



ADVISORY COUNCIL ON INDUSTRIAL PROPERTY

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**Response to the Intellectual Property and  
Competition Review Interim Report**

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**May 2000**

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## 1 Introduction

The Advisory Council on Industrial Property (ACIP) notes with interest the Interim Report produced by the Intellectual Property & Competition Review Committee. While we support the committee's views on many of the issues raised, we have concern with several matters. ACIP offers the following comment on matters specifically relating to industrial property.

## 2 Parallel Importation - Trade marks (p.25)

As a result, the Committee believes that the Trade Marks Act should be amended so as to ensure that the assignment provisions are not used to circumvent the intent to allow the parallel importation of legitimately trade marked goods.

While ACIP notes that assigning a trade mark from the principal to a distributor can potentially be used to circumvent the intent of allowing parallel importation, we do not know of any instances where this manoeuvre has been completely successful. Such an assignment may raise doubts as to the validity of the registration of the trade mark so that few trade mark owners are prepared to expose their trade marks to this risk. Other reasons against these type of assignments is that there are the complications of raising taxation issues associated with an asset of considerable value changing hands. There are also risks associated with losing control of the trade mark.

The committee does not spell out precisely what amendments it has in mind. We see a danger that restrictions on assignment for this purpose could impose an unnecessary collateral burden on assignments generally. Accordingly, and in view of the fact that this type of assignment of trade marks is not likely to be used widely for this purpose in the future, we do not see that there is a problem of such magnitude that it needs to be addressed in the legislation. Consequently, ACIP recommends against amending Trade Marks Act in the manner proposed by the committee.

## 3 Section 51(3) of the Trade Practices Act (p.36)

The Committee proposes that intellectual property rights continue to be accorded special treatment under the Trade Practices Act.

In reaching this view, the Committee places considerable emphasis on the reforms to the parallel importation provisions that it has set out above. In particular, the Committee believes that these reforms, by increasing the exposure to competition of IP rights holders, materially reduce the risk that intellectual property rights will be used to anti-competitive effect. As a result, exempting provisions – such as those effected under Part IIIA and Part XIC of the Trade Practices Act, and by means of the recommendations the Committee is advancing in respect of s.51(3) – have lower costs, and higher net benefits to the community, than would otherwise be the case.

The Committee therefore emphasises that these recommendations need to be viewed as a whole if their effects on efficiency and competition are to be properly gauged.

ACIP supports the committee's view that intellectual property rights continue to be accorded special treatment under the Trade Practices Act. We also endorse the committee's view that it is "desirable that firms have the scope to enter into efficient contracts that involve intellectual property rights, free of onerous and ultimately counter-productive regulatory burdens."

However, we have two concerns about the committee's suggested approach to this matter. Firstly, while we consider that the current provisions could be better worded, we are not aware of any major problems that have resulted from s51(3). Therefore we are concerned that the committee is attempting to solve a problem which we do not think exists. ACIP requests that the committee provide examples of where the section has been applied to produce an anti-competitive result.

Secondly, the solution being suggested by the IPCR would not appear to achieve the aim of not having regulatory burdens placed on IP right owners. ACIP believes that the suggested alternative would in fact impose an onerous burden because it would create a climate of uncertainty for licensees and investors as to whether their proposed arrangements could lead to a restriction on competition. In almost all cases, therefore, due diligence would demand submission of the proposed arrangements to the Australian Competition and Consumer Commission for authorisation or clearance should the committee's suggestion in this regard be adopted. ACIP considers persons should be able to exploit their intellectual property rights provided that such exploitation does not result in restrictions beyond those which are inherent in the grant of the intellectual property right per-se.

In conclusion, ACIP believes that section 51(3) of the *Trade Practices Act 1974* is not being abused and should be retained. We would, however, like to see the provision amended to remove some of the ambiguities such as the time at which the provisions are to be applied. The underlying policy should merely be to ensure that contractual provisions are not used to expand the exclusive rights comprised in intellectual property rights.

## 4 Patents

### 4.1 Manner of Manufacture (p.41)

As a general matter, the Committee accepts that reliance on an open-textured standard, such as that currently used to define the bounds of 'manner of new manufacture', can impose costs as compared to a more prescriptive approach based on the detailed formulation of *ex ante* rules. In particular, *ex ante* rules can reduce uncertainty as to eligibility, and hence may reduce the need for scrutiny in individual instances.

However, it is also clear, both from general principle and from the European experience, that formulating such *ex ante* rules entails high direct costs. Even more importantly, it can create significant error costs associated with the rules' under- or over-inclusiveness. These errors can have substantial consequences for efficiency and competition, as under-inclusiveness may erode the incentive for innovation (and hence for that uniquely effective form of competition that innovation provides), while over-inclusiveness will grant exclusive privileges where they are not warranted.

