("NID") forms in July 2022.

In response to survey feedback, IP Australia is now working on improvements to the structure of the SGP and NID eServices requests that will streamline the filing procedure. Although the new SGP request was expected to be available from late October, as at 28 October 2022, the new request has yet not been released. The new NID request is expected to be available later in the year.

IP Australia recruiting new Trade Mark Examiners

IP Australia was looking for multiple candidates to join as Trade Mark Examiners. Applications for new Trade Mark Examiners closed on 23 October 2022.

CASES

Tom Cordiner KC, Melissa Marcus, Clare Cunliffe and Marcus Fleming¹

Barristers

Correspondents for Victoria, Western Australia, South Australia, Tasmania and Northern Territory.

This quarter we have seen a flurry of trade mark decisions handed down. First, the Full Court addressed whether a CAT in a hat would be caused to wonder if a PROCAT in a hat was of the same litter. Surprisingly, the Full Court did not ask “what would YOU do if your mother asked YOU?” (Dr Seuss). The Full Court then sought to jazz things up a little, answering the question that has been on the lips of every IP lawyer: “If a Corner Hotel plays Jazz, is it the Jazz Corner Hotel?” We FINISH the trade mark cases with a finding that dishwasher tablets may be good for their intended purpose but not as trade marks. Then moving onto patents, Juno you are in trouble when you bring six batches of drugs to court – we see how the Full Court addressed the word “about” in claim construction to find three of the batches did not infringe but the others did – guess which ones Juno says it never imported?

Puma SE v Caterpillar Inc
[2022] FCAFC 153

9 September 2022 – Nicholas, Rofe and McElwaine JJ

Trade Marks – leave to appeal to Full Court (relevant considerations) – deceptive similarity (relevance of fancy form of mark) – use of section 7(1) in section 44 assessment

On 21 October 2021 Puma filed an Australian trade mark application for the word PROCAT in classes 18 (bags etc) and 25 (clothing, footwear, headgear for wear) (the “PROCAT mark”). The PROCAT mark was in a stylised form, namely:

Caterpillar Inc (“Caterpillar”) opposed the PROCAT mark in respect of bags, clothing, footwear and hats, pursuant to sections 42(b), 44 and 60 of the *Trade Marks Act* 1995 (Cth) based on its various CAT marks (both in plain font and stylised). Caterpillar was unsuccessful before the Delegate of the Registrar of Trade Marks but was successful on appeal before the primary judge.

¹ Where any of the authors was involved in a case reported and the matter is still running, or potentially so, the other correspondents have taken the role of reporting that case and any comments by the authors are therefore attributable to them

This proceeding before the Full Court was an application for leave to appeal from the decision of the primary judge (*Caterpillar Inc v Puma SE* [2021] FCA 1014 (“PJ”). Leave to appeal is required pursuant to section 195(2) of the Trade Marks Act. The application for leave and the appeal were heard together. Caterpillar opposed the granting of leave to appeal, primarily on the basis that the proposed grounds did not demonstrate error on the part of the primary judge.

Approach of the Full Court to the question of leave to appeal

In approaching the question of leave to appeal, the Full Court stated that there are no rigid rules, dispositive verbal formulae or exhaustive criteria to be applied. It stated that in cases such as this, where the consequence of upholding the primary judge’s judgment may extinguish any right the applicant may have to obtain registration, the exercise of the discretion requires particular focus on that circumstance (citing *Lomas v Winton Shire Council* [2002] FCAFC 413, [15]–[16]). However, if the Court is clearly satisfied that the proposed appeal has no merit, it would ordinarily be appropriate to refuse leave to appeal.

The Full Court observed that this approach differs from cases where an opponent has failed before a delegate and on appeal to a judge of this Court where, “generally speaking”, it is necessary to demonstrate “a clear prima facie case of error in the decision appealed from” (citing *Bauer Consumer Media Ltd v Evergreen Television Pty Ltd* [2019] FCAFC 71, [282]).

Summary contentions of the applicant and reasons of the primary judge

Puma contended that the primary judge erred in finding that the opposition under section 44 was made out on the basis that the PROCAT mark was deceptively similar to each of the CAT marks. A key argument by Puma was that the Procat fancy mark was an invented word limited to the particular form, case and spacing depicted in the mark and the primary judge erred in not limiting and restricting the Procat mark to its fancy form.

The primary judge found that the PROCAT mark was deceptively similar to each of the CAT marks by reason of the “combined effect” (PJ, [107]) of each of the following findings of fact:

- First, that the word “cat” comprised “the whole of the CAT word mark and one of the two elements of the CAT device mark (the second element being the triangle under the letter “a”). The word “cat” constitutes half the letters of the PROCAT mark and one of its two syllables”: PJ, [108].
- Second, that an ordinary consumer is likely to “read, comprehend and pronounce” the PROCAT mark as a combination of two words, being, “pro” and “cat” at PJ, [109].

- Third, that the relevant trade context “concerns a wide range of apparel, footwear, bags and accessories sold in retail stores and online in the work wear and lifestyle market segments” with similar styles across brands: PJ, [110].
- In that trading context, there is a real and tangible risk that a significant number of consumers, who were familiar with but had an imperfect recollection of the CAT mark, would be confused as to whether goods labelled with the PROCAT mark were connected in the course of trade with CAT branded goods, as being a “professional” or high performance or otherwise special line of CAT goods.

The primary judge stated that the fact that Puma had applied to register the PROCAT mark as a fancy mark in lower case with sans-serif font did not limit the trade mark rights granted upon registration to use with a single colour or shade of lettering or indeed to use without any letters being capitalised. The primary judge considered that use of the PROCAT mark in Australia in the same manner as in the USA and Canada (which was in evidence), whereby the letters “pro” and “cat” have different shades or colours or the word is depicted with a capital “p” and a capital “c”, would constitute a use with alterations which do not substantially affect the identity of the trade mark. The primary judge concluded that such use would constitute fair and normal use of the mark and, in assessing the likelihood of confusion, it was permissible to contemplate such use.

The Appeal

The Full Court grouped the draft grounds of appeal into three arguments.

The first ground related to an asserted error in the assessment of the PROCAT mark and the assumption of normal and fair use of the mark for all goods covered by the application. Three discrete errors were asserted by Puma:

1. a failure to limit the PROCAT mark to its fancy form;
2. the search for meaning of the mark when “PROCAT” is an invented word; and
3. misapplication of section 7 of the Trade Marks Act.

In relation to the first contention (of the first ground), Puma argued that consideration must be limited to the form depicted in the application and that changes to the form of a fancy mark have the consequence that it ceases to be the same trade mark, which propositions were said to flow from *Qantas Airways Ltd v Edwards* [2016] FCA 729. Puma further submitted that the primary judge erred in considering the evidence (admitted over objection) of overseas online use of “ProCat” as a trade mark (with a capital “P” and “C”) in promotional material.

In relation to the second contention (of the first ground), Puma submitted that the primary judge erred in respect of his consideration of the trade context upon which the finding of contextual confusion was based in that he wrongly searched for and ascertained meaning of the invented word which comprises the mark. Puma argued that the primary judge failed to identify why consumers would understand that “cat” in a “professional cat” or “being positive towards a cat” was a reference to Caterpillar and/or its goods.

Finally, turning to the third contention (of the first ground), section 7(1) of the Trade Marks Act provides:

If the Registrar or a prescribed court, having regard to the circumstances of a particular case, thinks fit, the Registrar or the court may decide that a person has used a trade mark if it is established that the person has used the trade mark with additions or alterations that do not substantially affect the identity of the trade mark.

Puma argued that, in his consideration of the normal and fair use of the mark, the primary judge erred in that he impermissibly extended the scope of the applicant’s applied for mark. According to Puma, the primary judge ought to have considered only actual past use; asserting that section 7(1) does not extend to hypothetical future uses.

The Full Court rejected the first proposed ground of appeal. That Puma had applied for a fancy form of mark did not limit the scope of the inquiry for the purposes of section 44 of the Trade Marks Act to that precise form. At [68] the Full Court held:

The question of deceptive similarity is to be resolved notionally on the assumption that the PROCAT mark, if registered, will be used to the full extent of the statutory right of the owner. In answering that question it was clearly open to the primary judge to consider, as examples of normal and fair use, the manner in which the PROCAT mark had been used in the USA and Canada. The differences in shading and colouring, whether or not combined with capital lettering, did not step beyond normal and fair use of the applied for mark and in our view illustrated the likelihood of confusion that his Honour was required to assess having regard to all of the relevant circumstances.

In relation to the suggested misapplication of section 7(1) of the Trade Marks Act, the Full Court concluded that the primary judge did not apply section 7(1) to section 44. Rather, he considered whether use of the mark in the form in which it had been used by Puma overseas might properly be regarded as fair and normal use and he was entitled to take into account any potential use of the opposed mark with additions or alterations that did not substantially affect its identity. Moreover, noting that “use of a trade mark” is defined in section 6 of the Trade Marks Act to have “the meaning affected by subsections 7(1), (2) and (3)”, the Full Court concluded that, where the phrase “use of a trade

mark” appears in a section of the Trade Marks Act, it may be necessary to ask whether its operation is affected by (inter alia) section 7(1).

The second ground of appeal by Puma concerned the finding at PJ, [111] of contextual confusion, namely that the primary judge adopted an unduly narrow approach in his consideration of the surrounding circumstances.

Puma argued that the primary judge wrongly searched for meaning in an invented word which then caused him to overlook that the relevant consumer would be aware that “cat” had other meanings and uses further to being used as a brand by Caterpillar and there was no apparent reason why consumers would step from “professional cat” to Caterpillar and or its goods.

The Full Court rejected this proposed ground, noting that the primary judge had extensively summarised the evidence and made a number of factual findings and that Puma did not contend that these findings were not open on the evidence. The Full Court found that no error had been identified in the primary judge’s reasoning and in his conclusion that pronounced as a combination of two words “pro” and “cat”, the word would have a meaning to consumers of a professional “cat” or being for or positive towards a “cat”. The finding was open on the evidence. The Full Court rejected a suggestion that the primary judge limited his consideration of trade context to just one paragraph; rather, he had made a significant number of findings of fact and there was no suggestion by Puma that such findings were not open on the evidence. Accordingly, no error was shown.

A further interesting argument developed by Puma in oral submissions was that the primary judge employed an overly broad approach to likelihood of confusion which failed to take account of Puma’s reputation in the leaping cat device such that there could be no real risk that consumers would associate the PROCAT mark with goods made, endorsed by or otherwise associated with Caterpillar. The Full Court stated that, whilst the primary judge had found at PJ, [31] that the Puma leaping cat device is a well-known trade mark, that did not assist the argument that consumers of the relevant products should be imputed with some degree of knowledge that the word “cat” is not exclusive to Caterpillar and its goods with the consequence that there is no real risk that they would be left in doubt or have cause to wonder whether goods labelled with the PROCAT mark were connected with Caterpillar and its goods.

The Full Court concluded that it was open to the primary judge to conclude that consumers would be caused to wonder whether there is a commercial association between PROCAT branded goods and those of Caterpillar even with a knowledge of Puma and its leaping cat device, stating that “[i]t may be that some consumers would not be confused, but that is not to the point. His Honour was concerned

with the impression of a significant number of hypothetical consumers”.

The third ground rested on the contention that the primary judge erred in finding that the ground of opposition under s.60 of the TMA was established by relying on “the same reasons” for upholding the section 44 ground (draft grounds 4 and 5). Although deceptive similarity is not part of the test under section 60, given the Full Court found the primary judge was correct in his assessment of deceptive similarity in respect of section 44, and given Puma did not advance any submission in addition to its section 44 arguments in support of these draft grounds, unsurprisingly, their Honours considered his Honour was correct in his assessment of the section 60 opposition to the PROCAT mark. The proposed ground of appeal was rejected.

Ultimately, the Full Court concluded that there was no merit in any of the proposed grounds and it refused leave to appeal, ordering an assessment of costs in lump sum.

Swancom Pty Ltd v The Jazz Corner Hotel Pty Ltd

[2022] FCAFC 157

13 September 2022 – Yates, Abraham and Rofe JJ

Trade Marks – deceptive similarity – relevance of “distinctiveness”

This appeal concerned two live music venues located in Melbourne, one in the inner-city suburb of Richmond and the other in the central business district of Melbourne, and the right to use trade marks which include the words “corner” and “corner hotel”.

Relevantly for the appeal, at first instance the primary judge dismissed claims brought by Swancom Pty Ltd (“Swancom”) against The Jazz Corner Hotel Pty Ltd (“TJCH”), Bird’s Basement Pty Ltd (“BBPL”) and Saint Thomas Pty Ltd (“STPL”) for trade mark infringement. At first instance, the primary judge dismissed the infringement case on the basis that none of the relevant Jazz Corner marks were deceptively similar to Swancom’s registered marks “CORNER HOTEL”, “CORNER” and “THE CORNER” for live music services. In the result, the Full Court upheld that decision.

The central issue in the appeal was whether it is appropriate to have regard to evidence of acquired distinctiveness (under section 41 of the Trade Marks Act for the purposes of conducting the comparison required by section 120(1) in assessing deceptive similarity. Swancom argued that, in the case of a mark whose capacity to distinguish was based on distinctiveness in fact, the mark has an “acquired distinctive meaning” which forms part of the knowledge of the mark that should be credited to ordinary members of the public.

At first instance, the primary judge found that the “CORNER HOTEL”, “CORNER” and “THE CORNER” marks were distinctive *in fact* of Swancom’s live music services at the time of filing (by reason of extensive use), such

that they distinguished Swancom’s professional live music services. In the appeal, Swancom argued that, having made those findings, the primary judge should have credited this acquired distinctive meaning to the ordinary members of the public who encounter the Jazz Corner Hotel marks when assessing the question of deceptive similarity. The argument was directed at overcoming the difficulty posed by the use of the terms “corner” and “hotel”, including the primary judge’s findings that the words “corner hotel” have a clear primary meaning to consumers of hotel services, and that ordinary members of the public should be credited with a general knowledge that there are many businesses within the hospitality industry which use the name “Corner”.

The Full Court rejected this argument and observed, *inter alia*, that:

- the process by which a trade mark is assessed to be registrable and achieves registration is a separate and distinct exercise from the exercise pursuant to section 120(1) of comparing marks to determine whether a registered mark is infringed;
- once registered, all marks are treated equally for consideration of whether they are infringed, irrespective of how they came to be registered;
- the test for deceptive similarity, which is long settled and which is based on the ordinary consumer’s imperfect collection of the registered mark, does not credit the ordinary consumer with any knowledge of the actual use of the trade mark, or of any acquired distinctiveness arising from use of the mark prior to filing; and
- there is no scope under section 120(1) to consider the reputation associated with any mark, save where reputation is a matter of notoriety (which Swancom did not assert was the case for its marks). The authors observe that even the role of notorious reputation under section 120 is both contentious and limited, and they consider that it will be interesting to see how subsequent Full Courts deal with this issue, in light of the debate in *Australian Meat Group Pty Ltd v JBS Australia Pty Ltd* (2018) 268 FCR 623 (noting that special leave was refused in that case).

The Full Court also observed that, while the context of the surrounding circumstances (including the background of the usages of the particular trade) is not to be ignored in assessing deceptive similarity, consideration of that context does not open the door for a detailed examination of the actual use of the registered mark, or any consideration of the reputation associated with the mark. The Full Court contrasted the position with a passing off action or a claim of misleading and deceptive conduct under the Australian Consumer Law (Schedule 2 to the *Competition and Consumer Act 2010* (Cth)), in which a wider enquiry might be undertaken.

The Full Court stated that Swancom’s primary submission in the appeal was, in substance, really no more than a contention

that, for the purposes of determining the question of deceptive similarity in the context of infringement, the primary judge should have taken into account Swancom’s reputation in its marks. The Full Court rejected that contention, noting it is contrary to established principle.

Swancom submitted also that the primary judge failed to take into account that there was no other live music venue trading under the names The Corner or Corner Hotel. The Full Court held that this was an “iteration of its principal submission that the ‘acquired distinctive meaning’ of a registered trade mark informs the assessment of deceptive similarity...”. With respect, the authors consider that Swancom’s point appears to be a development of its contention that the terms “Corner” and “Corner Hotel” were not entirely descriptive of live music services, as opposed to hotel services, and so ought to have been given more weight than the primary judge did in the infringement analysis. Nevertheless, the authors do not suggest the ultimate decision of the Full Court was incorrect.

Their Honours observed that neither party challenged the proposition that the ordinary consumer was the appropriate prospective consumer for the assessment of deceptive similarity – that is, there was no suggestion that the relevant services were part of a specialised market. In this context, the Full Court accepted the primary judge’s finding that the “ordinary consumer” could be “expected to be knowledgeable and discerning about the venues they wish to attend to see live music performance”.

The Full Court held that the primary judge’s ultimate findings that the relevant Jazz Corner mark were not deceptively similar to Swancom’s marks and that the Swancom marks were not infringed were open to his Honour and there was no proper basis to interfere with those findings.

In dismissing the other grounds of appeal, notice of contention and the respondents’ own appeal, the Full Court held that:

- it was open to the primary judge to find that the respondents’ use of the phrase “THE JAZZ CORNER OF THE WORLD” was descriptive use and not use as a trade mark;
- in any event, the Full Court would not have been persuaded that the “Jazz Corner of the World” marks are deceptively similar to the Swancom marks;
- no error was shown in the primary judge’s findings that BBPL had not used the “Jazz Corner Hotel” marks in relation to live music services;
- it was not necessary to consider the respondents’ notice of contention to the effect that the primary judge erred in finding that “The Jazz Corner Hotel” and “The Jazz Corner of Melbourne” was use by JCHPL (and BBPL) as a trade mark in relation to the provision of live music services; and

Current Developments – Australia

- on the respondents' own appeal, the primary judge did not err in awarding costs of the cross-claim for cancellation of Swancom's marks (which was largely unsuccessful) against the JCHPL and BBPL.

RB (Hygiene Home) Australia Pty Ltd v Henkel Australia Pty Ltd

[2022] FCA 1042

6 September 2022 – Rofe J

Trade Marks – use as a trade mark

This decision by Justice Rofe relating to marks associated with dishwashing capsules is another example of how difficult it can be to protect a shape mark, particularly when used with other distinctive trade marks and trade indicia.

