Intellectual Property & Competition Review Committee

INTERIM REPORT

May 2000

TELSTRA CORPORATION LIMITED

Mitchell Landrigan
Manager Competition Policy
Telstra Corporation Limited
Level 11
231 Elizabeth Street
Sydney NSW 2000

Jane Perrier
Deputy IP Counsel
Legal & Regulatory
Telstra Corporation Limited
Level 38
242 Exhibition Street
Melbourne VIC 3000

EXECUTIVE SUMMARY

Section 51(3) Trade Practices Act - Exemptions

- Telstra is opposed to the National Competition Council's ("**NCC**") recommendations to amend section 51(3) of the Trade Practices Act to remove protection of price and quantity restrictions and horizontal agreements.
- Telstra is very concerned that the Committee's proposals on section 51(3) do not adequately reflect the Committee's policy conclusions and will greatly reduce the incentives IP seeks to generate. The Committee's proposals are likely to result in an obligation to license IP and lead, in effect, to the establishment of an administrative clearance regime.
- Telstra supports the retention of section 51(3) of the Trade Practices Act 1974, with amendments to clarify the ambiguities elucidated in the submission prepared by the Australian Government Solicitor.

Part IIIA and Part XIC of the Trade Practices Act - Access Regime

- Telstra supports the Committee's decision not to adopt the Australian Competition & Consumer Commission's ("**ACCC**") recommendation to repeal the limitations in respect of IP in sections 44B and 152AL(6) of the Trade Practices Act.
- Telstra would be very concerned by a proposal to subject IP to an access regime as the Committee appears to suggest on page 36 of the Interim Report. Telstra would support repeal of section 144 of the Patents Act.

Copyright Amendment (Digital Agenda) Bill - Caching

- The Copyright Amendment (Digital Agenda) Bill as currently drafted, or with the amendments proposed by the Legal and Constitution Affairs Committee, will not promote the efficient operation of networked environments. An exception needs to be included for "caching" and "hosting" activities as, in the absence of an express exception, there is a very high risk that such activities will be infringements of copyright.

Trade Marks Act - Disclaimers

- Telstra submits that efficient market operation and business efficacy require the restoration of mandatory disclaimers to the trade mark system. While this would result in increased costs at the examination stage, these are far outweighed by the benefits including the costs incurred by business in the absence of disclaimers.

Section 119 Patents Act - Prior User Rights

- Telstra agrees with the Committee that the wording of section 119 of the Patents Act is highly ambiguous.
- Telstra submits that the Committee should recommend amending section 119 to provide effective protection to a party with prior user rights from an infringement action. Resolution of the issues may require, however, further consultation.

INTRODUCTION

Telstra is pleased to provide its response to the Intellectual Property & Competition Review Committee ("**Committee**") Interim Report dated April 2000.

Telstra maintains its support for the views outlined in its previous submissions (December 1999 and January 2000), but does not repeat them here in order to avoid repetition. The comments below are addressed specifically in response to the Committee's Interim Report.

1 Section 51(3) Trade Practices Act - Exemptions

IP and its assignment and licensing play an important role in promoting competition and consumer welfare and section 51(3) plays an important role in promoting these objectives.

Telstra welcomes the Report's recognition that "intellectual property has important features that differentiate it, to a greater or lesser extent, from other property or assets". Telstra also welcomes the Report's recognition that:

"owners of intellectual property rights should not be prevented from doing through contracts with others what, had they been larger or more extensively integrated, they could have done for themselves. At the same time, the Committee does not believe that intellectual property rights should be used as a means of securing market power that goes beyond that granted by the intellectual property right itself."

Consequently, Telstra welcomes and supports the Committee's belief that:

"the proposals adopted by the NCC [do not] fully address its concerns…that adoption of the NCC's proposals would amount to a repeal of the section. By eliminating protection that the Committee believes is desirable, such a move would impose unnecessary costs on the innovation process": p 34, Interim Report.

The Committee has expressed a desire that:

"firms have the scope to enter into efficient contracts that involve intellectual property rights, free of onerous and ultimately counter-productive regulatory burdens": p34, Interim Report.

Telstra accepts this broad objective and agrees that IP owners should not be able to extend the scope of rights granted by IP statutes. Telstra is very concerned, however, that the Committee's proposals do not adequately reflect the Committee's conclusions and will greatly reduce incentives to invest in the products of intellectual property as the Committee's recommendation to expose all IP contracts and all IP-related conditions in contracts to the competition test is inconsistent with these goals.