Given this trade-off, the Committee believes that Australia has on the whole benefited from the adaptiveness and flexibility that has characterised the manner of 'new manufacture' standard. As a result, the Committee believes that the current test should be retained.

ACIP supports the committee's view.

#### 4.2 *Exclusions from Manner of Manufacture (p.44)*

The Committee believes that mere discoveries - that is, the identification and specification of the nature, structure and properties of matter - should continue to be excluded from the class of patentable subject matter. The Committee considers that this principle should exclude from the scope of patent protection the mere identification of a gene sequence, much as it would preclude the granting of a patent over, say, Mendel's law. The Committee does not believe that this should be ensured through industry or technology specific statutory provisions; rather, the general principle underpinning the scope of patentability should be sufficiently clear to guide administrative practice and judicial decision in a way that ensures this outcome. The Committee is attracted by the approach suggested by the USPTO in its revised interim utility guidelines. The Committee particularly invites comment on this issue and the implications of including utility guidelines along the lines of those being considered by the USPTO as a requirement for patentability. Were such a requirement included, it would seem desirable for it to form part of the examination criteria; the Committee consequently also invites comments on the scope for and desirability of including such a criterion in the examination process.

ACIP supports moves to raise the overall standard of examination. We believe that all grounds upon which a patent may be deemed invalid should be matters which can be considered at the examination stage. Presently the Act does not allow for the Patent Office to examine a patent application for utility. Consequently, ACIP recommends that the Patents Act be amended to allow for examination of applications for utility. We also endorse the committee's proposal that IP Australia adopt guidelines along the lines of those used by the USPTO.

#### 4.3 *Inventiveness and obviousness (p.46)*

The Committee believes that the prior art base for obviousness should include information anywhere in the world which a person skilled in the art could reasonably be expected to find, ascertain and regard as relevant.

The Committee also believes that, when considering inventive step, there is a strong argument that it should be permissible to combine two or more documents or parts of documents, different parts of the same documents or other pieces of prior art. However, such combination should only be permitted where it would have been obvious to the person skilled in the art.

Adopting both these measures would make the height of the inventive step test in Australia comparable to that in the US and Europe. By doing so, it would reduce the risk that patents would be granted to, and competition excluded from, applications that lacked substantial originality. As a result, there would be less risk that patents would be granted when the gains from doing so fell short of the social costs.

ACIP supports the committee's view subject to the following qualification.

ACIP agrees that information in documentary form published anywhere in the world should be considered, but information by reasons of use only (undocumented) should be restricted to use in Australia. We believe that including information by reason of use only would put an unnecessary burden on Australian users as this type of information is extremely difficult to discover.

ACIP would like it to be clear that common general knowledge should be that in the art and not restricted to that in a particular country, eg, Australia. This would reflect the general practice overseas. Continuing with the current restriction to the art in Australia is not in Australia's best interest. Applicants should not be able to obtain a patent in Australia when they cannot obtain a patent in other jurisdictions, purely because of this restriction.

#### *4.4 Innovation Patent (p.47)*

This Committee supports the recommendations of the ACIP Review of Petty Patents on the innovation patent. It strongly urges the Government to expeditiously introduce the relevant changes to the Patents Act so as to encourage innovation in Australia, particularly among SMEs. The Committee believes the innovation patent will become even more necessary if the Committee's proposals for higher thresholds for the standard patent are implemented.

ACIP supports the committee's view.

#### *4.5 Patent Act Preamble - objectives of the act (p.48)*

The Committee believes that the existing evolutionary case-law path of the patent system has generally served Australia well and therefore recommends its major features be retained. However, the Committee believes that the preamble to the Patent Act should have a statement that more clearly sets out the objectives being pursued by the legislation. This objective could then help guide the interpretation and implementation of the Act at both the administrative and judicial level. The Committee invites comments on this recommendation and on the broad form such a statement of objective could take.

ACIP believes that with the history and interpretation of the patents legislation over the years, a preamble to the Act is unnecessary, and would add another level of complexity which may lead to confusion.

#### *4.6 Stringency tests (p.52)*

The Committee is inclined to recommend changing the Act to require a 'balance of probabilities' approach to be used during examination rather than using the 'benefit of the doubt' to the applicant. While there may be some increase in costs due to more protracted arguments between applicants and examiners, these are likely to be small and to be reduced as each side becomes more familiar with the new stringency of testing. The benefits in terms of improved certainty and validity are likely to be considerable.