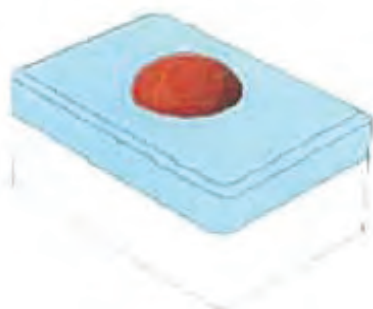
Background

The Applicants are both part of the Reckitt Benckiser group of companies, being a group of companies ultimately owned by Reckitt Benckiser Group PLC. The Second Applicant ("RBF") is the owner of registered trade mark 1008914 (the "914 Mark") and registered trade mark 1211311 (the "311 Mark") (together, the "Registered Marks"). The First Applicant ("RB") is an authorised user of the Registered Marks, though this was in issue as discussed below.

RB imports, markets and sells a range of dishwashing products in Australia under the FINISH brand. The products were first sold in Australia in 1964 and have been sold here continuously since then. At the time of the trial, FINISH products comprised over 60 per cent share of the market in Australia. As at July 2021, FINISH had 63 per cent of the dishwasher capsule market in Australia (in the judgment, the term dishwashing capsules is used to encompass all dishwashing products sold in either tablet, capsule or gelcap form).

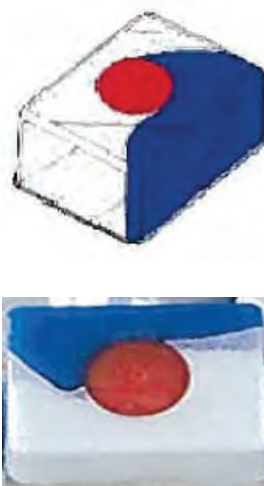
The evidence established that RB spends a large amount on media advertising for its FINISH capsule products including television commercials, online platforms, billboards, and supermarket catalogues.

Since approximately 1999, RB has sold white and blue hard-pressed dishwashing capsules in Australia ("FINISH Tablet") with a protruding red "Powerball" (pictured below).



The evidence was that the constituents of the FINISH Tablet are naturally colourless, or white or yellow-ish. The red and blue colours were chosen for aesthetic reasons. Aside from the need to fit within the dishwasher tablet dispenser, there is no functional basis for the FINISH Tablet shape or the positioning of the components within the Tablet.

Since approximately 2007, RB has sold a three-coloured gelcap in Australia ("FINISH Gelcap") (pictured below). The FINISH Gelcap, used for the FINISH Quantum and FINISH Quantum Ultimate products, consists of the colours white and blue, with a red Powerball. There is no functional basis for the placement of the components or their colouring. The colours and shape are purely aesthetic.



The FINISH range of dishwashing capsules were not limited to the Tablet and Gelcap pictured above, or to the red, white and blue colours.

Each variety of the FINISH capsule packaging has the FINISH POWERBALL Logo prominently at the top. This logo contains the word FINISH in dark blue text with a white border. The dot over the "i" is a red ball. Underneath the word FINISH is the word POWERBALL in upper case white font on a red background:



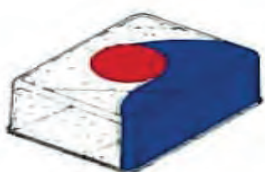
(the FINISH POWERBALL Logo).

Each package design features a stylised depiction of the dishwashing capsule.

In addition, the packaging often has other words prominently displayed. FINISH packaging is cluttered with other words, phrases and pictures.

The Registered Marks

The 914 Mark is a colour and shape mark registered for goods in classes 1 and 3. The mark comprises a rectangular tablet with a red ball and blue wave:



The 311 Mark, which is a figurative mark with no endorsement, is registered for goods in class 3, and is an image featuring a red ball in a white “explosion” against a blue backdrop:



Henkel and the SOMAT products

The Respondent, Henkel, part of the global Henkel group, imports, markets and sells consumer and industrial goods in Australia, including laundry and home care goods.

Henkel AG, part of the Henkel group, has sold SOMAT branded dishwashing detergents in Europe for over 50 years. Henkel AG launched SOMAT Excellence Gelcaps (“SE Gelcaps”) in Germany and Switzerland in approximately April 2021. SE Gelcaps have been sold in countries including Austria, Poland, Italy and Spain.

Interlocutory injunction

RB obtained an interlocutory injunction stopping Henkel from offering for sale, selling and supplying SE Gelcaps in Australia (*RB (Hygiene Home) Australia Pty Ltd v Henkel Australia Pty Ltd* [2021] FCA 1094).

The proceedings

The Applicants alleged that Henkel’s actual and proposed use of the SE Logo (depicted below) promoting the SE Gelcaps would constitute trade mark infringement under

section 120(1) of the Trade Marks Act, misleading and deceptive conduct in contravention of sections 18 and 29 of the Australian Consumer Law, and passing off:



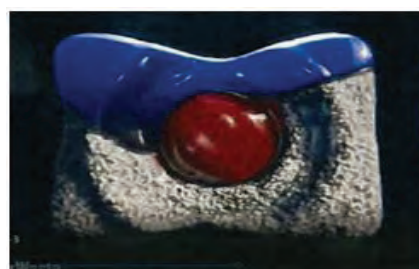
(the “SE Logo”).

Henkel applied for removal of the Registered Marks for non-use from 16 July 2018 to 16 July 2021 (the “relevant period”).

Non-use – the question of “use as a trade mark” and authorised use

Justice Rofe dealt with Henkel’s non-use application first. The key question was whether, in relation to the 914 Mark, RB’s use was use “as a trade mark”. Justice Rofe’s findings show it is difficult to establish infringement of shape marks, or establish use of the mark if challenged, particularly when the mark is used in combination with other marks.

RB relied on three “marks” that it said demonstrated use of the 914 Mark (relying on section 7(1) of the Trade Marks Act, i.e. use without additions or alterations substantially affecting identity of the trade mark). Justice Rofe accepted one of those examples, in relation to the Quantum Ultimate Product, and considered whether the use of the 914 Mark in relation to the Quantum Ultimate Product (packaging for various Finish Quantum products, use in TV commercials, and on the Amazon website) was use “as a trade mark”:





Her Honour concluded at [144]:

I do not consider that the use of the image of the Quantum Ultimate Product is use as a trade mark on this packaging. The only purpose of the presence of the Quantum Ultimate Product image on this packaging is to show what the product inside the packaging looks like. This is not an example of use of the 914 Mark as a trade mark.

In relation to the commercials, at [166], her Honour concluded that the “FINISH Quantum Ultimate capsule is depicted in a functional role to demonstrate the cleaning power of the FINISH Quantum Ultimate capsule”, and not to designate trade origin. That role “is performed by the prominent use of the FINISH brand name and FINISH POWERBALL Logo, both in the text displayed throughout the commercials, on the packaging depicted, and in the voiceovers which form part of the commercials”.

For the Amazon website, her Honour concluded that the images were not used to distinguish FINISH goods, and that, when the consumer encounters the images, they were “well and truly aware that they are looking at a particular variant of a FINISH product on the Amazon site”.

RB argued that the 311 Mark was as a distinct component of the FINISH brand logo. Justice Rofe acknowledged that use of a mark as a component of a larger composite mark, or with other marks, can constitute use of a trade mark, but concluded that the FINISH POWERBALL logo did not give the impression of several distinct trade marks. Consequently, the red Powerball on the FINISH POWERBALL Logo was not use of the 311 Mark.

On the question of authorised use, Rofe J concluded there was authorised use given the nature of the corporate structure and the unity of purpose of the business.

Her Honour refused to exercise her discretion to allow the Registered Marks to remain on the Register. Her Honour stated (at [223]) that RB had not explained its failure to use the Marks: “instead it continues to maintain that the product depictions constitute use”. The authors note it is difficult to explain a failure to use marks when positively putting a case that there has been actual use of the marks.

Use as a trade mark

Her Honour noted at the outset of her reasons that, as the High Court has observed, “context is critical” and that the “context in which to consider whether the use of the SE Logo is use as a trade mark, includes its use in relation to other components of the packaging, and the environments in which consumers are likely to encounter the use.”

The experts agreed that it was common for dishwashing capsule packaging to include a prominently displayed brand; words such as “Quantum” or “Excellence” near the brand name; a stylised depiction of the dishwashing tablet; a background colour scheme, laudatory epithets; and the number of capsules. Moreover, dishwasher capsules are low involvement products with consumers looking to make a quick decision, using as few visual cues as possible. Her Honour found at [259] that “I consider that consumers seeking to identify and distinguish between products will first focus and rely on the prominent and distinctive feature that remains constant within each brand: the brand name.”

Justice Rofe concluded that the SOMAT brand clearly indicates to consumers the commercial source of the SE Gelcap and that the product image was a poor cue for identifying the brand. There was little likelihood that consumers would think SE Gelpac products come from the same source as the FINISH products and for this reason, the stylised depiction of the SE Gelcap on the SE Gelcap packaging was not use as a trade mark. For similar reasons, there was no use as a trade mark on other marketing materials. This reasoning is consistent with her Honour’s conclusions as to whether RB had used the Marks.

Other aspects of infringement

Her Honour considered the question of deceptive similarity, finding that the SE Logo was not deceptively similar to the Registered Marks. Her Honour concluded that if, contrary to her findings, the SE Logo infringed either of the Registered Marks, the use would fall within section 122(1)(b) of the Trade Marks Act (good faith use of a product depiction).

Misleading or deceptive conduct and passing off

In relation to the misleading or deceptive conduct case, her Honour concluded that the relevant class of consumers is the ordinary and reasonable consumer who owns an automatic dishwasher and who is looking to replenish their stock of dishwashing capsules.

RB’s case was that it has developed a valuable reputation and goodwill in the “distinctive components” of dishwashing products. The distinctive components included:

1. a red Powerball prominently visible; and
2. the combination of the red Powerball with the colours blue and white.

Justice Rofe did not accept that RB had acquired a reputation in the claimed indicia sufficient to find a claim in passing off. There was no evidence RB had used the distinctive components without the FINISH POWERBALL Logo being prominently displayed.

Her Honour accepted that RB may have a reputation in the red Powerball, but this was only one part of the distinctive components relied upon by RB. Justice Rofe appears to express the view later that “the red Powerball alone” would have been insufficient to establish the claim.

In relation to the misleading or deceptive conduct case, brand was a good cue, and her Honour did not think a consumer would elevate the product image over that of the brand. Her Honour noted at [366] that:

the packaging [...] is very cluttered with up to 18 different visual cues, many of which ... are common to the trade. One of the few things to stand out from the packaging to a consumer looking at a dizzying array of packages is the brand. The cluttered nature of the packaging forces the consumer to look at the brand.

Her Honour was of the view that consumers are unlikely to mistake the SOMAT brand for a sub-brand of FINISH.

As a final note, her Honour dismissed the argument that Henkel had made a “Biodegradability Representation” before 3 September 2021 that the SE Gelcaps are wholly biodegradable, which was accorded a mere two paragraphs in written closing.

Pharmacia LLC v Juno Pharmaceuticals Pty Ltd **[2022] FCAFC 167**

29 September 2022 – Jagot, Yates and Downes JJ

Patents – claim construction – infringement – validity

In this case, the Full Court upheld Justice Burley’s conclusions that three of six batches of Juno Pharmaceutical Pty Ltd’s (“Juno”) parecoxib products did not infringe Pharmacia LLC’s (“Pharmacia”) patent. Their Honours also upheld Justice Burley’s conclusions that the other three batches of Juno’s products did infringe and that the patent was valid.

Background

Pharmacia was the patentee, and Pfizer Australia Pty Ltd (the “Pharmacia parties”) was the exclusive licensee, of a patent relating to the formulation and administration of cyclooxygenase-2 (“COX-2”) inhibitors. Parecoxib is a “prodrug” – a molecule that is converted into a pharmacologically active agent (the selective COX-2 inhibiting drug valdecoxib) after administration to a patient. Juno offers for sale and sells parecoxib in Australia.

The Pharmacia parties sought relief against Juno and its then-supplier, Neo Health (Australia) Pty Ltd (“Neo”),

for infringement of the patent. Juno and Neo denied infringement and alleged the asserted claims were invalid.

The trial was conducted by reference to the batch records for six exemplar batches of allegedly infringing products. Justice Burley concluded that three of the six exemplar batches infringed and that the asserted claims of the patent were valid.

His Honour made declarations that three of the exemplar batches fell within the scope of the claims and the other three did not, refused injunctive relief, and deferred costs of infringement until quantum of any pecuniary relief owed to the Pharmacia parties had been resolved. The Pharmacia parties appealed:

- (a) Justice Burley’s declaration that three of the exemplar batches did not fall within the scope of the claims;
- (b) his Honour’s decision allowing Juno to amend its defence to specify that the infringing exemplar batches were not sold or brought into Australia; and
- (c) the order deferring the costs of the infringement action.

Juno appealed:

- (a) Justice Burley’s declaration that three of the exemplar batches were infringing; and
- (b) his Honour’s orders that the cross-claim be dismissed and that the patent’s validity be certified.

The Pharmacia parties filed a notice of contention, asserting that Justice Burley ought to have found that:

- (a) the skilled addressee could not have been expected to ascertain the prior art; and
- (b) the problems addressed by the invention were not part of common general knowledge.

The patent

The patent described certain problems in relation to formulating parecoxib. In particular, it described that:

- parecoxib converts to valdecoxib upon exposure to water (said to be solved by the patent);
- where the therapeutic agent is parecoxib, partial conversion to valdecoxib can occur in a composition over time (said to be solved or greatly reduced by reduction, or preferably elimination, of bulking agents such as mannitol); and
- parecoxib formulations containing mannitol and other excipients do not dissolve instantly (said to be solved by achieving a high degree of porosity, achieved by adopting a process which included identified steps in a lyophilisation cycle and process).

The claims were, relevantly, to [emphasis added]:

1. *A pharmaceutical composition comprising, in powder form:*

(a) *at least one water-soluble therapeutic agent [...] in a therapeutically effective total amount constituting about 30% to about 90% by weight [...]*

...

26. *A process for preparing a reconstitutable selective COX-2 inhibitory composition, comprising a step of lyophilizing an aqueous solution that comprises:*

(a) *at least one therapeutic agent selected from selective COX-2 inhibitory drugs and prodrugs and salts thereof, in a therapeutically effective total amount constituting about 30% to about 90% by weight [...]*

(c) *other parenterally acceptable excipient ingredients in a total amount of zero to about 10% by weight of the composition, excluding water [...].*

There was a dispute before Justice Burley as to how to treat residual water in the lyophilisate in the calculation of the percentages of the constituents by weight. As a matter of claim construction, the Pharmacia parties contended that any residual water must be taken into account in calculating the total weight of the composition. Juno disagreed.

Justice Burley observed that lyophilisation, although designed to remove all water, in practice will likely leave some residual water in the lyophilisate and the skilled addressee would appreciate that. As a result, Justice Burley held that any residual water in the composition must be taken into account when considering the total weight of the composition of claim 1 (and dependent claims), but not claim 26 (and dependent claims) because it (and they) expressly excluded water. Because of the water content in three of the exemplar batches, Justice Burley found they infringed.

Juno's appeal on infringement

Juno's primary argument on appeal was that the construction by the primary judge was unworkable and uncertain because the amount of residual water in a lyophilisate can vary substantially between batches, so residual water is an "uncontrolled variable".

Juno submitted that the skilled addressee would not understand the breadth of a claim for a composition to vary depending upon manufacturing efficiency (and that, on the primary judge's construction, infringement of claim 1 could not be ascertained until after the lyophilisation and testing process). Juno submitted this was supported by claim 26, which plainly excluded water.

The Full Court rejected Juno's arguments. Their Honours held that:

- (a) as a matter of plain language, if a composition contains some residual water, the "weight of the composition" includes the weight of that residual water;
- (b) "excipient" was defined to mean "all non-therapeutically active components of the composition except for water", meaning water was a component but not an "excipient";
- (c) the specification teaches that a powder composition will likely contain residual water;
- (d) claim 26 (unlike claim 1) explicitly excluded water, and claim 1 should be construed differently;
- (e) the variability of water content is expected to be within a tight range of variables that the skilled addressee can moderate; and
- (f) the specification confirmed that "comprising" was used exhaustively.

The Full Court therefore affirmed Justice Burley's conclusion that three of Juno's exemplar batches fell within the claims.

Juno's appeal on validity

Their Honours also rejected Juno's case that the invention was obvious in light of the prior art (noting pre-Raising the Bar law applied).

Juno had advanced a development pathway of eight steps. The primary judge had concluded that:

- (a) a pain specialist would identify one piece of prior art;
- (b) that prior art would be supplied to the formulation expert, who would identify another piece of prior art;
- (c) the formulator would decide to attempt to formulate parecoxib in light of that prior art;
- (d) the formulator would not obtain parecoxib sodium; and
- (e) in any event, the formulation of parecoxib sodium would involve dead ends and blind alleys, and the formulator would use mannitol as a buffer (and therefore, its formulation would fall outside the claims of the patent).

The Full Court concluded that Justice Burley did not err in drifting from the hypothetical to the practical in considering whether the formulator could have obtained parecoxib sodium, where Juno had asserted that the formulator would do so, and the Pharmacia parties contested that.

In any event, his Honour went on to consider subsequent steps in Juno's posited development pathway and concluded that the case failed in relation to those steps, meaning that any error was immaterial.

Although the Full Court confirmed that a skilled addressee might take multiple pathways simultaneously, the fact that lyophilisation is a routine process does not mean that that it

was routine to depart from the rule of thumb that a skilled addressee would likely add a bulking agent as about 10 per cent solid material.

For that reason, the Full Court concluded that his Honour was correct in concluding that, if a skilled addressee moved to lyophilisation, they would first try a formulation with mannitol (which fell outside the claims). Abandoning the rule of thumb, and not using a bulking agent at all, would be one of a number of possibilities, but not one that would be taken as a matter of routine, nor one the skilled addressee would be directly led as a matter of course to try.

This case confirms that, although more than one thing may be obvious, it is still necessary to demonstrate that the skilled addressee would reach the invention as matter of routine. A course which involves too much trial and error is unlikely to be held to be obvious.

In light of their conclusion that the claimed formulation was not obvious, their Honours did not reconsider whether the skilled addressee would have ascertained the prior art.

Pharmacia's appeal on infringement

The Pharmacia parties submitted that the word “about” in the claims should be understood to allow for a 5 per cent margin of error, so that “about 90%” extends to 94.5 per cent, not the nearest whole number.

The Pharmacia parties relied on *Smith & Nephew Plc v ConvaTec Technologies Inc* [2015] EWCA Civ 607 to argue that even without “about”, whole numbers would be understood to the nearest whole number. The Full Court rejected this submission, which related to a different specification and to different expert evidence. The Pharmacia parties also submitted that if “about” related to numerical rounding, one of the examples would be excluded. However, the Full Court rejected this argument on the bases that:

- (a) a skilled addressee would not look to the formulations to determine the meaning of “about”; and
- (b) the expert evidence that the exemplified formulation fell outside the claim was based on unexplained assumptions.