Committee recommendations

The result of the Committee's recommendations will be that an analysis of its effect on competition will need to be undertaken for all contracts relating to IP. This will

be fraught with difficulties and is likely to result in many unobjectionable agreements becoming subject to administrative clearances through the authorisation process.

First, the competition test proposed by the Committee will dramatically reduce the scope of the rights granted by IP statutes. For example, as a reward to the creator, and as an incentive to invest in and to create the invention, registration of a patent grants exclusive rights to the patentee to exploit the patent. If the patentee refuses to grant a licence to any other party this is clearly within his or her exclusive rights as granted by the Patents Act. The act of refusal, however, would clearly be caught by the Committee's recommendation that *"the imposing of conditions in a licence… should also clearly mean the refusal by the owner of an intellectual property right to enter into a licence"*: p 35, Interim Report.

One likely interpretation of this recommendation is that any refusal to license must fail the competition test as, given, the nature of IP rights, there does not appear to be any criteria to distinguish one IP owner's refusal to license from another's. Either all refusals to license must fail the competition test or all must pass and, clearly, the latter cannot be the outcome as it would render the adoption of the competition test meaningless. The only other way this recommendation could operate (and it is not at all clear how the proposal could be interpreted this way) would be to prevent any IP owner who has market power from refusing to license. That would create a severe disincentive for any IP owner with market power (including anyone that obtains market power as a result of successful innovation) to invest in innovation.[1] Either of these results would be absurd; nullifying the IP legislation.

This example highlights how inappropriate it is to replace the purpose-based test in section 46 with an effects-based, competition test. The Hilmer Inquiry considered whether section 46 should be extended from anti-competitive "purposes" to target "effects" and rejected any need or desire for such a change: p 70-72, Hilmer Report.

That is, the Committee's recommendations appear to remove an important safeguard built into section 46. To establish that a corporation has "taken advantage of" its market power, it must be demonstrated that the firm has acted in a way made possible only by the absence of competitive constraints.[2] In addition, the power must be used for a proscribed purpose. Accordingly, and as applied to the present context, if a firm uses its IP in a way that is not inconsistent with the way a notional competitive firm (otherwise in the same conditions) would use its IP, there can be no breach of section 46. The Committee's proposal to replace this with an "effects" or competition test must mean that a consideration of the way a notionally competitive firm would behave would no longer be relevant.[3]

---

1 Indeed, there will be a very high risk that anyone who successfully innovates will be found to have market power and, as a result, a duty to license.

2 *Queensland Wire Industries Pty Ltd v. Broken Hill Proprietary Limited* (1989) 167 CLR 177; *TCNZ v. Clear Communications* [1995] 1 NZLR 385.

3 See for example Chan *Cuong Su v. Direct Flights (No 2)* (1999) ATPR 41-677 at 42,665 and note Treasury's submission to Hilmer rejecting the proposal precisely because it would include within the prohibition "legitimate competitive actions which have no predatory intent".

Telstra submits, however, that nothing has changed since the Hilmer Report to alter its conclusions on this point. To do otherwise would mean that those with market power would be penalised merely for its possession and deterred from competing vigorously.

This is only one example, but many of the conditions which are in danger of being seen as anti-competitive are an important means of securing the incentives which IP rights are intended to achieve. As stated above, this effectively nullifies the rights granted by the IP statutes.

Telstra submits that this is not the outcome the Committee intends. Indeed, the Committee notes "*the term 'substantial lessening of competition' is to be interpreted in a manner consistent with the case law under the Trade Practices Act more generally*": p 35, Interim Report. Telstra is very concerned that this will not happen.

As noted above, the Committee's recommendation on refusals to license is inconsistent with the recommendation.

Further, for the "note" to have any possibility of being implemented, it would be necessary to replicate in each intellectual property statute many of the provisions in the Trade Practices Act such as the definitions of market, substantiality etc. In addition, there is a considerable danger that removing the provisions from the Trade Practices Act and placing them in the individual intellectual property statutes will result in much more narrowly defined markets in any event. As an instrument of regulation of the general economy, cases under the Trade Practices Act are necessarily informed by principles of general application. The context of intellectual property statutes, however, is individual rights such as a patent, copyright or trade mark and consequently there will be a strong tendency to focus on individual patents, copyrights or trade marks as the units of "measurement", not properly defined economic markets.