ACIP supports the committee's view. However, we would like to stress any such change should only relate to questions of novelty and obviousness. In relation to determining what is patentable subject matter, the benefit of doubt approach should still apply.

#### 4.7 Possible rationalising examination within the Asia Pacific region (p.52)

The Committee believes that IP Australia should continue to explore co-operation with other intellectual property offices in the region, including the possibility of forming a Patent Office covering East Asia, Australia, New Zealand and the Pacific States so as to obtain the economies of scale and scope, thereby enhancing quality and reducing the cost of examination.

ACIP supports the concept of IP Australia exploring opportunities for co-operation with other offices, particularly with those in the region. Such moves, however, must not be at the expense of full and proper examination or a reduced access by Australian business to that system.

We would like the committee to be aware that in our report on *IP Australia's International Strategy*, ACIP suggested that IP Australia continue in its engagement in the region through technical assistance, education, the provision of expert services and the development of strategic alliances. We also note that recently the Australian government signed a co-operation agreement with WIPO for assistance to the Asia Pacific region.

#### 4.8 PCT route (p.52)

The Committee is considering recommending that all Australian applicants have the right to use other International Searching Authorities for entry into the PCT route. This would increase competition to IP Australia and give Australian applicants greater choice.

ACIP recommended in its report *IP Australia's International Strategy* that IP Australia should aim to establish itself as a leading provider of IP rights in the world. To achieve this, IP Australia would have to be competitive with other searching authorities. ACIP supports the opening up of competition in this area. However, ACIP believes it is important for Australia that it has an effective patent office in order for Australia to retain its influence within the world IP community. This is an important element in ensuring that the international IP system benefit Australians. Consequently, ACIP believes that IP Australia must position itself to ensure that it retains its skill levels, otherwise it will fail to meet the demands of competition and will be by-passed for other offices.

#### 4.9 Disclosure of prior art (p.53)

This Committee believes that the Act should be amended to require an applicant to disclose to IP Australia any prior art material that has come to the applicant's attention up until the date of advertisement of notice of acceptance.

While ACIP supports the committee's view in principle, we would prefer the more specific wording as recommended in the *ACIP Review of the Enforcement of Industrial Property Rights* ie:

*Amend the Act to require an applicant, or where the applicant is a corporation, a person employed by that applicant who is at the relevant time, concerned with the preparation or prosecution of the application, to disclose to IP Australia any prior art material that has come to their attention in the course of preparing or prosecuting the patent application, and in any corresponding patent application in other countries.*

#### 4.10 Hearings function (p.55)

The Committee is of the tentative view that hearings should continue to be pre-grant and be the responsibility of IP Australia. On this basis, a specialist hearings section would not be established but there would be a senior officer directly responsible to the Director-General for hearings, with hearings officers continuing to be drawn from senior examination staff of the Patents Office. However, the Committee would particularly welcome submissions on this and other options such as a Patent Tribunal independent of IP Australia, and whether such hearings should be pre- or post-grant. Such submissions should have regard to the costs/benefits of the proposals as well as considering any interactions with the totality of the patent system.

ACIP supports the retention of pre-grant opposition. While ACIP can see some merit in post grant opposition, it was clear from our consultation as part of the review of enforcement of patents that industry strongly supported retaining pre-grant opposition.

On the matter of the hearings function, we do not support the establishment of an independent Patent Tribunal on the grounds that it may add to the complexity of the system in terms of costs and administrative burden. A tribunal located outside of IP Australia may also experience difficulties in attracting members with the necessary skills and knowledge. It would also be unlikely that it could draw on the technical expertise of certain areas of examination to supplement its own resources as readily as a body which is part of IP Australia.

We consider that it is appropriate for the hearings function to remain within IP Australia, provided that it is independent from the examination and administration areas. There should be an appeals board drawn from senior and experienced officers from within IP Australia, but with a degree of separation from and independence of the administrative functions of the office. The board should be free to call upon the expertise within the examination areas but should also be free from direction from the office administration concerning decisions on matters before it.

We repeat recommendation No. 9 of the *ACIP Review of the Enforcement of Industrial Property Rights*:

*Establish an appeal board within IP Australia which reports directly to the Director General of IP Australia, to replace the current hearings function, with the Director General having the same powers that the Commissioner of Patents currently has.*

From our consultations in developing our report on enforcement, there seemed to be universal support from industry and professional organisations for an appeal board within IP Australia. We also note that boards similar to that proposed operate successfully in a number of other countries, including the EPO, the USPTO and the JPO.