Their Honours held that Justice Burley was correct to conclude that “about” meant “near, close to”, and that the scope for variance was not intended to be large, particularly since the claims themselves provide variances, and since “about” was also used, in relation to pH ranges or the length of lyophilisation cycles. The Full Court concluded that “about” was plainly intended as an approximating term, not one which was plus or minus 5 per cent. The authors consider that this outcome reflects the sensible principle that the construction of “about” will depend on the patent and expert evidence.

Their Honours concluded that Justice Burley had not erred in allowing Juno to amend its defence to specify that the exemplar batches were not supplied for sale in Australia, and to open up the prospect that neither phosphoric acid nor sodium hydroxide was added to Juno products sold or supplied in Australia, in circumstances where the Pharmacia parties had not complained that it would be prejudiced or sought to adjourn the trial or adduce further evidence.

Declarations

The Full Court held that Justice Burley did not err in making declarations that some exemplar batches fell within the claims, rather than that parecoxib products corresponding to the infringing exemplar batches had been sold in Australia.

The Full Court said declarations referring to goods “corresponding to” the infringing exemplar batches should not be made, as that would be ambiguous, and declarations must be clear, particularly where the manufacturing process meant only some exemplar batches.

Costs

The Full Court held that Justice Burley did not err in deferring the question of costs where the question of whether any of the batches which were imported and sold infringed.

His Honour noted that the Pharmacia parties, who accepted the exemplar batches as representative, were unaware that potentially no batches imported would infringe, but noted that it was not irrelevant that the Pharmacia parties might fail to establish an entitlement to pecuniary relief. In the circumstances, Justice Burley deferred consideration of costs until the issue of quantum had been resolved, so this issue could be explored. The Full Court observed that this was a sensible course to adopt.

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Xiamen Huadian Switchgear Co Ltd v Powins Pty Ltd
[2022] FCA 1159

29 September 2022 – Halley J

In this matter, Xiamen Huadian Switchgear Co., Ltd (“Huatech”) sued Powins Pty Ltd (“Powins”) and its subsidiary Gelpag Electrics Pty Ltd (“Gelpag AU”), for misleading or deceptive conduct in contravention of the *Competition and Consumer Law Act 2010* (Cth) sch. 2 (“*Australian Consumer Law*”) ss.18–29, passing off and infringement of Huatech’s registered Australian trade mark 1148294 **VEP** (“VEP Registration”) under the *Trade Marks Act 1995* (Cth) s.120(1). Powins and Gelpag AU denied the claims and cross-claimed, contending that Huatech contravened *Australian Consumer Law* ss.18–29, engaged in unconscionable conduct by making false and misleading representations to their customers, and breached confidentiality and good faith contractual obligations under agreements that it had entered into with Powins by misusing confidential information in communications with those customers.

Background

Huatech is a manufacturer of medium-voltage electrical switchgear panels and vacuum circuit breakers, based in China. Electrical switchgear products monitor and regulate the flow of power in electrical utilities by protecting against surges and ensuring that electrical power systems are safe to use. They include “switchgear panels”, which are metal housing units containing electrical fuses, switches, power conductors, circuit breakers and controls. A circuit breaker is a safety device that protects an electrical circuit from damage caused by an overcurrent or short circuit.

Huatech was established in 2002. Soon after, Huatech’s founders decided that its general manager would establish a German company, Gelpag GmbH, and that Huatech would enter into arrangements with that company to arrange “type testing” of its products to international standards in Germany.

The VEP Registration covers the following goods in Class 9:

Switches, electric; circuit breakers; relays, electric; distribution boxes (electricity); switchboards; distribution boards (electricity); current transformers; sensors; high and low voltage switch planks.

Huatech’s products have been sold to Australian customers since at least 2007 under the marks AMS and VEP respectively. Huatech’s products have also been co-branded with the mark GELPAG, a distributor’s mark (e.g. BV2, POWINS and LEISTUNG ENERGIE), or Huatech’s own name, alongside the AMS or VEP mark. As at February

2019, more than 4,000 Huatech switchgear panels (together with Huatech’s circuit breakers) had been installed in premises in Australia. As a result of the sale and promotion of these products up to February 2019, Huatech contended that it and its products had acquired a significant reputation in Australia as a source of manufacture, as had its AMS and VEP marks as indicating trade origin.

Powins is an Australian company that provides electrical turnkey solutions for electronic switchgear products. In 2016, Huatech and Powins entered into an agreement that appointed Powins as a non-exclusive distributor of Huatech’s products for three years. The agreement covered distribution of various AMS products, after sales service obligations, warranty periods, use of the company name, intellectual property and handling of disputes. Pursuant to the agreement, Powins promoted and sold Huatech products under the AMS and VEP marks.

In about May 2018, Powins and Huatech entered into a sales contract effective 7 April 2018, which allowed Powins to purchase Huatech products directly from Huatech and contained a mutual confidentiality clause.

In February 2019, the 2016 agreement concluded and was not renewed. The 2018 sales contract was also terminated. Since that time, Huatech’s products have been distributed by other entities.

On or about 8 March 2019, Powins and Gelpag GmbH entered into an agreement for the distribution of Powins’ products.

On or about 15 March 2019, the following trade mark applications were filed:

- 1996288 GELPAG AMS, 1996289 GELPAG VEP and 1996290 GELPAG MSA in the name of Gelpag AU.
- 1996287 POWINS AMS in the name of Powins.

The trade mark applications claimed certain goods in Class 9, including the following:

Electrical switchgear; Electric control boxes; Switchgear (electric); Electric circuit breakers; Switch cabinets (electric); Switching boxes for use in electrical engineering; Switching devices for electric contactors; Switching devices for electric relays; Switching power supply apparatus; Electric regulating apparatus; Electric regulating modules; Electrical apparatus for use in regulation; Electronic regulating apparatus; Regulating apparatus, electric; Regulating transformers; Electronic controlling apparatus; Power units for supplying (other than generating) electrical current; Electric current transformers; Electric current adaptors; Electric current control devices; Electric current distribution apparatus; Switch mode power supply apparatus (electric); Electric circuits.

Since at least March 2019, Powins and Gelpag AU had offered for sale and sold Powins' own switchgear panels and circuit breakers in Australia.

At the end of March 2019, a cease and desist letter was sent by Huatech's lawyers to Powins, alleging trade mark infringement resulting from the filing of the trade mark applications. An additional cease and desist letter was sent to Powins at the end of October 2019.

Representations

Huatech alleged that Powins, or Powins and Gelpag AU, made certain representations in publications and in communications with its customers. Huatech relied on these representations for both its passing off and claims of misleading and deceptive conduct. In summary, it was contended the representations were that:

- (a) Powins' switchgear panels originate from the same manufacturer as the Huatech switchgear panels sold in Australia by reference to the mark AMS, including in conjunction with distributor names as in the case of POWINS AMS and GELPAG AMS;
- (b) Powins' switchgear panels now sold as "POWINS AMS12 and POWINS AMS24 Switchgear" are the same products as, or an updated model or version of, the corresponding Huatech switchgear panels;
- (c) Powins' circuit breakers originate from the same manufacturer as the Huatech circuit breakers previously sold in Australia;
- (d) Powins' circuit breaker now sold as VEP-VX5 is the same product as, or an updated model or version of, the corresponding Huatech circuit breaker;
- (e) Gelpag GmbH (or alternatively, Gelpag Advanced Technology GmbH or Gelpag AU) was the manufacturer of and/or the owner of the intellectual property rights in the Huatech products sold in Australia between 2005 to 2018; and
- (f) Powins, and/or Gelpag AU has the sole authority or alternatively authority, of the manufacturer of the Huatech products already installed in Australia, to provide servicing, spare parts and operational testing for all such products.

Evidence

Huatech relied on affidavits from five Huatech executives, two directors of a distributor and two expert witnesses. Powins and Gelpag AU relied on affidavits from three Powins executives, two electrical consultants and two lawyers from respective firms.

Notably, Halley J was satisfied that each of the Huatech witnesses answered questions put to them in cross-examination truthfully and to the best of their recollection. In contrast, two executives from Powins were considered

unsatisfactory witnesses, specifically "... argumentative, partisan, defensive and evasive".

Huatech's claims

Misleading or Deceptive Conduct

A detailed, methodical analysis was conducted to determine if the alleged representations were conveyed by Powins and Gelpag AU and if so, whether they were false or misleading. The representations were communicated in many promotional and advertising materials (e.g. in press releases, brochures, third party magazines, social media posts) and customer communications.

Huatech contended that representations were made by both Powins and Gelpag AU as (among other things) Gelpag AU was a wholly owned subsidiary of Powins, had the same (sole) director and pleaded in its cross-claim that its customers are customers of the "cross-claimants" collectively. Huatech identified and relied on various factors regarding the use or emphasis of the letters AMS and VEP in the representations to support their claims that the representations were conveyed and were false and misleading.

Powins and Gelpag AU contended that, among other things, the representations were not expressly made or inherently inferred, use of the words "Air-Insulated metalclad switchgear" was descriptive, AMS was an industry accepted term for "air insulated metalclad switchgear" and VEP as "vacuum embedded poles", a component of circuit breakers. They also contended that they had a close historical connection with "Gelpag" due to the company designing Huatech's products that Powins had distributed in Australia, and the 2019 agreement between Powins and Gelpag GmbH under which Powins was also appointed an exclusive distributor of Gelpag GmbH's products in Australia. Halley J observed that Powins and Gelpag AU's responses to Huatech's claims did not recognise or did not acknowledge the fundamental misleading aspect to the communications and overall did not answer Huatech's claims.

Halley J concluded that the alleged representations were made by Powins and Gelpag AU and that each was false or misleading, in contravention of respective sub-sections of Australian Consumer Law s.29. Of particular relevance, it was observed that:

- In evaluating whether the representations were conveyed it is necessary to regard the documents as a whole, particularly, the juxtaposition of MSA and AMS, and of VEP and VX5, prominent capitalisation of the letters AMS in describing "air insulated metal switchgear" and the letters VEP in referring to "vacuum embedded poles", and the context of references made to "Gelpag".
- The branding of Powins' products from February 2019 as GELPAG MSA switchgear panels had an almost self-evident risk of creating confusion in the minds of end-

users given the branding of Huatech's prior to that time as GELPAG AMS switchgear panels.

Passing Off

Huatech claimed passing off by Powins and Gelpag AU based on the substantial reputation of Huatech and its products by February 2019 as a source of manufacture of switchgear panels and vacuum circuit breakers and on the basis of the reputation of the AMS and VEP marks with purchasers and end users, as indicators of trade origin for those products. Huatech based its claims on the representations and Powins and Gelpag AU's use of the marks AMS, MSA (which had been used interchangeably) and VEP, including the filing of their trade mark applications listed above. Huatech also submitted that it had lost sales of its genuine AMS and VEP products as a result, and it had suffered damage. Powins and Gelpag AU contended that their products had design and operational improvements and advancements compared with the Huatech products, and again asserted that AMS was a market acronym for "air insulated metal clad switchgear".

Halley J was satisfied that each of the three elements necessary to establish passing off with respect to the AMS and VEP marks was present. The parties' industry evidence established that Huatech's products were the only switchgear panels sold in Australia with the AMS mark and the only vacuum circuit breakers sold with the VEP mark. Further, Halley J was also satisfied that the AMS and VEP marks had acquired a significant reputation as a source of manufacturer of switchgear panels and circuit breakers with customers and end users by February 2019. However, the evidence was less compelling regarding whether Huatech itself had acquired a significant reputation by February 2019 with purchasers and end users as a source of manufacture of the products, due to the co-branding of products and given that end users and customers engaged with Powins and other distributors in obtaining the products, not Huatech.

Trade Mark Infringement

Huatech claimed that Powins and Gelpag AU infringed or threatened to infringe the VEP Registration by the use of marks including "VEP", "VEP-VX5" or "GELPAG VEP" in relation to circuit breakers, which were substantially identical or deceptively similar to Huatech's VEP mark.

It was observed that most of Powins and Gelpag AU's submissions in response to the trade mark infringement claim were in relation to the AMS mark, which was not alleged to have been infringed. Again they contended that VEP was an acronym common in the industry, and further that their use of VX5 was as a brand descriptor to describe Powins' products, they had not used the acronym VEP since initial publications in 2019 and the VEP mark did not have a substantial reputation in the Australian market.

It was held that the VEP mark was substantially identical to Huatech's VEP mark. In addition, it was held that the

prominent inclusion of VEP in the mark VEP-VX5 either equated VX5 with VEP or resulted in VEP and VX5 being used as badges of origin, and that therefore, the VEP-VX5 mark was deceptively similar to Huatech's VEP mark. It was also noted that there was no evidence of the letters VEP being used as an acronym to generically refer to circuit breakers as vacuum embedded poles.

Powins and Gelpag AU pleaded (but did not provide submissions regarding) various defences to trade mark infringement available under the Trade Marks Act s.122(1) (b) (use in good faith to indicate a characteristic or time of production/rendering of goods or services), s.122(1)(c) (use in good faith to indicate the intended purpose of goods or services), s.122(1)(f) and s.122(1)(fa) (whether or not the marks were found to be substantially identical or deceptively similar to the VEP Registration, that they would obtain registration of their marks if they were to apply).

Halley J was not satisfied that the good faith defences were available as Powins and Gelpag AU were aware of Huatech's use of VEP as a brand and badge of origin, and Huatech's objections to their use of VEP and VEP-VX5. Further, the trade mark applications in the name of Powins and Gelpag AU evidenced that they intended to use their marks as brands and badges of origin, not as characteristics of their products. Lastly, given the extent of use by Huatech of its VEP mark as a badge of origin, Halley J was not satisfied that Powins and Gelpag AU would be able to obtain registration of their substantially identical or deceptively similar marks. Powins and Gelpag AU were held to have infringed the VEP Registration.

Relief

Huatech sought prohibitory injunctions, corrective advertising, declarations and exemplary damages. Given the findings, Halley J was satisfied that it was appropriate to grant orders regarding each claim, with the quantum of damages to be determined later following submissions.

Prohibitory injunctions were granted in general form and specifically with respect to any use of AMS, VEP or MSA. Exemplary damages were constituted by Powins and Gelpag AU's "... conscious and contumelious disregard for Huatech's rights" as evidenced by their continuing use of the impugned trade marks knowing of Huatech's objections and following them receiving letters of demand from Huatech's lawyers.

Cross-Claim

Powins and Gelpag AU contended that Huatech had contravened *Australian Consumer Law* ss.18–29, engaging in unconscionable conduct by making false and misleading representations to Powins and Gelpag AU's existing and potential customers. In addition, Powins and Gelpag AU claimed that Huatech had breached confidentiality and good faith contractual obligations under agreements that

it had entered into with Powins by misusing confidential information in communications with those existing and potential customers.

Powins and Gelpag AU's claims centred around (among other things) a mutual confidentiality clause in the 2018 agreement, and negative inferences that they alleged arose from communications made for or on behalf of Huatech, such as cease and desist letters regarding the trade mark applications and an announcement to Powins' customers in February 2019 that its agreement with Powins had expired and to direct enquiries regarding Huatech's products to another distributor. Powins and Gelpag AU alleged that these communications contained misleading or false representations and amounted to conduct that was misleading or deceptive or likely to mislead or deceive, and unconscionable conduct. The representations were analysed in detail and Halley J found that was not the case as any representations were accurate and no evidence was provided that the representations were disseminated improperly or that Huatech had acted inappropriately. The cross-claim was dismissed.

Key Take Away

This decision highlights the risks associated with rogue distributors co-opting the trade marks of overseas manufacturers, and confirms the role of an appropriate trade mark protection strategy in guarding against such conduct.

Australian Mud Company Pty Ltd v Globaltech Corporation Pty Ltd (No 3)

[2022] FCA 1189

6 October 2022 – Rofe J

Background

This case involves a potential infringement of patent no. 2010200162 ("the Patent"). The applicants were the owner of the Patent, Australian Mud Company Pty Ltd ("AMC") and the exclusive licensee of the Patent, Reflex Instruments Asia Pacific Pty Ltd ("Reflex"), a subsidiary of Imdex Limited ("Imdex"). The respondents in this case were Globaltech Corporation Pty Ltd ("Globaltech Corporation") and Globaltech Pty Ltd ("GTCPL", collectively "Globaltech") and Boart Longyear Limited ("BLY") and Boart Longyear Australia Pty Ltd ("BLYA", collectively "Boart Longyear").

The Patent relates to a method and system for identifying the in situ orientation of a core sample in surrounding rock prior to extraction. This is commercially important because core samples are typically drilled at an angle, and this must be accounted for when deriving accurate information regarding the location and direction of rock formations from each sample.

The respondents were alleged to have infringed claims 1–4, 7–10, 16, 17, 21–24, 27, 28, 33–40, 46–48, 54 and 65 of the Patent. These claims cover both the method (claim 1 and

claims appended thereto) and system (claim 33 and claims appended thereto). In response, BLYA filed a cross-claim for revocation.

Prior Proceedings

Globaltech and AMC have a long history. Three previous versions of Globaltech's "Orifinder" devices, V3A, V3B and V5, were found to infringe in *Australian Mud Company Pty Ltd v Globaltech Corporation Pty Ltd* [2018] FCA 1839 ("Globaltech FI").

Globaltech unsuccessfully appealed this decision in *Globaltech Corporation Pty Ltd v Australian Mud Company Pty Ltd* [2019] FCAFC 162 ("Globaltech FC") in respect to the V5 version of their device. A further appeal for special leave to appeal to the High Court of Australia was refused.

A further version of Globaltech's device, V4, was the subject of separate proceedings (NSD142/2015), being resolved by consent. Bennett J gave orders restraining both Globaltech Corporation and GTCPL from dealing with the V4 version of the device on 19 October 2015.

The Patent was also the subject of infringement proceedings against a different party, Coretell Pty Ltd, in *Australian Mud Company Pty Ltd v Coretell Pty Ltd (No 2)* [2018] FCA 1109, where the Patent's claims were found to be valid and infringed.

Two innovation patents with the same priority claim were also the subject of infringement proceedings in *Australian Mud Company Pty Ltd v Coretell Pty Ltd (No 4)* [2015] FCA 1372 ("Coretell 2015"), resulting in a finding that the claims were valid and infringed. This finding was upheld on appeal in *Coretell Pty Ltd v Australian Mud Company Pty Ltd* [2017] FCAFC 54 ("Coretell FC").