The danger is exacerbated by the Report's own recommendations. We have already commented on the implications of the Committee's recommendation on refusals to license above. In addition, Telstra submits that there is a very high likelihood that the Report's recommendations on parallel imports will result in each intellectual property right constituting a separate market in itself. This necessarily follows as the Report's conclusions about the anti-competitive nature of copyright markets are in stark contradiction to the *Broderbund* case which applied general principles under the Trade Practices Act to conclude that the copyright owner did not have market power and did not contravene sections 45 or 47.[4] This concern is greatly reinforced by the Report's close linkage of the two sets of conclusions.

[4] (1991) 22 IPR 215. In this connection, Telstra notes that the Prices Surveillance Authority's recommendations on parallel imports were in part based on its view that copyright in individual titles gave copyright owners market power (see e.g. *Inquiry into the Prices of Books: Final Report*, 17 and *Inquiry into Prices of Computer Software: Final Report*, 36) and the view that amendment of the Copyright Act was necessary because the existing tests under the Trade Practices Act would not lead to this conclusion.

Secondly, the Committee's proposals will give rise to a serious timing issue. A condition in a licence which may not substantially lessen competition at the time of entering the contract, may, due to market fluctuations, substantially lessen competition during the term of the contract. Thus, even an extensive analysis provided prior to execution will not protect a licensor if the market conditions later change. Continual monitoring in this regard would be unduly burdensome and exorbitantly expensive and the results may force renegotiation of important parts of a deal after the balance of power has shifted.

Telstra notes the Committee's stated view that this should not be a concern if an appropriately *ex ante* perspective is adopted. Telstra agrees that these questions *should* be assessed *ex ante* but, for the reasons already discussed, the Committee's own recommendations will preclude this. As the Committee will be aware, historically there have been very few appeals or court challenges to regulators' decisions in competition related areas. Moreover, the case law furnishes important instances where the courts have failed to take an *ex ante* approach even under the existing regime.[5]

Telstra's concerns in this respect are reinforced by the NCC's analysis which, despite its profession of a dynamic or *ex ante* perspective, will provide a fruitful basis for challenging many longstanding, unobjectionable licensing practices.

Thirdly, the Committee has recommended that *"the ACCC should be required to issue guidelines... to clarify the types of behaviour that are likely to result in a substantial lessening of competition"*: p 35, Interim Report. The Committee has also expressed its belief, however, that it is not appropriate to follow the EU approach of block exemptions. Telstra agrees that it is inappropriate to adopt the EU model in Australia. With respect, however, Telstra submits that ACCC guidelines would lead to many of the negative effects of block exemptions, only with less certainty.

One consequence of the Committee's recommendations would be that all transactions involving IP will need to be subjected to a competition analysis. The competition analysis will place an extra hurdle on parties seeking to enter IP contracts. Increases in the costs of such transactions leads to a reduction in incentives for both licensors and licensees. Importantly, the additional costs are disproportionate to the perceived benefit of subjecting IP contracts to a competition test.

In view of the complexity of the issues raised by the interaction of intellectual property rights and competition law and the major uncertainties which the fundamental changes proposed by the Committee would introduce, Telstra considers that even with ACCC guidelines it will be extremely difficult for licensors and licensees to determine whether a breach is likely and therefore whether to seek authorisation.

---

[5] See eg, *Mark Lyons Pty Ltd v. Bursill Sportsgear Pty Ltd* (1987) 75 ALR 581 and *Melway Publishing v. Robert Hicks Pty Ltd* (1999) 169 ALR 554. Both cases clearly involve conduct which was unobjectionable from an *ex ante* perspective, but condemned once successful. See for example, the comments of Heerey J (dissenting) in *Melway* at paragraphs 18, 19 and 22.

Contractors would be required to keep licence conditions strictly within the ACCC guidelines or risk being in breach of the Trade Practices Act. In this way the guidelines would operate like the block exemptions. In addition, as they would not in fact be exemptions, but only guidelines, contractors could find themselves having breached the Trade Practices Act despite fitting within the guidelines.

In order to avoid any risk of breach (and subsequent litigation) the licensor and licensee would need to choose between not entering the licence at all and going to the time, expense and risks of seeking authorisation. If parties seek authorisation, they will afford regulators considerable power to interfere with commercial transactions after bargaining power has shifted.

Alternatively, if the risk of breach is accepted, licensors and licensees will be left in the unsatisfactory position of being unable to predict with any certainty the likely outcome should a dispute arise in relation to a particular condition, thus limiting the efficacy of their negotiations and undermining the certainty of contracts.