#### 4.11 *Presumption of validity* (p.56)

If its recommendations to increase the inventive threshold height, to change the “benefit of the doubt” to “balance of probabilities” during examination, and to change the hearings mechanism are accepted, the Committee believes that the Patents Act should be amended to ensure the onus is on the opponent to prove the invalidity of a patent once granted.

ACIP supports the committee's view to require the opponent to prove invalidity. We believe this will reinforce a presumption of validity.

#### 4.12 *Federal Magistracy* (p.57)

Although it is unlikely to be feasible in the immediate future, the Committee is of the view that the Government should keep open the option of using the Federal Magistracy as a lower court for the patent system, particularly for matters relating to the Innovation Patent.

ACIP supports to concept of a federal magistracy that can hear less complex intellectual property matters.

#### 4.13 *Fair basis*

One area that the committee has not examined is the matter of fair basis and the interpretation of specifications by the courts. ACIP considers that this is an area which is causing great concern and uncertainty within industry. Over recent times the courts have found a number of patents to be invalid for technical reasons based on a restricted interpretation of the specification rather than whether as a matter of substance, the invention was novel and not obvious at the claimed priority date. We consider that continuation of this trend could lead to the patent system being as ineffective as the current designs system.

In order to overcome this trend, we would refer the committee to recommendations No. 5 and 7 of the *ACIP Review of the Enforcement of Industrial Property Rights*:

5. *In order to correct the tendency in a number of recent decisions by the courts to overly restrict the permissible ambit of claims, replace the ‘fairly based’ provisions in section 40 of the Act and the relevant regulations with provisions along the lines of s14(c) of the UK 1977 Patents Act. The amendment should clearly express that the claims are not to be confined by a particular disclosure, but may extend to all legitimate expressions of the concept of the invention disclosed.*

7. *Encourage the Federal Court to promote further specialisation of IP judges, with initiatives including: specialist judges sitting interstate where there is not a*

*specialist judge in that registry; and programs to assist specialist judges keep up to date with international trends.*

## **5 Designs (p.89)**

The Committee holds the view that priority should be given to the early progress of legislation for the Designs (Visual Features) Act and the Innovation Patent.

The Committee reserves its view on whether further modifications to the legislation should be recommended or an additional form of protection should be introduced to address the claimed 'gap'. The Committee invites evidence that this perceived 'gap' leads to significant social costs in terms of reduced or lost innovation or competition.

ACIP supports the committee's view that priority should be given to introducing legislation for a new designs system and for the innovation patent.

ACIP also believes that the new designs system, coupled with the innovation patent should close the perceived gap. ACIP recommends waiting to see both pieces of legislation in use to ensure that they work as intended before any further action is taken in this area.

On a more practical issue than the perceived gap, ACIP notes with concern the effect of decisions of the Federal Court on the question of what constitutes a registerable design in relation to essentially functional features. The effect of this has been that industrial articles have been held unregistrable and therefore, the artistic works to which they correspond have been outside the ambit of s77 of the Copyright Act. This results in the design having a substantially longer term of protection under copyright (life of the author plus 50 years), rather than the 16 years afforded under the Designs Act. This situation makes it difficult to ascertain precisely what is protected and would appear to circumvent the public policy of making designs part of the public domain which can be used once the registration ceases.

A further anomalous situation occurs when a design is within the ambit of s77 of the Copyright Act. While it would no longer be an infringement to produce the article after the registration expires, it would be an infringement of copyright to photograph or make drawings of the article. Therefore, it is almost impossible for others to promote and market that article once the design registration has expired while there is still copyright protection.

The issue of registration of designs incorporating features which serve a functional purpose has been addressed by the Australian Law Reform Commission (ALRC) in its review into the designs law. The government has accepted the ALRC's recommendations in this area. ACIP once again endorses the committee's suggestion that the matter be progressed as a matter of urgency.

## 5.1 *Spare parts* (p.91)

The Committee recognises that new design legislation is in progress and supports both its aim and its early release. At this stage, the Committee does not believe further modifications are needed, notably with respect to the issue of spare parts.

The Committee believes the new design legislation should be given a reasonable time to take effect and then its impact should be monitored.

ACIP supports the committee's view.

## 6 Trade Marks

### 6.1 *Disclaimers* (p.93)

The Committee is not inclined to lightly set aside the concerns that have been expressed about the removal of the mandatory disclaimer powers. However, little empirical evidence that supports these concerns has been presented. The Committee therefore holds the view that, in the absence of evidence, it is inclined to recommend that the current position remain unaltered.

ACIP strongly disagrees with the view of the committee on this issue.

ACIP is concerned that current practice of not requiring an applicant to disclaim non-distinctive elements of a trade mark can cause confusion for both trade mark owners and other parties. When descriptive material is included as part of a trade mark, neither party can be certain about what is actually protected and what other parties can use without infringing the registered mark. The uncertainty as to what is actually included in the registration can extend the potential scope of the monopoly, which could be seen as anti competitive.