Infringement and Validity

Claim Construction

The construction of the claims of the patent from the previous proceedings were heavily relied on, and are summarised below.

In Globaltech FI, Besanko J examined claim 1 (the broadest method claim) of the Patent and broke it down into the following steps:

A method of providing an indication of the orientation of a core sample relative to a body of material from which the core sample has been extracted, the method comprising:

drilling a core sample from a body of material with a core drill having an inner tube; (step 1)

recording the orientation of the inner tube at predetermined time intervals during said drilling, the time intervals being referable to an initial reference time; (step 2)

inputting the specific time beyond the reference time representative of when the core sample was separated from the body of material; (step 3)

removing the inner tube, with the core sample held therein in fixed relation to it, from the body of material; (step 4) and

relating the inputted specific time to the recorded time intervals to obtain an indication of the orientation of the inner tube and consequently the core contained therein at the specific time. (step 5).¹

Claim 33, the broadest system claim, reads as follows:

A core orientation system for providing an indication of the orientation of a core sample relative to a body of material from which the core sample has been extracted using a core drill, the core drill having an inner tube, the system comprising:

means for recording the orientation of the inner tube at predetermined time intervals during drilling by the core drill, the time intervals being referable to an initial reference time, and for inputting the specific time beyond the reference time representative of when the core sample was separated from the body of material; and

means for relating the inputted specific time to the recorded time intervals to obtain an indication of the orientation of the inner tube and consequently the core contained therein at the specific time.²

The aspects of Globaltech FI pertinent to this case revolved around the meaning of “predetermined time intervals” and the concept of “initial reference time” to step 2 of the method detailed above.

Globaltech’s first argument was that the claims of the Patent were restricted to “synchronisation”, a term which Globaltech defined as requiring two timers (one downhole and one on the surface) which were started contemporaneously.³ This was in contrast to the concept of “time correlation”, where the two timers were started non-contemporaneously but then counted forward at the same rate. While Besanko J accepted the need for two timers, he found that time correlation fell under claim 1 and 33 of the Patent.

Globaltech’s secondary argument was that the claims of the Patent were restricted to synchronisation and time correlation, but that both timers count forwards and the calculations are made from the start of timing to the relevant point. In contrast, it was proposed that the Globaltech devices were asynchronous, with no initial reference time. Instead, there is a device timer that is run, and a handheld timer that is run from the end of drilling to the stopping of the device. The time at which drilling stopped may then be calculated using this second timer to subtract the time between drilling stopping and stopping the device. In this

way, the method of Globaltech’s devices may be said to count backwards.

Globaltech asserted that the “initial reference time” recited in claim 1 of the Patent necessarily required that the “predetermined time intervals” had a known start time that must occur at the beginning of timing. AMC contended that the meaning of “initial reference time” meant nothing more than a time to which time can be referenced. Besanko J concluded that the phrase should not be construed as being limited to the start of one or both timers, based on expert witness evidence.

Globaltech also raised the argument that, in particular in respect to the V5 version of their device, that said device did not infringe the patent as the V5 version used a watch dog timer (WDT) which counted mini-cycles of approximately 2 seconds. These timers are not precisely accurate, and thus the time intervals varied randomly within a range of about 25 seconds \pm 10 per cent. Accordingly, due to this random variation, the time intervals could not be said to be “predetermined” as each time interval could not be accurately determined in advance. Besanko J concluded that there is no degree of preciseness inherent in the term “predetermined time intervals” and that the time intervals (even with \pm 10 per cent accuracy) fell within the meaning of the term. Further, Besanko J observed that all the readings were based off the real time clock in the device, which provides a precise time stamp to which the intervals can be related (as in step 5 of claim 1 of the Patent).⁴

In the appeal in Globaltech FC, the Full Court of the Federal Court of Australia agreed with the construction of “initial reference time” by Besanko J, further stating that, given the use of the term “relatable to” in step 2 of claim 1, and “relating the inputted specific time” in step 5 of claim 1, that there was no requirement for the times to be related prior to step 5.⁵

The construction of “predetermined time intervals” was not challenged in Globaltech FC and accordingly it was upheld by the Full Court.⁶

The present proceedings relate to a new version of the device, the V6 tool, which Globaltech contend does not infringe on the claims of the Patent, given the construction established by these previous cases.

The V6 tool

The V6 tool was programmed to take orientation readings at unknown time intervals determined by a random number generator, weighted to produce intervals anywhere between 2.1 to 30 seconds. Globaltech submitted that, owing to the random nature of the time intervals, they could not be predicted and thus cannot be said to be predetermined.

Globaltech referred to the meaning of “predetermined” in

the Macquarie Dictionary as:

1. *To determine or decide beforehand.*
2. *To ordain beforehand; predestine.*
3. *To direct or impel beforehand to something.*

Globaltech asserted that as the variation between time intervals was much greater than that in the (infringing) V5 device, with a variation exceeding 1000 per cent, that V6 does not infringe any of the claims of the Patent.

Rofe J noted that the method of creating this variation was still down to a watch dog timer as in the infringing V5 device, and that the difference was that an algorithm was introduced to create a time interval in the range of 1 to 14 watch dog timer cycles.

Rofe J further observed that the time intervals in the V6 tool still had an upper bound, and, as with the V5 device, were still related to the precise time stamp of the real time clock in the device. Accordingly, the accuracy issue is mitigated by reference to the real time clock and the V6 tool infringes the claims for the same reasons as for the V5 device.

Cross-claim by BLYA

The other respondent, BLYA, filed a cross-claim attempting to revoke the contested claims on the grounds that the claims lack fair basis from the Provisional. Specifically, BLYA claimed that the Provisional is limited to time intervals from an initial reference time and the Patent is not limited to such an arrangement. It will be noted that this argument is similar to that raised in Globaltech FI, this time suggesting that the Provisional is limited to “synchronisation”.

The disclosure of the provisional was previously considered in two separate proceedings, Globaltech FI (and FC), as well as in Coretell FC.

BLYA pointed to Burley J’s observations in Coretell FC that the fifth aspect of the Provisional, which name five broad functional method steps, support the Patent’s disclosure, and infer from this that the broad fifth aspect is in fact the widest disclosure in the Provisional.

AMC countered, again referring to Burley J’s observations in Coretell FC that the “function may be achieved using any means that meets the function.”⁷ Accordingly, AMC submitted the Patent is fairly based on the Provisional.

Rofe J did not find BLYA’s arguments persuasive, finding that a person skilled in the art would be able to consider different methods of achieving the functional steps of the fifth aspect and accordingly found that the claims of the Patent were valid.

Liability and Joint Tortfeasorship

AMC contended that all four respondents were liable for infringement both directly and indirectly. Further,

AMC contended that by engaging in a common design with the others, all respondents are joint tortfeasors in each other’s acts of infringements. This included not only Globaltech Corporation and BLYA who admitted to having manufactured/supplied, and sold/hired respectively, the V6 tools, but also GTCPL and BLY.

The respondents denied that the patent is infringed, and further that they are not liable as joint tortfeasors as GTCPL does not trade and only provides management services to Globaltech, and that BLY is a holding company, neither of which have supplied the V6 tool in Australia.

Infringement

Regarding direct infringement, Rofe J found that the V6 tool infringed the Patent. Globaltech Corporation had admitted to manufacturing and supplying the V6 tool to BLYA in Australia. BLYA admitted to acquiring V6 tools from Globaltech Corporation and having sold or supplied, or offered for hire and hired out said devices to customers in Australia, constituting infringement in light of the reasoning above.

Section 117 of the *Patents Act* 1990 (Cth) sets out the infringement by supply of products. This occurs if the following conditions are met – that the product is capable of only one reasonable use, and that the product is not a staple commercial product. Further, infringement is considered to occur if instructions or inducements for the infringing use are given.⁸

Globaltech did not contest that idea the V6 tool had only one reasonable use, nor did they suggest that the product was a staple commercial product. While Boart Longyear denied both these assertions, they did not provide any evidence in support of these claims. Rofe J thus considered both these requirements established.

Additionally, the V6 instruction manual or user guide supplied with the devices was considered. It was found that by following the instructions, all the integers of the contested method claims would be taken. It was noted that there are no references to BLYA or Globaltech in the user guide, the only corporate reference being to “Boart Longyear” and the BLY logo. Accordingly, Rofe J considered this infringement to be established as well.

Joint Tortfeasorship

Patent infringement is a statutory tort and thus liability on the basis of joint tortfeasorship can arise in cases such as these.⁹ Rofe J cited Moshinsky J in *Playgro Pty Ltd v Playglo Art & Craft Manufactory Limited* [2016] FCA 280 in determining whether joint tortfeasorship is relevant:

As was said in The Kursk [[1924] P 140 at 159–160], for there to be joint tortfeasors “there must be a concurrence in the act or acts causing damage, not merely a coincidence of

separate acts which by their conjoined effect cause damage". Principal and agent may be joint tortfeasors where the agent commits a tort on behalf of the principal, as master and servant may be where the servant commits a tort in the course of employment. Persons who breach a joint duty may also be joint tortfeasors. Otherwise, to constitute joint tortfeasors two or more persons must act in concert in committing the tort.

Rofe J observed that a close association between two companies, including overall control (both financial and voting) does not establish that they are acting in concert, nor does vertical integration of companies. Rofe J referred to Bennett J in *Apotex Pty Ltd v Les Laboratoires Servier (No 2)* [2012] FCA 748 who observed that, on their own, two parties being part of the same global group of companies, and a manufacturer/distributor relationship between them, are not sufficient to show joint tortfeasorship, however they may be used as factors in determining whether a common design is present.

The respondents pointed out that this is the present situation. Both BLYA and Globaltech Corporation form part of the same global group of companies, their day-to-day relationship being as manufacturer and distributor. As there are four respondents, the relationships between Globaltech Corporation and GTCPL, BLY and BLYA, and Globaltech Corporation and BLY were analysed for joint tortfeasorship before all respondents together were considered.

GTCPL was the second respondent in Globaltech FI and Globaltech unsuccessfully argued that there was no or insufficient evidence of GTCPL being an infringer in those proceedings. This was not challenged on appeal.

The respondents argued that GTCPL is a holding company which transferred all assets to Globaltech Corporation in 2006 (prior to any potential infringement). Rofe J noted that in the Globaltech FI case, evidence was raised that GTCPL continued to own both the domain and trade mark registration for their website and trade mark in 2019 and 2020 respectively, with the Globaltech logo continuing to be used on the website. Further, on the evidence of the Managing Director of Globaltech, it was established that there were four members of both companies who would exchange roles between the two entities in a manner that blurred operational lines. The companies shared a registered address and principal place of business as well as some directors and shareholders.

Rofe J thus found that Globaltech Corporation and GTCPL were acting in a common design and are jointly liable.

BLY ceased to be an ASX listed entity in late 2021. The parent company, listed on the ASX as BLG, includes more than 65 entities including both BLY and BLYA. While the respondents argued that BLY was merely a holding company, Rofe J observed that this was the situation at the time of

these proceedings, rather than the situation over a large period of the alleged infringements. His Honour observed that throughout the evidence, there was a tendency to refer to any Boart Longyear entities as "Boart Longyear" rather than specifying a particular entity, including the 2019 Annual Report as well as a 2019 letter to customers.

Rofe J found that the entities BLY and BLYA worked collectively to operate the business in Australia, referring to themselves as "Boart Longyear". Accordingly, BLY had the capacity to prevent BLYA from supplying the infringing devices and thus authorised the infringing conduct. These two entities also participated together in a common design as well.

An exclusive distribution and supply arrangement for the V6 tool was granted by Globaltech Corporation to BLY. V6 tool inquiries were referred to Boart Longyear, and both Globaltech Corporation use the trademark "TRUCORE UPIX" associated with the V6 tool. Links existed on the marketing pages for the V6 tool between the websites for the two entities. Additionally, BLY is a majority shareholder in Globaltech. Together, these factors led Rofe J to find that more than a mere supplier/distributor relationship existed between these companies and that both allegations of authorisation and joint tortfeasorship were made out.

When assessing all four respondents together, however, Rofe J disagreed with AMC's claim that they were all working towards a common design. While noting the relationships between individual parties, her Honour could find no evidence as to BLYA's role in the infringing conduct, with BLY (as Boart Longyear) being the entity from the customer's perspective offering the V6 tool in Australia.

Additional Damages

AMC also sought additional damages from each of the Respondents under section 122(1A) of the Patents Act. The Court has a broad discretion to award additional damages. This section provides guidance on when it may be appropriate to do so:

- (1A) A court may include an additional amount in an assessment of damages for an infringement of a patent, if the court considers it appropriate to do so having regard to:*
- (a) the flagrancy of the infringement; and*
 - (b) the need to deter similar infringements of patents; and*
 - (c) the conduct of the party that infringed the patent that occurred:*
 - (i) after the act constituting the infringement; or*
 - (ii) after that party was informed that it had allegedly infringed the patent; and*

- (d) *any benefit shown to have accrued to that party because of the infringement; and*
- (e) *all other relevant matters.*

AMC attempted to seek additional damages in Globaltech FI, on the grounds that Globaltech had continued to supply core orientation tools while “working around” the Patent claims. In that case, Besanko J denied the award. It has been established previously by the Full Court that: “it is not illegitimate, or flagrant, for a competitor to examine the disclosure of a patent and to attempt to work around the monopoly claimed in the claims.”¹⁰

Rofe J considered the result of Globaltech FI, in which Besanko J made the order for a permanent injunction against Globaltech, the restraint being in a “general” form, such that Globaltech was restrained from infringing specific claims of the Patent, including the non-limiting examples of the V3A, V3B, and V5 devices.

Rofe J considered that the present V6 tool is the sixth iteration of the device, developed as a work around of the Patent. Three previous versions V3A, V3B and V5 were considered by Besanko J in Globaltech FI to infringe the patent, and a further version V4 was the subject of separate proceedings NSD142/2015 which was resolved including a restraint on both Globaltech respondents from dealing with the V4 version.

As these were the third Federal Court proceedings against Globaltech in respect of this Patent, Rofe J suggested that unlike the ordinary case, even if Globaltech was convinced that the V6 tool did not infringe the Patent, they were obliged to take some steps such as seeking a non-infringement declaration or providing a sample to AMC prior to selling in light of the previous cases and general form injunction they were under. Globaltech did not take any of these steps.

Evidence was also provided that BLY and BLYA were aware of both Globaltech FI and the resultant orders, and relied on the order only applying to Globaltech. BLY and BLYA continued to sell the V5 version of the device after the relief came into effect, despite Globaltech being the supplier and manufacturer of said devices.

Similarly to Globaltech, there is no evidence that BLY or BLYA took any steps to seek a declaration of non-infringement or provide an example V6 tool to AMC prior to introducing the V6 tool for sale, which it commenced selling immediately as the V6 tool became available.

Accordingly, Rofe J found that additional damages were appropriate to award, the amount of said damages to be decided in the quantum part of the proceedings.

Key Take Aways

- Parties may be subject to joint tortfeasorship based on shared shareholders/directors, blurred operational lines between parties, and shared use of branding/trade marks. An in writing agreement to transfer assets may not be persuasive if said assets were not transferred in a timely manner.
- In situations where prior proceedings have found previous versions a product to infringe, and in particular when general form orders exist restraining the infringer, it may not be sufficient to assume that a new “work-around” can be offered without a declaration of non-infringement or other notice from the patent owner.
- Where previous litigation exists, and in particular where general form orders restraining an infringer exist, a court may award additional damages under s.122(1A) of the Patents Act.
- These additional damages may be avoided by seeking a declaration of non-infringement or other approval from the patent owner prior to offering the product for sale.

- 1 *Australian Mud Company Pty Ltd v Globaltech Corporation Pty Ltd* [2018] FCA 1839, [22].
- 2 *Australian Mud Company Pty Ltd v Globaltech Corporation Pty Ltd* [2018] FCA 1839, [24].
- 3 *Australian Mud Company Pty Ltd v Globaltech Corporation Pty Ltd* [2018] FCA 1839, [185].
- 4 *Australian Mud Company Pty Ltd v Globaltech Corporation Pty Ltd* [2018] FCA 1839, [280].
- 5 *Globaltech Corp Pty Ltd v Australian Mud Company Pty Ltd* [2019] FCAFC 162, [125].
- 6 *Globaltech Corp Pty Ltd v Australian Mud Company Pty Ltd* [2019] FCAFC 162, [144].
- 7 *Coretell Pty Ltd v Australian Mud Company Pty Ltd* [2017] FCAFC 54, [162].
- 8 *Patents Act* 1990 (Cth) s 117(2).
- 9 *Collins v Northern Territory* [2007] FCAFC 152, [24]–[30].
- 10 *Oxworks Trading Pty Ltd v Gram Engineering Pty Ltd* (2019) 154 IPR 215, [72].

Dr Dimitrios Eliades

Barrister¹

In this edition, I report on a decision of Justice Greenwood of the Federal Court of Australia, who considered an application by a respondent to a patent infringement claim. The respondent applied to amend its particulars of invalidity in respect of its cross-claim for revocation of the patent in suit. The difficulty was that the application was made some two years after the respondent had filed its first particulars of invalidity. Notwithstanding his Honour's decision that a costs order would not compensate the applicant, which prepared its case based on the particulars of invalidity as filed, the greater prejudice would be to shut out a respondent who may argue a case based on the amended grounds. The result of not granting leave to amend may be an invalid patent continuing to enjoy its statutory monopoly.

In the second decision, also a decision of Justice Greenwood, the unsuccessful opponent of a non-use application under s.92(1) of the *Trade Marks Act 1995* (Cth) on the grounds under s.92(4)(b) before a delegate of the Registrar of Trade Marks appealed successfully to a single judge of the Federal Court. The appellant sought to rely upon uses by the trade marks owner through associated corporations acting as authorised users, in circumstances where the trade mark owner was the trustee of a family trust, who controlled these corporations within the meaning of s.8 of the *Trade Marks Act*.

Vald Performance Pty Ltd v Kangatech Pty Ltd (No 4)

[2022] FCA 557

13 May 2022 – Greenwood J

Justice Greenwood's reasons for judgment dealt with an application by the respondent to amend its particulars of invalidity in support of its cross-claim for a declaration of invalidity and an order for revocation of the patent in suit pursuant to s.138 of the *Patents Act 1990* (Cth). The particulars as filed asserted lack of novelty and inventive step as the basis for revocation under ss.138(3)(b) and 18(1)(b) (ii) of the *Patents Act*.