Consequently, Telstra is greatly concerned that the Committee's proposals will effectively result in establishing a regime of administrative clearances for contracts involving IP.

Amendment of Section 51(3)

Telstra submits that in general, IP licence conditions are pro-competitive and that this is the reason why courts in the USA and Australia and the Parliament in adopting section 51(3) have sought to limit the direct application of competition laws to the exploitation of IP rights.

Telstra is not aware of any evidence that suggests there is an intrinsic problem with section 51(3), other than drafting criticisms that could be improved; it is not inherently anti-competitive as suggested by the NCC. Telstra submits that the Committee's own conclusions set out above recognise that the NCC has not provided sufficient evidence to justify the repeal of section 51(3). Further, Telstra submits that the appropriate balance is already achieved in the IP statutes themselves in conjunction with the operation of section 46 of the TPA. For example, mechanisms to limit IP rights where it is desirable exist in each of the IP statutes, including the fair dealing provisions in the Copyright Act and the compulsory licence provisions in the Patents Act.

Telstra understands that there is a dearth of judicial interpretation regarding section 51(3) and that the Australian Government Solicitor ("**AGS**") has provided advice highlighting some difficulties associated with the wording of the exemption. Further, Telstra appreciates that *"while [the Committee] considers the present s.51(3) unsatisfactory, it remains open to further options being put"*: p 35, Interim Report.

To this end, Telstra's favoured option is for the retention of section 51(3), with amendments to remove any inconsistencies, clarify any ambiguities and improve the effectiveness of its operation.

For example, the exemption's inconsistent application to different forms of intellectual property rights has been criticised. As suggested by the NCC, one means of addressing this criticism would be to amend the exemption so that it covers all forms of intellectual property rights consistently. In particular, rights under the Plant Breeder's Rights Act should be brought within the scope of section 51(3) and by reflecting the changes wrought by the repeal of the Trade Marks Act 1995 in the terms of section 51(3).

2 Part IIIA and Part XIC of the Trade Practices Act - Access Regime

Telstra welcomes the Committee's recognition that:

"the design of Part IIIA and Part XIC seem poorly suited to handle intellectual property rights, as these rights do not fit easily into the "facility" and "service" concepts which underpin those sections of the Trade Practices Act": p 36 Interim Report.

Consequently, Telstra supports the Committee's decision not to adopt the Australian Competition & Consumer Commission's ("**ACCC**") recommendation to repeal the limitations in respect of IP in sections 44B and 152AL(6) of the Trade Practices Act.

It is not clear to Telstra, however, whether or not the Committee is proposing as access regime for IP (over and above the statutory licence the Committee's recommendations under section 51(3) would impose).[6] Telstra would be strongly opposed to the introduction of an access regime for IP as it would seriously undermine the incentives which IP is intended to generate..

- The introduction of such a regime will substantially lower the threshold at which third parties can seek access to IP. First, commentators have raised serious and legitimate concerns that the legislated criteria for determining whether or not a facility is "essential" will be triggered at levels much lower than the degree of market power required to trigger section 46 of the Trade Practices Act. Secondly, access can be sought regardless of any anti-competitive purpose in a refusal to license the IP.

- Regulators are notorious for underestimating the level of risks undertaken from an *ex ante* point of view and the level of incentive for investment in further development.

- No convincing need for such a regime has been demonstrated at all.

Competition policy and IP statutes are both designed to foster investment in new and better ways of doing things. An access regime, however, removes that incentive. First movers would be expected to incur all the risks of innovation, but would lose the potential returns of success which is the prospect held out by IP laws. Second and subsequent movers would not incur any risk that they will be excluded from enjoying any new technology. This is the antithesis of competition.

---

6 On page 36, for example, the Committee states that it sees "merit in having provisions that can provide for third party access to IP rights…"

Moreover, second and subsequent movers would have no incentive to develop new and better ways of doing things by "inventing around" existing technology, one of the key spurs to new investment the IP system is intended to create.[7]

Telstra notes the reference in the Interim Report to "relevant provisions" in the IP statutes. Telstra submits that section 144 of the Patents Act 1990 is based on an outmoded leveraging theory, is inconsistent in its operation and should be repealed as the tying concerns it is intended to address are more appropriately dealt with under the Trade Practices Act.