ACIP believes that the uncertainty as to what the registered mark covers outweighs the savings passed on to the trade mark owner by the current examination practices.

To support our conclusion, we include at appendix A examples of trade marks which incorporate descriptive matter which under the 1955 Act included disclaimers. Also at appendix B is an example of a fictitious trade mark that uses descriptive material. This example, which would most likely be registerable under the current provisions, would not need to include any limitations as to what parts of the mark were exclusive - such as the word PREMIUM.

### 6.2 *Domain names* (p.95)

The Committee endorses the views expressed in these submissions and urges the Government to use international fora, particularly WIPO and ICANN, to continue to find solutions to these issues. In particular, it urges the Government to speedily adopt the model dispute resolution procedures developed by WIPO and ICANN. It believes that there must be close co-ordination between the relevant Government departments, including IP Australia, National Office of the Information Economy and Attorney-General's, to resolve these issues in Australia.

ACIP supports the committee's view. We believe that Australia should ensure that it actively participates in relevant international discussions to ensure that valid trade mark rights are not prejudiced.

On a more specific matter, we would like to see the ICANN procedures apply to all commercial domain names.

ACIP agrees that introducing a generic top level .TM domain name for trade marks is unnecessary. We do not see that domain names are an appropriate mechanism for protecting trade marks as that is specifically what the trade mark system is for. Introduction of a .TM domain would have the effect of increasing the number of areas in which trade mark owners need to protect their name. It would also not prevent third parties from using a registered trade mark in other domains such as .com domains.

## **7 Patents Act**

### *7.1 Dissemination of patent information (p.96)*

The Committee believes that IP Australia should contribute to the greatest extent possible to the availability of high quality databases of prior art, including by publishing as much of its search material as possible on the Internet. This would facilitate applicants being aware of prior art. It would also facilitate diffusion of technical knowledge within the Australian community, thereby promoting innovation and competition.

ACIP supports the committee's view.

### *7.2 Section 119 (p.97)*

The Committee is considering recommending that the ambiguities of Section 119 be removed so as to provide effective protection to a party with prior user rights from an infringement action. The Committee would welcome comments on this option, as well as the alternative, which existed under Section 110 of the Patents Act 1952, where prior secret use was a separate ground to invalidate a patent.

ACIP supports, in principle, the committee's view that s119 be amended to remove ambiguities.

The absence of clear rights to assign or licence technology under s119 has the effect of making the section almost worthless for research bodies, who do not usually commercialise technology. We accept that it is difficult to find a balance, particularly between research institutions located within Australia, and persons who have been the first to file for that technology.

ACIP believes that this is a complex matter and requires further examination. We suggest that the IPCR recommend that the matter be the subject of a separate review. We also add that ACIP would be prepared to conduct such a review.



**Examples of trade marks containing disclaimers.**

The following three examples show trade marks which were registered under the Trade Marks Act 1955, and contained endorsements disclaiming descriptive and non-exclusive elements of the trade mark.

**Example 1**



Endorsements: Registration of this trade mark shall give no right to the exclusive use of the numeral 10 and the words PREMIUM MILK CHOCOLATE\*

It is a condition of the registration that the blank space(s) in the mark shall, when the mark is in use, be vacant, or occupied only by matter which is wholly descriptive or has no trade mark significance in relation to the goods in respect of which the mark is registered\*

The preceding endorsement(s) were recorded prior to commencement of the Trade Marks Act 1995.\*

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**Example 2**



Endorsements: Registration of this trade mark shall give no right to the exclusive use of the word PERSONNEL and the letter P\*

Registration of this trade mark shall be limited to the State of Victoria\*

The preceding endorsement(s) were recorded prior to commencement of the Trade Marks Act 1995.\*

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### Example 3



(Registration of this Trade Mark shall give no right to the exclusive use of the device of a castle or of the words "Superior Quality", except as contained in the Mark.)

PROPRIETOR 23 MAY 1981

**156843**

Endorsements: Registration shall give no right to the exclusive use of the device of a castle or the words "Superior Quality" except as contained in the Mark.

Registered pursuant to the provisions of Section 109 as of 31 August 1959 being the date the application was made in CZECHOSLOVAKIA\*

The preceding endorsement(s) were recorded prior to commencement of the Trade Marks Act 1995.\*

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***Example of Trade Mark containing descriptive material***

The example below is of a fictitious trade mark, which under current provisions, would not require an endorsement to disclaim non exclusive elements of the trade mark.