The amendments sought by the respondent involved removing the anticipation claim (lack of novelty) which was unopposed, and two opposed proposed amendments. First, the new amendments were said to be understood by the common general knowledge of a person skilled in the relevant art, for the lack of inventive step ground. Secondly, a new ground was added under s.40(2)(a) of the *Patents Act* that the claims were not clear, succinct and supported by matter disclosed in the specification, which is a s.40(3) issue: [4].

The basis of the applicant's opposition was that the proposed amendments came late in the day, the particulars of invalidity having been filed approximately 27 months ago: [5]. His Honour considered that the respondent could have formulated these amendments much earlier and a direct result of that delay was that the applicant prepared its case on matters the respondent had put in issue in its particulars of invalidity as filed.

The amendments were not simple and raised matters of some complexity. The result was that the applicant would suffer prejudice which could not be compensated by an order for costs "thrown away": [5].

In response, the respondent submitted that as of January 2020, it was proposing to file evidence on invalidity in accordance with its particulars of invalidity as filed. However, the further amendments, particularly the s.40 deficiencies, arose in the process of working with their expert. In relation to any prejudice to the applicant, the respondent referred to a letter dated 7 March 2022 from the respondent's solicitors to the applicant's solicitors referring to "section 40 additional deficiencies in the Patent". Further, the respondent submitted that the applicant was to file its in chief evidence on infringement by January 2022. The respondent argued its evidence on invalidity was to be responsive to that evidence, and thus the s.40 issues did not prejudice the applicant. The respondent also brought to his Honour's attention that it had appointed new counsel in the process: [6] and [7].

The first difficulty identified by his Honour was that the respondent, having raised invalidity generally, was obliged to examine the claims as to whether the claims were supported by the specification: [22]. Secondly, it was incumbent upon the respondent and its solicitors to keep in mind that "the overarching purpose contained in s.37M(1) and the duty cast on the respondent by s.37N(1) and the party's solicitors by s.37N(2)(a) and (b) of the *Federal Court Act of Australia Act 1976* (Cth) (the "FCA Act") requires the respondent and its advisers to isolate issues material to the relief asserted by the party in a way which facilitates the just resolution of the dispute according to law and as 'quickly, inexpensively and efficiently' as possible": [23]. Thirdly, the delay could not be answered by shifting the focus to the evidence on infringement: [24].

Justice Greenwood having considered that costs did not adequately compensate the applicant, determined that there was a greater consideration—the imperative of a "just resolution". In this regard, his Honour observed at [25], that s.37M(2) recited that the overarching purpose included as an "objective", the "just determination of all proceedings before the Court": s.37M(2)(a) of the FCA Act. The greater prejudice would be to the respondent, whose amendments might ultimately be "made good". The result would be in those circumstances to allow an unmeritorious patent to sustain and enjoy its statutory monopoly: [25].

1 Barrister, Queensland.

His Honour ordered that Vald could recover its costs the subject of the orders by taxation or assessment or otherwise without waiting for the proceeding to finish and, to that extent, r.40.13 of the *Federal Court Rules* 2011 (Cth) had no application: [27].

Watson as Trustee for the Watson Family Trust v Cosmetic Warriors Ltd

[2022] FCA 700

17 June 2022 – Greenwood J

Justice Greenwood provided these reasons for judgment, setting aside the decision of a delegate of the Registrar of Trade Marks, who on 26 February 2020 directed that Registered Trade Mark No. 607740 (the trade mark in suit) be removed from the Register as a result of a successful non-use application under the *Trade Marks Act* 1995 (Cth) s.92(1) on the ground identified in s.92(4)(b) of the Trade Marks Act.

The subject of the de novo appeal to the Federal Court exercising its original jurisdiction, was the word mark “Lush” and registered in Class 25 for goods described as “clothing, footwear and headgear”. The trade mark in suit had a priority date of 26 July 1993.

The appellant (and opponent to the non-use application) was Austin John Watson as trustee for The Watson Family Trust (“WFT” or the appellant). WFT opposed the non-use application in respect of the trade mark in suit by Cosmetic Warriors Ltd (“CWL” or the respondent).

Relying on that ground, CWL contended that at no time during the relevant three-year period from 22 April 2015 to 22 April 2018 (the relevant period) had WFT used the trade mark in Australia in relation to the goods for which it was registered or used it in good faith in Australia in relation to such goods: [3].

Justice Greenwood noted that the amendments brought about by the Government’s response to the report of the Productivity Commission relevant to a trade mark non-use application in the *Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Act* 2018 (Cth) Schedule 1 Part 3, did not affect the competency of CWL’s non-use application. Subsection 93(2) was amended to change the relevant period for filing a non-use application from five years from the filing of the trade mark application to three years from the date the particulars of the trade mark were entered into the Register under s.69. The trade mark in suit was entered on the Register on 3 April 1995: [5].

It should also be noted that this amendment came into effect on 24 February 2019 and therefore the new time period only applies to trade marks where the filing date is on or after 24 February 2019.

WFT sought to discharge the burden placed on the party opposing the non-use application under the *Trade Marks Act* s.100(1)(c). Evidence was put on in the “appeal” proceeding by the parties. WFT also relied on some of the evidence filed in the opposition proceeding before the Registrar’s delegate.

His Honour addressed several preliminary issues before determining the appeal application. These were based on the facts but were useful for general application. Firstly, Mr Watson was acting in a trustee capacity for The Watson Family Trust. The trust instrument was not in evidence and, although the Court raised the question of the appellant’s capacity, in written submissions the respondent raised no question or issue concerning the scope of the grant. CWL took up the issue in oral submissions.

Mr Watson contended that anything he did with, or in relation to the trade mark, he did in his capacity as trustee for the Watson Family Trust. Justice Greenwood proceeded on the basis that any step taken or not taken where relevant to the question of use in the relevant period, was a step in Mr Watson’s capacity as registered owner of the trade mark as trustee for the WFT: [14].

The second preliminary issue was the character of such use. Mr Watson did not, as a matter of fact, claim to have used the trade mark in suit in the relevant period but contended that as a matter of law, that he, as trustee for the owner trust, was taken to have used the trade mark in suit for the purpose of s.92(4)(b) as a matter of both fact and law, because entities associated with him used the trade mark in suit as authorised users under the Trade Marks Act s.8: [15].

Mr Watson’s evidence was that he had been in the clothing industry since 1981 under various labels from time to time using various trade marks including “Bocoo”, “DCS”, “Dot Com Surf”, “Hound Dog”, “HDBFO”, “Factory \$2U”. Mr Watson referred to a company called HD Brands Pty Ltd (“HDBPL”) of which he was the sole director and sole shareholder and which he said was “my Company”.

In his affidavit filed in the proceeding, Mr Watson deposed that in July 2019, HDBPL had continuously carried on a clothing retail business known as “Hound Dog” from premises at Surfers Paradise and had continuously sold “Lush branded clothing from these premises”: [21]. Mr Watson’s affidavit was supported with the latest clothing order and shipping documents. There was an issue arising from Mr Watson’s failure to state that HDBPL was deregistered some two months prior to his affidavit 22 June 2020 or corrected the position by a later affidavit. It did not affect the outcome.

Mr Watson’s evidence in support of the opposition relied on three transactions in the relevant period with an Indian supplier (“Global”). The first transaction referred to by his Honour at [41] to [53], included garments branded “Lush”, commercial documents associated with the garments such as

a tax invoice, bill of lading and packaging list. The second transaction referred to by his Honour in [54] to [57] also had woven and knitted garments from Global with similar supporting documents. Finally, the third transaction relied upon to show use in the relevant period and referred to by his Honour at [58] to [60] were also garments described as “Lush – 100% Cotton Woven Ladies Blouse” and documentation associated with such shipment similar to the two preceding transactions.

These three transactions reflected a total number of 98,795 garments (including non-Lush branded products). Within that total number of individual items there were 2,497 “Lush” labelled garments: [61].

Justice Greenwood found that Mr Watson exercised control over His companies including HDBPL as the “guiding mind of each company”. This recognised that in the decisionmaking about the matters described at [27] and [71] of His Honour’s reasons, Mr Watson was the registered owner of the trade mark, so that the use by either or both entities of the trade mark in suit, in relation to the garments was an “authorised use” of the trade mark by an “authorised user” under the control of the owner of the trade mark: [126].

The result of that finding was that that the registered owner of the trade mark discharged the burden under s.100(1)(c) in relation to the question arising under s.92(4)(b) of the Trade Marks Act, that there was use of the trade mark in Australia in the relevant period.

Upon such findings, Justice Greenwood set aside the decision of the delegate with the result that the trade mark remained on the Register: [127]. Cost of the proceeding before the Court and the Registrar’s delegate were ordered to be paid by CWL.

Current Developments – New Zealand

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Stabicraft Marine Limited v Sea King Boats Limited & Anor

High Court of New Zealand, Doogue J

6, 23 September 2022

[2022] NZHC 2447

Copyright – border enforcement notice protecting copyright designs of marine craft – Customs detaining imported 9.3 metre boat – determination by Customs that boat appeared to be pirated copy – proceedings issued by copyright owner – importer seeking order for release of boat from Customs detention – claim that plaintiff had not complied with border enforcement provisions in Act – ss.135–146 Copyright Act 1994 (NZ).

Comment: This decision illustrates the importance of closely following the statutory requirements in the Copyright Act in relation to border enforcement notices. The Court found that when the plaintiff issued High Court proceedings (following detention of a 9.3 metre boat) it had not specifically pleaded that vessel as an infringement nor had it sought an order under s.141(3) that the detained boat was a “pirated copy” in terms of the Act. This led to an order that the boat be released from Customs detention.

Facts: In September 2021 under the border enforcement provisions of the Copyright Act, the plaintiff (Stabicraft) lodged with New Zealand Customs several notices requesting detention of pirated goods (“NRDPC”) based on its copyright designs of marine craft.

The first defendant (Sea King) imported a 9.3 metre pontoon boat (the “Easy Craft 9.0”) for ultimate use by a third party charter fishing business on Great Barrier Island. The Easy Craft 9.0 boat was built in China and shipped to Sea King.

As a result of the NRDPCs, Customs detained the boat and, after inspection, made a determination under s.137(3) Copyright Act (served on Stabicraft and the defendants on 21 January 2022) that the boat appeared to be a pirated copy of one of the copyright works contained in the NRDPCs.

Once a notice of determination is made, s.140 provides that the goods must be detained by Customs until certain events occur. One such event is that 10 working days have elapsed since the notice of notice of detention was served (on the importer) and the Chief Executive of Customs has **not** received notice of proceedings having been commenced under s.141(3). The purpose of issuing proceedings under s.141 is to have the court determine whether the detained

goods are pirated and should be forfeited to the Crown or released to the importer [22].

In the present case, Stabicraft served a statement of claim on Customs on 27 January 2022 within the 10-day period. The defendants alleged that the statement of claim did not amount to proceedings brought under s.141(3) and therefore that service was not effected for the purposes of the border protection measures. The defendants claimed that the first time a claim was made under s.141(3) was when Stabicraft filed and served an amended statement of claim dated 16 March 2022. This amended statement of claim was filed and served outside the 10 working day period required by s.140(1)(e).

The original statement of claim pleaded that Stabicraft was exclusive owner of copyright in a series of artistic works for listed boats. The five copyright works were only a selection of seven copyright works specified in the NRDPCs [33–34]. The statement of claim further pleaded that Sea King had advertised, imported and sold four boats (the “Explorer Boats”). Paragraph 15 of the statement of claim under the heading “Detention of Explorer Boat by NZ Customs” described a boat approximately 9 metres in length and that it had been detained as a result of Stabicraft’s NRDPCs.

Held (granting the defendants’ application):

- (i) None of the boats particularised in the statement of claim nor shown in annexure B to it referenced the boat that had been detained by Customs [40].
- (ii) The amended statement of claim pleaded that the Easy Craft 9.0 being detained by Customs derived from various Stabicraft copyright works and was a pirated copy for the purposes of s.141(3) [43–47].
- (iii) Under Part 7 Copyright Act there is clearly a statutory obligation on a plaintiff seeking continuing detention of goods to apply for a determination that the goods are a pirated copy “to which the notice relates” [60]. The effect of the statutory obligation was to create a presumptive hurdle that the plaintiff must establish before its proceeding could be properly constituted for the purpose of the border protection measures of the Act [61].
- (iv) The plaintiff’s original statement of claim did not contain all the essential factual and legal elements so as to inform the defendants of the claim against them. A court (considering that pleading) could not have ruled on the essential question for determination in s.141(3). The statement of claim fell far short of informing the defendants that the

case against them was in relation to the detained boat. It did not assert that the detained boat was a pirated copy [64].

- (v) The plaintiff Stabicraft had not served Customs with properly constituted proceedings for the purposes of s.141(3). Customs therefore had wrongfully detained the detained boat and it must be released to Sea King forthwith [68]. Customs was ordered to release the Easy Craft 9.0, with the order stayed for 10 working days to enable Stabicraft to appeal [70–71].

Current Developments – Asia

CHINA & HONG KONG SAR

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Defensive Trade Mark Filings in China – Time to Review Strategies? Recent Developments and Best Practice

Defensive trade mark registrations are a critical tool for securing protection against piracy and preserving business opportunities for future lines of goods and services. By their very nature, defensive trade mark applications are not intended to be “used” by their registrants, at least not in respect of the goods or services for which they are registered. Instead, they act as placeholders, preventing third parties from obtaining identical or similar rights for similar goods or services. In China, defensive trade marks play a particularly important role, where bad faith registrations are rampant and where there were a staggering 37 million registered trade marks crowding the register by the end of 2021.

Although there is no “intent to use” requirement for trade mark filings in China, modifications to the People’s Republic of China (“PRC”) Trademark Law in 2017 raised concerns about purely defensive filings on precisely that basis. Those changes, intended to address bad faith trade mark filings – particularly filings by “warehousers” who bulk file for third parties’ trade marks intending to ransom them to their rightful owners – indicated that at least as far as pirates were concerned, lack of intent to use the mark was evidence of their bad faith in filing. It was not clear, however, if those same provisions might be arbitrarily extended to defensive filings. Fortunately, the *Trademark Examination and Review Guidelines* (“Guidelines”), released by the China National Intellectual Property Administration (“CNIPA”) after the amendments came into force, clarified that purely defensive filings would not be deemed bad faith filings, in spite of the lack of intent to use them.

Without any formal announcement, however, this practice was suddenly changed in mid-2022. Around that time, the CNIPA began issuing Notices of Examination Opinions (“Notices”) to certain applicants. The issuance of those Notices appears to have been motivated by the relevant trade mark applicants having filed a certain volume of new applications in one go. As a result, and in addition to being issued to obvious warehousers, they were also issued to reputable companies that had filed multiple trade mark applications for clearly defensive purposes. Failures to submit evidence of use or of an intention to use those defensive filings in response to these Notices has been leading to the blanket rejection of those bulk filings. Moreover, appeals of

such rejections to the Trademark Review and Adjudication Department (“TRAD”) of CNIPA, pointing out the purely defensive nature of the filings, have been unsuccessful. This throws the fate of defensive filings in China into question.

This update discusses the CNIPA’s recent policy developments regarding defensive filings and the implications for such filings going forward. It also suggests best practices for brand owners and practitioners to keep in mind in light of the new policy and other existing obstacles.

The Utility of Defensive Trade Mark Applications in China

In most jurisdictions, the perceived need for defensive trade marks is motivated by specific – and limited – factual scenarios. For example, a competitor may be using a “copycat” mark on goods or services somewhat related to those of the brand owner ... but for which the brand owner does not possess trade mark coverage. Here, a defensive filing may act as a block to the copycat mark’s registration in respect of those goods. Or perhaps a brand owner has long-range plans to expand their offering to wholly new goods/services. In that case, defensive filings would “reserve” its rights in respect of those new goods/services and prevent filings from third parties blocking the planned expansion. In neither of these instances would the scope of the brand owner’s defensive filings need to exceed a handful of filings to adequately protect their interests. In China, however, the sheer scope of trade mark piracy forces brand owners to consider much broader defensive filing programs.

Another factor driving the perceived need for defensive filings in China is the fact that “well-known” trade mark protection is exceedingly difficult to obtain here, particularly in respect of foreign brands. Under international practice, including in China, the recognition of a given trade mark as “well-known” is intended to provide broad “cross-class” protection against filings for the same or similar marks in respect of dissimilar goods or services, ideally eliminating the need for defensive filings altogether. Absent the ability to reliably obtain well-known trade mark recognition, however, owners of heavily-pirated brands must necessarily consider much larger-scale defensive filing programs.

As a result and given that it is much cheaper to file an application for a new mark, rather than to seek to oppose, invalidate or cancel a pirate mark, the need for defensive filings in China is rightly perceived by brand owners as acute. So acute, indeed, that it is not uncommon to see defensive trade mark programs in China for some larger companies extend to filings in all 45 classes, even for entirely new marks.

“Bad Faith” in Trade Mark Filings under the PRC Trademark Law

Many of these issues could of course be solved by the CNIPA cracking down on “bad faith” filings, making them less of an active threat to reputable brand owners. Unfortunately, the picture regarding recognition of “bad faith” by the Trademark Office (“TMO”), the TRAD and even the courts remains decidedly hazy and unpredictable.

Prior to 2019, little mention was made explicitly of “bad faith” in the Trademark Law. As a result, it was exceedingly difficult to convince authorities that the given conduct of any pirate was sufficiently egregious to warrant invalidation on such grounds. Indeed, claims of “bad faith” in filing were readily dismissed by the TMO and TRAD where pirates in question owned literally dozens or even hundreds of clearly stolen trade marks, with the decisions dismissing such claims due to “insufficient evidence”.

Under Article 4 of the amended Trademark Law that came into effect in 2019, however, explicit reference was finally made to such filings [emphasis added]:

Any natural person, legal person, or other organizations that needs to acquire

*the exclusive right to use a trade mark in the production and operation activities shall file an application for trade mark registration with the Trademark Office. **An application for trade mark registration that is made in bad faith and not filed for the purpose of use shall be refused.***

This provision gives CNIPA the authority to reject applications made both (a) in “bad faith”; and (b) not for the purpose of use, as well as to invalidate such registrations. While the provision is obviously intended to curb trade mark piracy, the term “bad faith” nevertheless remained frustratingly undefined. That fact, as well as the conflation of the terms “bad faith” and “not filed for the purpose of use” raised a question amongst commentators as to whether even purely defensive applications may be at risk of rejection under Article 4 – where the lack of intent to use itself could arguably be deemed an act of “bad faith”.

That question was answered, albeit somewhat unequivocally, in November 2021, when the CNIPA published the *Trademark Examination and Review Guidelines* (“Guidelines”), suggesting that purely defensive filings will not fall afoul of Article 4 – provided that such filings do not also fall into other prohibited situations. In particular, the Guidelines include a chapter on the scope and applicability of Article 4. There, and in addition to setting out 10 examples of situations where Article 4 will apply, the Guidelines also referred to two situations where it will not:

1. where an applicant registers its trade mark for defensive purposes; and

2. where an applicant registers an “appropriate” number of trade marks for future business with realistic expectation.¹

Exactly what qualifies as “defensive purposes” was illustrated by a brief reference to a case on the issue. As well, defensive filings themselves were defined to include applications for trade marks that (1) are *already* in commercial use; (2) have gained a *definite degree of fame*; and (3) were filed with the intent of preventing trade mark piracy by third parties.

These provisions clearly create potential impediments to a broad range of legitimate defensive filings. For example, a new mark that has not yet been put into use when filed would appear to clearly fall outside the scope of these provisions. Similarly, and even if the mark was in active use, the requirement that it possess a “definite degree of fame” – admittedly a much lower threshold than “well-known” – could still torpedo newer or less-promoted marks, depending on the nature and breadth of evidence required if the brand owner were pressed to prove such fame. Fortunately, and generally speaking, it does not appear that the TMO or TRAD are aggressively enforcing these provisions (yet). Instead, and at least for the time being, it would seem that if a company is sufficiently active in the PRC market and a victim of piracy, purely defensive filings should make it through to registration without Article 4 being invoked.

Nevertheless, and although the explicit exclusion of defensive registrations from the scope of Article 4 may offer comfort to owners of defensive registrations, the question raised by the second provision mentioned by the Guidelines must also be kept firmly in mind: what is an “appropriate” number of filings?

In that regard, a subsequent Q&A media release from CNIPA concerning the Guidelines explained that the underlying purpose of Article 4 is to curb “unjustified occupation of trade mark resources and disruption of the order of trade mark registration”. Accordingly, and while the filing of an “appropriate” number of defensive applications is allowed, there is an undefined line that, when crossed, can lead to such filings being rejected under Article 4 as “overly defensive” or “overly preservative” – even where there is not a whiff of bad faith behind the filings.

Worse yet, if the CNIPA concludes that the number of applications filed is too large to meet normal business requirements – suggesting lack of true intention of use – the applicant of such marks could, in the worst-case scenario, be placed upon the CNIPA’s “blacklist” of prohibited filers. This could potentially result in the rejection of all of their pending, and even future applications, due to their “disruption of the trade mark registration order”.

The number of filings is not the only aspect that will be considered in such rejections, either. As well, examiners will

consider the composition of the marks and their coverage when concluding whether there is sufficient demonstrated intent to use the marks. For example, and in a typical case provided in the Guidelines, the CNIPA noted that the applicant, a “science and trade” company, filed over 900 applications in all 45 classes – including in Class 1 (industrial chemicals), Class 36 (insurance consultancy) and Class 38 (radio services) where there are special industry attributes or qualification requirements. Moreover, most of the marks were completely irrelevant to the applicant’s house mark, or were otherwise deemed illogical in light of reasonable commercial use requirements. Given this, the CNIPA did not believe that this conduct had a legitimate commercial purpose and failed to evince a true intent to use the marks.

Most worryingly for defensive filers, CNIPA examiners also have the authority to request applicants to provide evidence of use or a statement of intent to use, together with corresponding supporting evidence in respect of Article 4 issues. In that regard, and in another illustrative case, the examiner asked the applicant, a small-scale individual business, to justify why it needed to file approximately 1,000 applications in more than 30 classes. The applicant explained that it “loved trade marks”, designing them for commercial clients, claiming as well that some of the applications were filed for defensive purposes. The examiner rejected the applicant’s arguments, noting they failed to show that the marks had already been put into commercial use or to had acquired the requisite degree of fame. Absent such evidence, the marks were deemed to have not been filed for legitimate defensive purposes.

The “Little Yellow Duck” Case

Clearly, the language around “bad faith” filings and an “intent to use” trade marks is designed to deter bad faith filings, particularly portfolios of large-scale warehouse filers filing hundreds of trade marks. That said, the open-ended and nebulous nature of the language surrounding “defensive filings” in both Article 4 and the Guidelines gives CNIPA examiners the scope to enforce these provisions as broadly as they please, whenever they please. As a result, these provisions can clearly impact legitimate brand owners seeking defensive protection.

On this point, Chinese media recently reported a case where the owner of the popular “Little Yellow Duck” logo was deemed a bad faith filer due to having filed almost 3,000 applications in one year, a number that admittedly seems excessive, at least at first blush.

That said, the brand owner, Semk Products Limited (“Semk”), is a Hong Kong company that is engaged in a range of industries, including the design of original products, marketing and promotion of its products, licensing its brands to third parties, etc. The Little Yellow Duck marks were first created by the company in 2005 and have since then been

widely known throughout China. Semk had also developed several sub-brands and different forms of its duck design, and has continued to file new trade mark applications for these designs over the years. Not surprisingly, it was also a regular victim of trade mark piracy.

Up until February 2021, most of its trade mark applications were successfully registered. At that point, however, the CNIPA started blanket rejections of any and all applications filed by Semk. In 2021 alone, Semk filed a jaw-dropping 2,994 applications ... but only 90 of those were gazetted for registration, and all of those in the first quarter of the year. In 2022, Semk filed another 126 applications, and all of these were rejected by the CNIPA out of hand.

Semk appealed most (if not all) of the refusal decisions to the TRAD, arguing that it is a large-scale brand creation company with many sub-brands and partnership deals with other famous brands. As well, it had continuously been victimised by pirates filing their own Little Yellow Duck-related trade marks. Given those facts, Semk argued, it clearly had a significant need for a large number of filings, a demonstrated ability to use those marks, and a genuine need for defensive filings. Semk also submitted copyright registrations, licence records, and a large quantity of evidence of fame and prior enforcement actions in respect of its trade marks.

In spite of all this, the TRAD sustained the refusals, noting that the applicant’s filing of such a large number of trade mark applications in a short period clearly exceeded “normal business requirements”. Similarly, the evidence put forward to prove an intent to use the marks, their fame, and the need for protection against trade mark pirates was rejected, with the TRAD noting that the applicant already owned a large number of registrations for similar marks. Thus, the applications did not fall within the safe harbour for “defensive filings” under Article 4 and the applicant itself was deemed a “bad faith” filer.

Best Practices in Respect of Defensive Filings in Light of Current CNIPA Practices

The number of trade mark applications filed by Semk clearly make the Little Yellow Duck case an extreme example. As a result, it may well not be exemplary of the CNIPA’s current practice in reviewing defensive applications. That said, we have heard anecdotally of an applicant filing as few as 50 simultaneous applications receiving identical “lack of intent to use” refusals under Article 4. Thus, it remains unclear just where this line is to be drawn. Accordingly, careful thought should be given to how, when and, of course, how many defensive applications are to be filed to minimise the risk of Article 4 rejections in respect of all of those filings.

Applications filed by larger companies for new marks in all 45 classes to prevent pirates from exploiting gaps in coverage (Starbucks and Huawei being oft-cited examples of

such “power filers”) are at the most immediate risk of such rejections. Given that, a means of avoiding such blanket rejections could be limiting filings for defensive applications to only a dozen or so classes that are clearly related or adjacent to the brand owner’s business, at least ensuring coverage in the classes most likely to be targeted by pirates.

If broader protection is deemed a “must have”, consideration could be given to filing applications in smaller batches, filing first in core classes, then following up with additional applications in secondary classes only after primary registrations in core classes have been secured. This would not only help to keep the number of applications within the perceived “safety zone”, but also ensure that the brand owner at least has protection in its core classes locked down in the event that later defensive applications are eventually rejected.

Just where that “safety zone” lies at the moment remains unclear. For now, and on balance, filing no more than 15-20 defensive applications in those “adjacent” classes would appear to be a reasonable number that would pass CNIPA scrutiny, particularly if those filings are confined to goods and services that are very arguably related to the brand owner’s active business. Nevertheless, and particularly before bulk filing trade mark applications covering less-related, less-relevant classes, it would be worthwhile to ensure any changes or updates to CNIPA’s practice are fully understood and incorporated into any filing strategies.

Brand owners should also studiously avoid filing in certain classes or subclasses that require special qualifications in China unless they actually operate in that industry. For example, a variety of goods and services in Class 1 (industrial chemical), Class 5 (medicines), Class 13 (firearms), Class 34 (tobacco), Class 36 (financial services), and Class 38 (radio services) would be risky to specify in defensive filings. Positively, pirates also appear to find these classes less appealing (likely for just that reason), so the risks of foregoing defensive filings for such goods/services should be manageable.

Vulnerability of Defensive Filings to Non-Use Cancellation

A discussion of defensive filings in China would not be complete without considering the risk of non-use cancellation actions against those filings. Anyone can seek to cancel a mark for non-use at any point after it has been registered for three years.

In the past, proving use of a single item in a given class was often sufficient to save the entire registration in respect of all subclasses, particularly in actions at the initial TMO stage. Recently, however, the TMO has changed its practice and now requires registrants to submit evidence of use for at least one item in each subclass, lest the registration be cancelled in respect of that subclass. This makes the stability of defensive filings less reliable than it was in the past.

A tactic to minimise defensive registrations’ vulnerability to non-use actions has been to simply file new applications for any unused registrations every three years, ensuring there was always a “fresh” right in the queue. The TMO’s recent changes, however, mean that registrants will need to rethink that strategy, where the CNIPA is clearly looking to discourage what it views as the “unnecessary occupation of trade mark resources”. On balance, the CNIPA may well end up being more inclined to achieve a less-cluttered register than to permit registrants of unused trade marks to renew their defensive registrations in perpetuity, regardless of any inherent risks of piracy.

Finally, it must be kept in mind that defensive filings are not a panacea to trade mark piracy in China. Indeed, given the scale of the problem, and the CNIPA’s only limited efforts to fully curb the issue, all brand owners should engage in careful and consistent monitoring of the PRC trade mark registry. Through such monitoring, brand owners will be better able to identify, triage and act quickly against pirate applications, particularly where existing or potential defensive registrations may be in play.

1 Article 3, Chapter 2 of the Guidelines.

JAPAN

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Trade Mark and Design Law Revisions Eliminate Personal Use Counterfeiting Import Loophole

The global COVID-19 pandemic led to an explosive demand and usage from consumers making purchases online and this has unfortunately resulted in an increased manufacture and production of often counterfeit products to meet this demand.

The online sale and physical circulation of counterfeit products has caused significant problems for owners of registered Japanese trade marks and designs and there was a private import/use loophole that has been closed by recent Trade Mark and Design Law revisions. This update explains the background and the new provisions’ effectiveness in strengthening the fight against importing counterfeit goods into Japan.

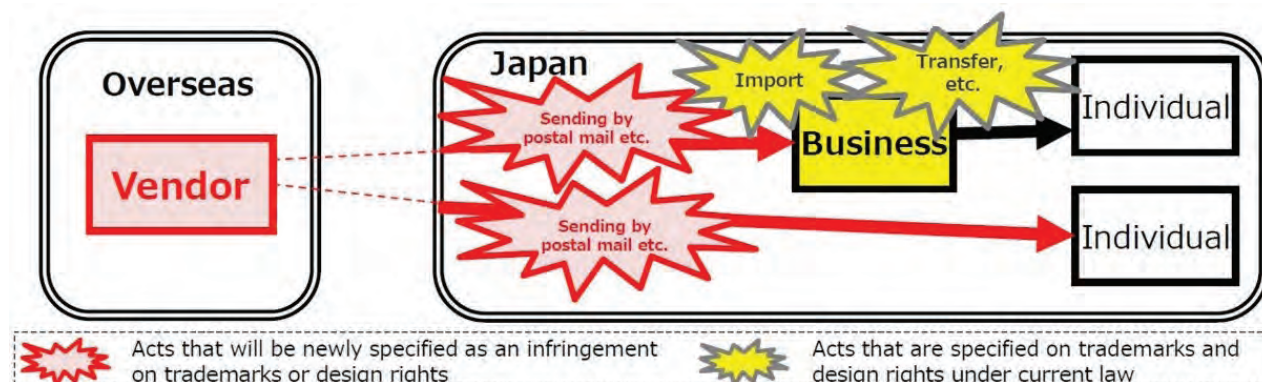
Japan’s Trade Mark Law requires that the use of a trade mark be “in the course of business” in order to constitute trade mark infringement (Article 2(1) of the Trade Mark Law). Accordingly, the importing of counterfeit goods for private use was previously not considered an act of trade mark infringement if a shipper or importer asserted that the goods were for private use and not for business. Previously,

it was difficult for Japan Customs to rebut such a claim by a shipper or an importer. As such, importation by online traders ostensibly under the cloak of private use imports or vicarious services created a loophole to infringement where Japanese consumers could purchase counterfeit goods online and the online trader could easily import these counterfeit goods into Japan.

In order to prevent counterfeiters from continually exploiting this private use loophole and to stop the importation of counterfeit goods into Japan that were purchased online, statutory revisions were made to Japan’s Trade Mark Law and the Design Law to clarify the definition of “importation” and strengthen the effectiveness of border enforcement. These statutory revisions came into effect on 1 October 2022.

The revised Trade Mark Law and Design Law provisions now prescribe that the definition of “importation” includes an act of a person residing in a foreign country where said person causes another to bring goods from a foreign country into Japan.

Previously, it was unclear whether the acts of overseas business operators formed part of the import process. The revisions confirm that such acts – for example, sending counterfeit goods to Japan by mail – will now be considered part of the import process and thus “import in the course of trade” (see below figure).²



Source: Japan Patent Office, March 2021

Pursuant to the revisions, unauthorised “importation” of goods bearing a trade mark or design which is identical to or confusingly similar to a trade mark or design registered by another person with the Japanese Patent Office constitutes infringement of a trade mark or a design, except where it constitutes a legitimate parallel import of authentic goods.

It should be noted that there is no similar expansion to the infringement definition for the importation of products that infringe patent or utility model law rights.

As a result of the revisions, Japan Customs may now seize counterfeit goods regardless of whether the individual importer (i.e., the end customer) intends to use the goods for private use. Under the new law, counterfeit goods imported via a third party carrier will be subject to seizure at Japan customs regardless of whether such importation was for personal or individual use only. This is a strong pro-rightsholder development to prevent the scourge of counterfeit imports into Japan, the world’s third largest economy.

1 Board Member, SHUSAKU-YAMAMOTO, Osaka, Japan. Any questions about this update should be e-mailed to John A Tessensohn at jtessensohn@shupat.gr.jp. This update reflects only the personal views of the author and should not be attributed to the author’s firm or to any of its present or future clients.

2 Japan Patent Office, *Tightening of regulations on the inflow of counterfeit products from overseas* (Japanese Web Page, 11 October 2022) <<https://www.jpo.go.jp/news/kokusai/mohohin/kisei.html>>.

SINGAPORE

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IPOS decision overturned in allowing correction of error

Nippon Shinyaku Co, Ltd v Registrar of Patents
[2022] SGHC 164

Nippon Shinyaku Co, Ltd (the “Applicant”) commenced proceedings against the Intellectual Property Office of Singapore (“IPOS”) in an appeal against the Registrar of Patents’ decision to refuse a proposed correction to the specification of a Singapore patent application. IPOS tends to be quite strict in allowing corrections, and in this case, the decision to refuse the correction was overturned.

The High Court of Singapore considered the following issues:

1. whether IPOS or the Registrar should be the proper party to the appeal; and
2. whether the proposed correction should be allowed.

In allowing the appeal, the High Court held that the Registrar is the proper respondent.

Background

The Applicant filed a patent application in Japan (“Japanese Patent Application”), and subsequently filed a Patent Cooperation Treaty (“PCT”) application (the “PCT Application”) which entered the National Phase in Singapore. Both the PCT Application and the Singapore national phase application (the “Subject Application”) claimed priority from the Japanese Patent Application.

Upon discovering an error in Table 7 of the verified English translation of the PCT Application that had been filed with IPOS, the Applicant requested to correct the error under rule 91(1) of the Patents Rules. IPOS, acting in its capacity as the Registrar, rejected the request for correction on the basis that it was not immediately evident to the skilled addressee that what was offered was what was originally intended.

The Applicant filed an appeal seeking that the proposed correction to Table 7 of the Subject Application be allowed.

Decision

Whether IPOS or the Registrar should be the proper party to the appeal

The Applicant argued that IPOS is the proper party to be named as the Respondent in the present appeal, citing the decision in *Axis Law Corp v Intellectual Property Office of Singapore* [2016] 4 SLR 554 (“*Axis*”). Since the issue in *Axis* was whether IPOS or the Attorney General was the proper party, and it was not considered whether the Registrar of Trade Marks should have been a party to the proceedings, the High Court declined to follow *Axis*.

The High Court concluded that the Registrar, not IPOS, is the proper party to the present appeal. This decision was based on the following statutory provisions:

- Section 106 of the *Singapore Patents Act* and sections 34(2) and 34(3) of the *IPOS Act* draw a distinction between IPOS and the Registrar. It was found that these statutes envision that legal proceedings may be brought against either IPOS or the Registrar.
- Section 103(2) of the Singapore Patents Act provides that IPOS may make regulations to prescribe offences which may be compounded and section 107 of the Patents Act provides that the Registrar may correct errors in patent applications. These provisions supported the conclusion that IPOS and the Registrar have different powers.
- Section 90 of the Singapore Patents Act provides that decisions of the Registrar may be appealed.
- Section 91(2) of the Singapore Patents Act provides that “the costs of the Registrar are in the discretion of the court, but the Registrar is not to be ordered to pay the costs of any other of the parties”. This provision, when read together with section 90, envision that the Registrar may be a party to any appeal made against his decision.

The High Court noted that since the Applicant was appealing against a decision of the Registrar where the Registrar, having the power to make the correction to the patent application, refused to do so, it followed that the Registrar should be the proper party to the appeal. The Applicant was granted leave to amend the name of the Respondent from IPOS to the Registrar.

Whether the proposed correction should be allowed

The more interesting aspect of this case was whether the proposed correction should be allowed. On the facts, the error related to Table 7 of the Subject Application containing the same information as Table 6, whereas Tables 6 and 7 of the priority Japanese Patent Application had different information. The Applicant’s proposed correction was to replace Table 7 of the Subject Application with Table 7 of the priority Japanese Patent Application. As the proposed correction involved the specification, the condition stipulated in rule 91(2) of the *Patents Rules* is applicable. Rule 91(2) provides that no correction would be allowed “unless the correction is obvious in the sense that it is immediately evident that nothing else would have been intended than what is offered as the correction”.

The applicable test in deciding whether the correction should be made is the two-step test as set out in *Dukhovskoi’s Applications* [1985] RPC 8 (“*Dukhovskoi*”). First, there must clearly be an error, and secondly, if there is an error, it must be clear that what is now offered is what was originally intended. Both the Applicant and Registrar agreed that the first step of the test in *Dukhovskoi* was satisfied, and IPOS had also found that there was an error.

With respect to the second step, the Applicant argued that following the skilled addressee’s reference to the priority Japanese Patent Application, it was immediately evident that nothing else could have been intended other than that which was offered as the correction. The Registrar argued that the proposed correction was not obvious because a mere discrepancy between the specification of a patent application and its priority document does not establish an error in the specification, let alone the correction to be made. In IPOS’ decision, the Registrar found that it is not always the case that the application filed is identical to the priority application. There may be omissions or additions in the application with respect to the foreign priority application. Hence, it was not obvious that nothing more than the proposed correction was intended.

First, the High Court considered whether reference can be made to the priority documents in assessing whether nothing else other than the proposed corrections could have been intended. Citing *Caisse Palette Diffusion/Correction of drawings* [1991] EPOR 521 and *Tragen’s Application* BL O/096/90, the High Court found that such reference can be made where the proposed correction does not involve the replacement of the entire specification.

Next, the High Court considered whether it was immediately obvious to the skilled addressee that nothing else apart from the proposed corrections to Table 7 would have been intended. As the error in this case related to data that was presented in the specification and was not an error in the substantive content of the specification, the High Court found that it would have been immediately obvious to the skilled addressee, looking at the priority document, that nothing else other than the proposed correction could have been intended. The error in Table 7 was quite clearly the result of the wrong set of data having been copied over. Thus, the data that should be in Table 7 was exactly that which was found in the priority document.

The High Court concluded that the application for correction should be allowed as the proposed corrections to Table 7 would be obvious to the skilled addressee. The appeal was allowed.

Comments

This decision provides clarity on the issue of the proper respondent to be named when appealing to the High Court from a decision of a Registrar. Whether it is the Registrar or IPOS who should be sued depends on whether the decision is one made by the Registrar or by IPOS in the exercise of their respective powers.

It is now also clear that where a proposed correction does not involve the replacement of the entire specification, reference can be made to the priority documents in assessing whether nothing else other than the proposed corrections could have been intended. As to whether this is immediately evident, it would need to be ascertained from the facts of the case. However, the Court appears to take a more lenient approach when interpreting whether the proposed correction was the only one intended.

Current Developments – Europe

EUROPEAN UNION

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The Europeanisation of costs awards in intellectual property cases

C-559/20 Koch Media GmbH v FU, EU:C:2022:317 (Court), EU:C:2019:918 (AG)

C-531/20 NovaText GmbH v Ruprecht-Karls-Universität Heidelberg, EU:C:2022:316 (Court), EU:C:2021:917 (AG)

Introduction

The Enforcement Directive² sets out various minimum standards³ in procedures and remedies required for intellectual property infringement cases.⁴ These procedures include a rule requiring costs to follow the event, the relevant Article being:

Article 14

Member States shall ensure that reasonable and proportionate legal costs and other expenses incurred by the successful party shall, as a general rule, be borne by the unsuccessful party, unless equity does not allow this.

The Court of Justice recently handed down two judgments relating to this rule, namely *Koch Media GmbH v FU*⁵ and *NovaText GmbH v Ruprecht-Karls-Universität Heidelberg*.⁶ These cases continue a move to harmonise a standard for costs recovery across Europe,⁷ which has spread further by way of similar rules being incorporated in numerous European Union (and United Kingdom) Free Trade Agreements,⁸ including that between the UK and Australia and the UK and New Zealand.⁹ This brings the discussion back to the reasons the Court of Justice gave for harmonising costs awards.

Why are costs awarded?

The harmonisation of the payment of the costs in intellectual property cases is a profound development. Costs can affect the behaviour of parties at every stage of proceedings and so setting a European rule could change decision making throughout the litigation process. Indeed, as was said in the Jackson Report (a review of costs within the English and Welsh legal system by Sir Rupert Jackson):

*Costs are an important facet of every contested action. In a large number of cases they are the single most important issue, sometimes towering above all else.*¹⁰

The rationale for adopting the Enforcement Directive as a whole was to approximate the means of enforcing intellectual

property so as to ensure a high and homogeneous level of protection across the EU.¹¹ And the costs rule was included to ensure that right owners were not deterred from bringing legal proceedings in order to protect their intellectual property rights.¹² This deterrent could arise because cost recovery was too low and the infringer must “generally bear all the financial consequences” of the infringement.¹³ It might, on the other hand, arise where the right holder is discouraged from bringing a case due to the risk of a very large adverse costs order.¹⁴ The balance is struck by awarding reasonable and proportionate costs.

Reasonable and proportionate costs

The Directive itself states that any costs award must be “reasonable and proportionate”¹⁵ and the Court of Justice has held that these terms must have a consistent meaning across all member states.¹⁶ It is not clear how far this autonomous meaning takes the matter as what is “reasonable” and “proportionate” will depend on the procedures and practices of individual member states; but what is clear is that the autonomous meaning does not lead to the actual costs assessments being the identical across the EU.¹⁷

Thus, the requirement that costs are *both* reasonable and proportionate is key to determining whether the costs should be borne by the losing party.¹⁸ The assessment of costs needs to take account of the costs actually incurred by the successful party¹⁹ and must be made on a case-by-case basis by the court.²⁰ It is critical that the potential adverse costs do not make the conduct of proceedings unnecessarily costly²¹ and so unreasonable or excessive costs are not recoverable (even when high fees are agreed between the lawyer and the party).²² The benchmark for reasonableness appears to be the fees usually charged by a lawyer in relation to intellectual property matters.²³ Before assessing whether a particular fee is reasonable or proportionate it needs to be shown it has been properly incurred by the successful party.

Necessity of the costs incurred

The basic rule appears to be that any costs which a party is claiming must have been *necessarily* incurred²⁴ and so it is perfectly acceptable for a court to limit recovery to those costs incurred which were essential.²⁵ Some costs are clearly necessary (such as the fees for issuing a statutory notice).²⁶ But necessity is not so strictly confined, at least according to the Advocate-General in *NovaText*, to something that has “contributed sufficiently to the success of the action”.²⁷ The Advocate-General set out the three stages of the costs assessment.²⁸ First, there needs to be an assessment that the work for which costs are claimed was necessary and, secondly, it needs to be determined whether that that work

relates directly and is closely connected to the judicial proceedings.²⁹ Thus, where the work does not attribute anything significant to the proceedings they are unnecessary and, accordingly, they are not recoverable.³⁰ Finally, even if the costs incurred were necessary and closely connected to the case, it may be there should be adjustment, either up or down,³¹ because equity requires it.³²

While approach of the Advocate-General was not expressly adopted by the Court of Justice, it did say something on what could be recovered. It held that a successful party should have the “right to reimbursement of, at the very least, a significant and appropriate part of the reasonable costs actually incurred”.³³ This actually says little. The qualifiers “significant”, “appropriate” and “reasonable” and “at the very least” are so ambulatory in meaning that it indicates little more than awarding a sum greater than a “significant” proportion of the costs is still in accordance with the Directive. On the other hand, the Court acknowledged that even this bare minimum might not be recoverable on equitable grounds.³⁴ A further complexity in the assessment is the categorisation of costs.

Categorisation of costs

The Court of Justice (and the Directive) has divided up what might be broadly termed “costs” into three types, those expenses incurred in “identification and research”, “legal costs” and “other expenses”. The first of these – identification and research costs – are not usually recoverable as legal or other costs under Article 14, but fall to be assessed as part of the damages award.³⁵ So, it appears, consultations undertaken by a right holder prior to starting the legal proceedings are “not necessarily” within the scope of “legal costs” or other expenses;³⁶ rather, they fall within the assessment of damages.³⁷

In an earlier case, the Court of Justice indicated that these identification and research costs include the “general observation of the market, carried out by a technical adviser, and the detection by the latter of possible infringements of intellectual property law, attributable to unknown infringers at that stage”.³⁸ The wording of the judgment in *NovaText* is no less circumspect. It does little more than indicate that in some cases pre-action costs are within the scope of Article 14 (whereas others are part of damages). But it will be difficult to see where identification and research costs end and preparations for starting a claim against an identifiable claimant begin.³⁹ If a claim is not pursued there will be neither damages nor costs, but if a claim is started then much of the work done to identify the infringement in the first place will be (re)used to construct the claim. So what element of these activities is recoverable as damages? Even if general monitoring activities can be seen as damage caused by the infringement how could these activities be apportioned to a particular infringer and yet not be directly connected to a claim against that infringer? In short, the

difficulties presented by the Directive⁴⁰ and compounded by the Court⁴¹ are not really resolved by *NovaText*.

The second category is legal costs. It is apparent that not every action taken prior to starting proceedings are in this category,⁴² and it may even be the case that an action must be part of a chain of events leading to a claim starting before the expenditure can be classed as “legal costs”.⁴³ Even this cannot be entirely accurate as all costs relating to any procedures covered by the Directive must be recoverable as costs; and these procedures include applications made before the claim is issued.⁴⁴ When an action is within scope, it is clear that legal costs include lawyers’ fees⁴⁵ as well as the fees of any patent attorneys undertaking relevant work.⁴⁶ The Court of Justice accepted that the work of a patent attorney might have a wide scope and extend to appearing before the court, pleading cases, or just being an adviser, and finally being involved in relation to a settlement agreement.⁴⁷

The final category is “other expenses” and while the scope of this is broad, it is as very unclear. The Court of Justice has said the category should not be too broad⁴⁸ and any expenses so claimed must directly and closely relate to the legal proceedings.⁴⁹ It has also indicated that “other expenses” extends to sending “cease and desist” notices where they are not part of the formal court process (e.g. not a letter before action).⁵⁰ Likewise, in *United Video* it was held that a technical adviser’s fees would be included in other “expenses”.⁵¹ However, the technical adviser in question was a patent attorney and so it is not entirely clear when the attorney’s fees would be “other expenses” and when they would be “legal costs”.⁵²

Discretion

Finally, the Court of Justice has stated that the court awarding costs must have a discretion⁵³ in its assessment the recoverable costs. So any automatic entitlement to fees or a type of fees (such as the German rule in issue in *NovaText*) would be contrary to the Directive.⁵⁴ But this discretion does not in itself preclude scaled or capped costs,⁵⁵ although any such cap cannot be based on the nature of the litigant (e.g. non-commercial infringers).⁵⁶ In *Koch Media*, it was indicated that when a court is exercising this discretion to award costs it may take into account a number of factors, including the topicality of the work, the duration of publication, the commercial or non-commercial nature of the activity committed by the infringer, and the intentional or unintentional nature of the infringement.⁵⁷ In addition, the court must assess the overall fairness of the costs award⁵⁸ and it may be decided in a particular case, therefore, that a full costs award against a non-commercial infringer is unfair.⁵⁹

Conclusion

The award of costs following litigation is a complicated and multi-faceted assessment. The litigation of intellectual

property claims involves expenditures of thousands, hundreds of thousand or even millions of Euros. How much of this is recoverable from the losing party can have a profound effect on litigation behaviour. This discussion shows how the Court of Justice has started wading into the seas of costs assessment. It already seems the Court is fighting against the riptides it has created and, as its decisions start to affect costs assessments in member states, more questions will be asked as to the scope of Article 14. It may be some time before the waters are still once more.

- 1 Professor of Commercial Law, Cardiff University and Barrister.
- 2 Directive 2004/48/EC on the enforcement of intellectual property rights [2004] OJ L/157.
- 3 *Koch Media*, [32]; C-264/19 *Constantin Film Verleih*, EU:C:2020:542, [36].
- 4 The Directive does not apply to revocation or invalidity claims: C-180/11 *Bericap Zavadastehnikai Bt v Platinova 2000 Kft*, EU:2012:717.
- 5 C-559/20 *Koch Media GmbH v FU*, EU:C:2022:317 (Court), EU:C:2019:918 (AG) (references to the Attorney-General's opinion have AG before the paragraph number). At the time of writing, the judgment is not available in English and the French text has been used.
- 6 C-531/20 *NovaText GmbH v Ruprecht-Karls-Universität Heidelberg*, EU:C:2022:316 (Court), EU:C:2021:917 (AG) (references to the Attorney-General's opinion have AG before the paragraph number).
- 7 The most significant earlier case is C-57/15 *United Video Properties v Telenet NV*, EU:C:2016:611.
- 8 See Phillip Johnson, *Intellectual Property, Free Trade Agreements and the United Kingdom: The Continuing Influence of European Union Law* (Edward Elgar 2021), 192-3 and 263 (this refers to rolled over EU Free Trade Agreements, but the text is the same).
- 9 Free Trade Agreement between the United Kingdom of Great Britain and Northern Ireland and Australia, Art 15.78; and between the United Kingdom and New Zealand, Art 17.73.
- 10 Sir Rupert Jackson, *Review of Civil Litigation Costs: Final Report* (2009), 416.
- 11 Recital (10); also see *NovaText*, [31]; *Koch Media*, [29]
- 12 C-681/13 *Diageo Brands*, EU:C:2015:471, [77] and *NovaText*, [37] (also see *NovaText*, [53]; *Koch Media*, [37]).
- 13 C-406/09, [49]; *NovaText*, [38], *NovaText*, [AG33]; *Koch Media*, [38]; unless equity does not allow it.
- 14 *NovaText*, [53].
- 15 Art 14 and also 3(2); and see *NovaText*, [AG35]; *United Video Properties*, [24] and [29]; *Koch Media*, [51].
- 16 *NovaText*, [26].
- 17 See *United Video Properties*, [26] and [30] (the fees cannot be capped below the usual local market price for intellectual property legal advice).
- 18 *NovaText*, [AG35]; it is not possible to exclude any type of costs from these requirements (so automatic awards of a certain type of costs is not permitted): *NovaText*, [51].
- 19 *NovaText*, [48] (and so cannot be an objective assessment).
- 20 *NovaText*, [AG36]; Directive 2004/48/EC, Recital (36).
- 21 *NovaText*, [AG39].
- 22 *NovaText*, [46]; *United Video Properties*, [46]
- 23 *NovaText*, [50]; *United Video Properties*, [25], [26], [30] and [32].
- 24 *NovaText*, [AG40]; *United Video Properties*, [25] (incurred costs are essential).
- 25 *NovaText*, [AG42].
- 26 *Koch Media*, [AG67].
- 27 *NovaText*, [AG43].
- 28 See *NovaText*, [AG45].
- 29 *Koch Media*, [41]; *NovaText*, [AG37] and [AG45]; also see *United Video Properties*, [36].
- 30 *NovaText*, [AG46].
- 31 *Koch Media*, [AG80]
- 32 *NovaText*, [AG48].
- 33 *NovaText*, [48]; *Koch Media*, [52].
- 34 *NovaText*, [49].
- 35 Directive 2004/48/EC, Recital (26).
- 36 *NovaText*, [AG26]; *NovaText*, [44]; also see *United Video Properties*, [39].
- 37 Directive 2004/48/EC, Art 13; as to the need to separate damages from costs: see *Koch Media*, [AG48].
- 38 *United Video Properties*, [39]. The last part of this sentence is difficult to understand as the identity of the infringer may initially be opaque, but the infringer would never be unknown once a court is considering costs.
- 39 Clearly, costs related to the activities of other infringers will not be within costs.
- 40 The specific wording of Directive 2004/48/EC, Recital (26).
- 41 In *United Video Properties*.
- 42 *Koch Media*, [AG47].
- 43 *Koch Media*, [43] (it is assumed that intention for proceedings is enough, so a letter before action would be legal costs but a letter merely setting out a legal right might not).
- 44 *Koch Media*, [39]; Directive 2004/48/EC, Art 8 (the right to information, which can be used to identify infringers).
- 45 *United Video Properties*, [22].
- 46 *NovaText*, [41].
- 47 *NovaText*, [42]; *Koch Media*, [AG41 and AG42]; *Koch Media*, [34-35]; also see C-597/19 *M.I.C.M.*, EU:C:2021:492, [80]. There will be many cases where a settlement is based on a patent being amended and it is therefore logical that costs associated with this are recoverable.
- 48 *Koch Media*, [AG50]; *Koch Media*, [40]
- 49 *Koch Media*, [AG51]; *United Video Properties*, [36]
- 50 *Koch Media*, [45].
- 51 *United Video Properties*, [39 and 40]; *NovaText*, [43].
- 52 As to this incongruity see *NovaText*, [43]–[44].
- 53 *Koch Media*, [60].
- 54 *NovaText*, [52]; *NovaText*, [AG39].
- 55 *Koch Media*, [AG70]; *Koch Media*, [55]; *United Video Properties*, [32]; also Phillip Johnson 'How High is My Costs Ceiling?' (2016) 11 *Journal of Intellectual Property Law and Practice* 885.
- 56 *Koch Media*, [59]
- 57 *Koch Media*, [61]; Directive 2004/48/EC, Recital (17).
- 58 *Koch Media*, [62].
- 59 *Koch Media*, [65]; but see *Koch Media*, [AG73–74], *Koch Media*, [54]; (the damages might be lower but this is immaterial to costs: *Koch Media*, [AG75]).

UNITED KINGDOM

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Can a wooden rowing machine be protected by copyright? “Why not” says the High Court of England and Wales

What amounts to a “work of artistic craftsmanship” (a “WOAC”) has been a constant area of uncertainty since the House of Lords’ judgment almost 50 years ago that a particular suite of furniture was not protected by copyright. The High Court of England and Wales recently had to review the current state of the law both from the perspective of the UK copyright legislation and case law, but also in light of recent Court of Justice of the European Union (“CJEU”) judgments which form part of retained EU law post-Brexit, but which appear to conflict with the previous UK copyright law.

The context of the decision was an application by the defendant to strike out a claim that copyright subsisted in a wooden rowing machine as a WOAC, which is one of the categories of copyright-protected works within the meaning of the UK’s copyright legislation.

The judgment is of interest because the intellectual property rights protection in the UK for objects, and particularly functional objects such as the rowing machine in dispute here, is particularly complex given the various different rights which may or may not be available to designers, and their interaction with each other.

The uncertainty in the law has led many claimants, including the claimant in this case, to plead that copyright subsists in their creations pursuant either to long-established principles of UK law or, in the alternative, based on the principles set out in recent judgments of the CJEU. Those CJEU judgments were delivered in the years shortly before the UK left the EU, and they are therefore part of the body of “retained EU law” which was imported into UK law as a way to smooth the UK’s exit from the EU. They are therefore binding on all courts below the Court of Appeal. The Court of Appeal and the Supreme Court have the power to depart from such judgments, but only on the same basis that the Supreme Court has power to depart from one of its own precedents. The Supreme Court has consistently stated that this is a power to be exercised with great caution.

This judgment highlights the inconsistencies between UK law and EU law which only serve to add to the sources of this uncertainty.

In this update, we set out the background to the dispute before examining the inconsistencies between UK and EU law. We also consider how that inconsistency might one day be resolved.

The background

The claimant in this dispute, WaterRower (UK) Limited, has alleged that its WaterRower rowing machine is protected by copyright and that the defendant, a company incorporated in Hong Kong, has infringed that copyright by virtue of designing and marketing a near-identical rowing machine called “the TOPIOM”.

The defendant has admitted that if the WaterRower is a WOAC then copyright subsists and the defendant’s machine infringes that copyright. That admission is perhaps not surprising. As the Deputy Judge noted, the TOPIOM rowing machine is “a replica of iteration 8 of the WaterRower from which it was copied”.

The sole issues in dispute are therefore whether the WaterRower is protected by copyright either because it is a WOAC under the UK copyright legislation and/or because it is protected by copyright under the EU copyright law criteria discussed further below.

The WaterRower was designed by a US citizen, Mr John Duke, between 1985 and 1987. The key facts regarding the creation of the WaterRower and its reception – none of which were in dispute – are set out below. The importance of this background becomes clear when we come to consider the law on WOACs.

Mr Duke studied naval architecture at university. He has designed and built boats, including his own wooden one-man shell for the “Head of the Charles” regatta in 1977. He has a life-long interest in art, wood craft, and artistic design. In designing the WaterRower, Mr Duke gave evidence that he was inspired by both wooden rowing equipment, furniture makers, the Arts and Crafts movement and the aesthetics of Shaker furniture. He also gave evidence that his intention was to create a rowing machine which the user would have an “emotional connection” to, as they would “a piece of art or furniture”. The initial WaterRower was made by hand and some aspects continue to be so. The WaterRower was protected by a US patent, which has since expired. It has been recognised as an “iconic design” in the UK and US, and is on display in the Design Museum of London. The defendant conceded that the WaterRower is “aesthetically pleasing”.

Was the claim bound to fail?

As mentioned above, the defendant applied to strike out (or alternatively obtain summary judgment of) the claim that the WaterRower was protected by copyright.

In order to strike out the claim (or obtain summary judgment) the Deputy Judge had to consider whether the claim was “obviously ill-founded” or “bound to fail”.

As the claimant had based its case that copyright subsisted under either UK law or EU law, the Deputy Judge considered both sets of principles.

UK law on Works of Artistic Craftsmanship

The Deputy Judge first considered whether the WaterRower qualified as a WOAC as a matter of UK law.

Section 4(1) of the CDPA provides artistic works with copyright protection. Within the definition of “artistic works” falls a sub-category of WOACs. The legislation contains no further definition of a WOAC.

The leading UK authority on the scope of WOACs is the House of Lords’ judgment in *Hensher*.¹ As HHJ Hacon (a judge of the same court where this application was heard) recently said in *Response Clothing, Hensher* is not a straightforward judgment.² Whilst the five Law Lords in *Hensher* agreed that the furniture in question in that case did not qualify as a WOAC, their reasoning for this finding was not consistent. It is therefore not clear from their judgments what *would* qualify as a WOAC.

The Deputy Judge sadly, but quite understandably, declined to “reduce their Lordships’ speeches to a snappy definition of ‘works of artistic craftsmanship’”. He did, however, set out some of the key themes which arise from the Law Lords’ judgments, as that will be the task of the trial judge should this case reach trial. At this stage, the Deputy Judge’s role was simply to test the defendant’s submission that, on any view of *Hensher*, the claim would fail.

To be a WOAC, a work must be both “artistic” and a work of “craftsmanship”. The Deputy Judge first considered the requirement to be “artistic”. He dismissed the submission that the WaterRower was bound to fail this test, giving three reasons.

First, because three of the five Law Lords in *Hensher* considered that the intention of the creator was at least relevant to whether an object was artistic. In this case, there was evidence of Mr Duke’s artistic intentions, in particular that he wanted to create a machine with which the user has “a welcoming emotional connection, as they would with a piece of art or furniture”. The Deputy Judge considered that this evidence, on its own, was sufficient for the claimant to demonstrate that it had realistic prospects of establishing that the WaterRower was artistic.

Second, the Deputy Judge said that four of the Law Lords in *Hensher* suggested that to be “artistic”, something more than eye appeal was needed, but they were not clear what that “more” consisted of. The Deputy Judge considered that the elusive “more” might be the creator’s artistic intentions (as covered above), or alternatively evidence of how the item was perceived by others. In that regard, the claimant could point to the WaterRower’s recognition by the Museum of Modern Art and the Design Museum in London.

Third, one of the Law Lords in *Hensher* set out a list of works which could be held to be artistic. That list included items

such as hand-painted tiles, stained glass windows, wrought-iron gates, and “some of the [...] work” of carpenters and cabinet makers. The Deputy Judge was unable to conclude that the WaterRower was any less artistic in conception or appearance than those examples, each of which also had a functional purpose.

The Deputy Judge also rejected the submission that the claimant was bound to fail to establish that the WaterRower was a work of craftsmanship. The concept of craftsmanship was not in issue in *Hensher* (because “craftsmanship” had been admitted by the defendant), but it was considered by the High Court in *Lucasfilm*,³ in a case regarding Stormtrooper helmets created for the *Star Wars* films. In that case, “craftsmanship” was held to require creation by a craftsman who took pride in their work, as opposed to being created by a “slavish copier or a jobbing tradesman”.

The Deputy Judge therefore held that the WaterRower might be a WOAC according to the principles of UK copyright law. It will be for the trial judge to decide once the case reaches trial and with the benefit of having considered all of the evidence.

EU copyright law

The defendant also argued that the WaterRower would fail to qualify for copyright protection pursuant to principles of EU law. This is relevant because, as mentioned above, EU law has recently developed in a way which is inconsistent with UK copyright law, and in particular the requirements for WOACs which are set out in *Hensher*.

The key principles from those CJEU judgments are summarised below.

In *Cofemel v G-Star Raw* (“*Cofemel*”),⁴ the CJEU was asked whether it is permissible under EU law for the national law of an EU member state to deny copyright protection to designs (in that case, designs of t-shirts and jeans) which generate a significant aesthetic effect, on grounds other than originality.

The CJEU held that such a requirement was precluded by EU law. The only two requirements for copyright protection, according to the CJEU in *Cofemel* are:

- (1) that the creation is original (in the sense of being the author’s “own intellectual creation”, which will be the case if it is an expression of his free and creative choices);⁵ and
- (2) that it is an expression of that creation, in the sense that it is identifiable with sufficient precision and objectivity.

Immediately it can be seen how the UK’s requirement that a WOAC must be both “artistic” and a work of “craftsmanship” does add additional criteria on top of a requirement for originality which is not permitted following *Cofemel*.

In a subsequent judgment *Brompton v Chedech*,⁶ the CJEU considered the question of whether copyright could protect functional objects. The dispute related to alleged infringement of copyright said to subsist in the claimant's folding bicycle. In its judgment, the CJEU held that functional objects could in principle be protected by copyright, subject to their meeting the requirements set out in *Cofemel*.

The defendant in the *WaterRower* case argued unsuccessfully that the *WaterRower* would also fail to qualify for copyright protection if EU principles were applied. The Deputy Judge concluded:

It is clear to me that the WaterRower is an original object ... It is also clear to me that the WaterRower is an expression of Mr Duke's intellectual creation. Neither seems to me to be in doubt.

The *Brompton* judgment offered the defendant little assistance because it simply confirms that functional objects such as a folding bike or perhaps a rowing machine can in principle be protected by copyright if they meet the *Cofemel* criteria.

The defendant's attempt to strike out the claim therefore failed. The Deputy Judge did not find that the *WaterRower* was a WOAC or that it met the *Cofemel* criteria. He did, however, find that the claimant had a realistic prospect of establishing either or both of those things at trial.

Resolving the inconsistencies between UK and EU law

We have highlighted above one key area of tension between UK and EU law, namely the additional criteria required for a work to be protected by copyright as a WOAC over and above the *Cofemel* criteria.

There is a further area of tension, which is that the UK's copyright legislation provides a closed list of categories which a work must fall within in order for it to be protected by copyright (for example, a literary work, an artistic work, a sound recording etc.), each of which has varying requirements. It is very difficult to reconcile that closed list of tightly defined categories with the judgment in *Cofemel* which suggests that only two requirements are permissible: being original and identifiable.

It is somewhat surprising that these inconsistencies remain unresolved. The *Cofemel* judgment is now over three years old, yet the UK courts have so far avoided having to properly grapple with its consequences. We consider there to be two main reasons for the continuing uncertainty. The first is that few copyright cases reach trial, and even fewer do so with the subject matter being a functional item. Second, when a court has had an opportunity to resolve the uncertainty, there has been a reluctance to do so. In *Response Clothing*, for example, the judge avoided deciding whether *Cofemel* or *Hensher* was the correct test by deciding that because the work in question did have aesthetic appeal and so was

protected under the more onerous UK criteria, there was no need to reconcile the EU copyright law position. Although permission to appeal was granted in that case, the defendant went into administration before the appeal could take place. The opportunity for the Court of Appeal to have a say was therefore lost.

Using similar reasoning, because the Deputy Judge decided that the copyright claims under both UK and EU law were not bound to fail, it was not necessary for him to reach a conclusion on the differing approaches, and he could allow the case to proceed to further consideration by the trial judge.

This riding of two horses cannot continue forever. As the Deputy Judge remarked in this case, the interaction between UK law and *Cofemel* is an area of law which "need[s] to be resolved at some stage, by Parliament or the higher courts."

If the *WaterRower* dispute reaches trial then we may at least see a judge grapple with the issue, although it is of course possible (and in our view, quite likely) that any judge will instead cover both bases by giving a judgment which seeks to satisfy both UK and EU law. We would then hope for an appeal to the Court of Appeal, a court which is able to depart from EU retained law in certain circumstances and so may feel more comfortable seeking to resolve the dilemma.

It is difficult to confidently predict whether the Court of Appeal may one day prefer *Cofemel* or *Hensher*. In other areas of copyright law, such as the interpretation of the "communication to the public" right, the Court of Appeal has been very reluctant to depart from established principles of EU law.⁷ Communication to the public is not, however, an area in which there is any real tension between the UK and EU approaches, and so it is not comparable to the *Cofemel/Hensher* inconsistency. Adopting the *Cofemel* approach, and departing from the UK's closed lists, would be a radical departure from the UK legislation. It might therefore be an area in which the courts would consider it appropriate to depart from EU law unless Parliament unexpectedly intervenes beforehand.

1 *George Hensher Ltd v Restawile Upholstery (Lancs) Ltd* [1976] AC 64.

2 *Response Clothing* [2020] EWHC 148 (IPEC).

3 *Lucasfilm Ltd v Ainsworth*, [2008] EWHC 1878 (Ch).

4 *Cofemel - Sociedade de Vestuário SA v G-Star Raw CV*, C683/17.

5 *Cofemel - Sociedade de Vestuário SA v G-Star Raw CV*, C683/17,[30].

6 *Brompton Bicycle Ltd v Chedech/Get2Get*, C-833/18.

7 *Tuneln v Warner Music* [2021] EWCA Civ 441.

FRANCE

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The use of French language in French trade marks: recent cases

French is a widely spoken language around the world, but still it remains in a fierce competition with other languages, English in particular.

Most practitioners are familiar with the existing framework in Quebec, Canada – namely the Law No. 101 which notably prevents the use of English terms in trade marks. Well-known American trade marks such as “KFC” (“Kentucky Fried Chicken”) or “Happy Meal” are under an obligation to be translated in French (“PFK: Poulet Frit du Kentucky”, “Joyeux Festin”). Similar obligations apply to movie titles.

Such a defensive framework aiming at protecting the French language in a mostly English-speaking area (i.e. North America) has also inspired French regulations adopted throughout the years. In 1994, a French law known as the *Toubon law* was adopted and implemented so as to strengthen the protection of French in various areas of the economy or daily life.

In particular, the law provided for the requirement of any contract entered into in France to be written in French. However, such a requirement was considered as contrary to the constitutional requirement of freedom of communication and was thus quashed by the Constitutional Council. Other important provisions included the requirement to have all messages or notices accompanying a product written in French. Those were ruled to be constitutional.

The law also provides for a ban on public entities (or entities providing a public service) to use a trade mark constituted by foreign expressions or terms. However, the ban applies insofar as the expressions or terms used in the trade mark have the same meaning as equivalent French words approved by the Commission for French language.

Prima facie, this provision puts a heavy burden on the public entities and seems to prevent them from using any sort of English or foreign terms in a given trade mark.

The cases that were recently submitted to the scrutiny of the Paris Administrative Court concerned the trade marks “Choose France”, “La French Tech” and “Next 40” which were filed and used by the French State.² An association filed in the Administrative Court an injunction prohibiting the use of such trade marks as it considered that the English terms used in those trade marks had an obvious French

equivalent and were therefore prohibited terms under the *Toubon law*.

The motion was denied by the Court in a judgment handed down on 6 October 2022 on the ground that the terms “choose” and “tech” had no equivalent determined by the Commission for French language.

This ruling appears to be contrary to the clear intent of the legislator to limit the use of English terms by the French authorities. However, the decision is in line with a recent trend adopted by the Administrative Courts to narrow as much as possible the effects of the *Toubon law*.

In another case submitted this time to the higher Administrative Court, the Council of State,³ it was ruled that the trade mark “Let’s Grau”, aimed at promoting the Grau du Roi city in the South of France, was also valid since it was a play on words for which no French equivalent could be found.

Other recent decisions considered that the *Toubon law* provisions applied to activities strictly related to the public service on offer. For instance, the banking services of the French Post can freely use English terms for their banking offers, while the regular mail services are considered to be a public service with no possibility of using such foreign terms.

It must be stressed that apart from those provisions, there are no requirements in France to use French words in a given trade mark, as there is in Quebec. There only exists a translation requirement for the communications that apply to a given product or service, which does not apply to the trade mark per se. A translation requirement might also exist should the trade mark composed of English terms be perceived by the public as a slogan.

This general trend from the French authorities aligns with the mood of the times (“dans l’air du temps” in proper French) but it does not appear to be consistent with the objectives of the law that are to protect French language against the English language invasion, in particular when the terms used have obvious equivalents in daily language.

The French principle of non-cumulation of liabilities does not apply in IP claims

Amongst the French civil law’s core principles lies the principle of non-cumulation of liabilities which prohibits a claimant from relying on tort law against its contractual debtor. Strictly applied to IP infringement claims, the principle would oblige an IP right-holder – having contractually agreed to the use of its right – to only rely on contractual liability rules instead of an IP infringement claim (e.g. should a licensor want to have a French Court rule that its licensee infringed its IP right by exceeding the licence

granted). The application of such a restrictive principle has been strongly debated before courts.

In the wake of recent European case law, the French Cassation Court, in its ruling of 5 October 2022,⁴ seems to have put an end to those debates. It ruled that even when the cause of an infringement of an IP right results from a contractual breach, an infringement action remains possible alongside contractual liability. This solution aims also at favouring a more efficient enforcement of IP rights.

The facts that led to this decision are as follows. A French company, Entr’ouvert, designed and distributed a software named “Lasso” under a free licence or a commercial licence in return for the payment of royalties. Following a call for tenders by the French State for the creation of an online portal, the telecommunications company Orange provided an IT solution including a software platform integrating the “Lasso” software.

Considering that such provision of its software was in breach of the clauses of its free licence, Entr’ouvert sued Orange for copyright infringement and unfair competition.

The Paris Court of Appeal⁵ upheld the claims for unfair competition but declared inadmissible the infringement claim on the basis of the principle of non-cumulation of liability since the infringement of copyright resulted from the breach of a clause in a licence agreement. According to the appellate judges, the breach of the clause was only covered by a contractual liability action.

However, the first civil chamber of the French Cassation Court quashed the appellate decision by ruling that the principle of non-cumulation of liabilities was not applicable.

The Cassation Court provided a very detailed reasoning, notably based on the grounds of Directive 2004/48/EC of the European Directive of 29 April 2004 on the enforcement of intellectual property rights (“Directive 2004/48/EC”).

First, the Court recalled that the violation of the copyright of the author of a software program constitutes an act of infringement under article L. 335-2, §2 of the French Intellectual Property Code (“FIPC”).

Secondly, based on several articles of Directive 2004/48/EC, the Court found that member states have to ensure that some specific remedies are offered to claimants, such as:

- seeking and obtaining prompt and effective provisional measures to preserve the relevant evidence (Article 7),
- assessing damages by taking into account all relevant matters (or alternatively lump-sum damages).

Thirdly, based on Article 1 of European Directive 2009/24/EC of 23 April 2009 on the legal protection of computer

programs (“Directive 2009/24/EC”), the Court reaffirmed that member states must protect computer programs by copyright. The Court then reminded, based on a preliminary ruling by the Court of Justice of the European Union, that the breach of a clause of a software licence agreement relating to IP rights shall be treated as an “infringement of intellectual property rights” within the meaning of Directive 2004/48/EC.⁶

The Court noted that under French law, only the special regime of tort liability for infringement under the FIPC offers such “guarantees”, in particular the measures for preserving evidence and the monetary compensation mechanisms specific to IP infringements such as lump-sum damages.

Therefore, the French Cassation concluded that, in the event of copyright infringement, the copyright owner does not benefit from the guarantees provided for by the 2004 and 2009 Directives if it solely acts on the basis of contractual liability and is consequently entitled to bring an infringement action. Thus, even when the event giving rise to an infringement of an IP right results from a contractual breach, an infringement action is possible. It is probable that this solution should be extended for other type of IP rights such as patents or trade marks.

1 This contribution reflects the personal views of the authors and should not be attributed to the authors’ firm or to any of its present and future clients.

2 Paris Administrative Court, Section 6, 3rd Chamber, 6 October 2022, n° 2001586 and n°2000013.

3 Council of State, case n°435372, 22 July 2020.

4 French Cassation Court, 5 October 2022, No 21-15.386

5 Paris Court of Appeal, 19 March 2021, No 19/17.493

6 CJEU, 5th ch., 18 December 2019, Case C-666/18, *IT Development SAS v. Free Mobile SAS* §30.

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