3 Copyright Amendment (Digital Agenda) Bill - Caching

Telstra welcomes the Committee's recognition that:

"at least at present (1) caching appears to be of considerable significance to the efficiency of the Internet; and (2) the transactions costs an ISP might incur in securing licenses to cache could be prohibitive"

and agrees that:

"there is a role for policy to play in ensuring that an efficiency-enhancing activity is not stymied": p 83 Interim Report.

As noted in the Issues Paper, amongst other things, caching is economically efficient: it reduces waiting time and bandwidth requirements, hence greater efficiency in the utilisation of finite network resources and reduced costs. In addition, it provides important benefits to Internet users and to the development of e-commerce in Australia.

For the reasons set out in our first submission, Telstra agrees with the Committee's view that caching is unlikely to fall within the "temporary reproductions" exception that is presently included in the Copyright Amendment (Digital Agenda) Bill ("**Digital Agenda Bill**"). Consequently, the Digital Agenda Bill as currently drafted will not promote the efficient operation of networked environments.

Telstra notes the Committee's suggestion that *"economic imperatives driving the process of proxy caching may be removed by technological solutions"*: p 83 Interim Report. While this may be true at some point in the future, it is not the case now nor will it be so in the foreseeable future. Consequently, the enactment of the Digital Agenda Bill without appropriate exemptions will leave ISPs vulnerable to action for copyright infringement. It is unrealistic to think that copyright owners will not pursue infringement, particularly given the widespread opinion that caching is an exercise of the reproduction right for copyright purposes and the appeal of the "deep pockets" of the likely defendants.

Therefore, an exception needs to be included for "caching" and "hosting" activities.

For the reasons set out in its December 1999 submission, Telstra does not believe the proposals of the Legal and Constitution of Affairs Committee are workable.

---

[7] Eg, US v. Studiengesellschaft Kohle 670 F 2d 1122 (9th Cir 1981).

Telstra acknowledges the Attorney General's Department's preference that the Digital Agenda Bill be technology-neutral and the Committee's request for options which minimise the amount of technical detail built into the copyright legislation.

First, Telstra reiterates the basic point that, unless an exemption is enacted, the efficient use of network resources will be exposed to copyright challenge.

Secondly, some degree of complexity is necessary to balance the legitimate concerns of copyright owners and ISPs (although, as outlined in Telstra's first submission, Telstra understands that, notwithstanding the concerns of copyright owners set out on p 81 of the Interim Report, copyright owners do have considerable technical means (a) to control whether or not their sites are "cached" and (b) to ensure that "hit" information and page refreshing etc. is not interfered with).

Thirdly, the USA has enacted legislation to implement these exceptions and the form of the EU directive has now passed all substantive stages of the EU legislative process.[8] The proposals put forward by Telstra in its December 1999 submission were designed to draw on the common elements of these in a way which addressed copyright owners' legitimate concerns. Telstra submits that those proposals remain the clearest way forward.

An option the Committee may wish to consider recommending is that the legislation be amended to provide an exception for caching, provided that it is conducted in accordance with industry codes. Industry codes could then provide the means to accommodate the technical detail. While industry codes can provide scope for flexibility, Telstra would be concerned if the benefit of the exemption could be delayed by inordinate negotiations over the precise content of the code. Consequently, Telstra submits that the legislation must specify the basic principles and allow scope for industry codes to develop these in accordance with changing technology.

4 Trade Marks Act - Disclaimers

Telstra submits that efficient market operation and business efficacy require the restoration of mandatory disclaimers to the trade mark system.

Telstra is surprised by the Committee's call for evidence in order to accept the need for the reintroduction of mandatory disclaimers. First, it is not called for in other areas of the Interim Report (in particular, the Committee recommends the repeal of section 51(3) of the Trade Practices Act without any evidence to suggest that it currently operates to extend rights of IP owners beyond that granted by IP statutes). Secondly, the time frame in which responses to the Interim Report must be submitted and the likelihood that the illustration of real examples may breach confidentiality make the deliverance of "proof" somewhat difficult. Thirdly, the

---

[8] The European Parliament has approved the directive: see 'Electronic Commerce: Commission welcomes final adoptions (sic) of the legal framework,' 4 May 2000 at http://europa.eu.int/comm/internal_market/en/media/eleccomm/2k-442.htm. For the final form of the directive, see http://europa.eu.int/comm/internal_market/en/media/eleccomm/composen.pdf.

nature of the issue is such that it is difficult to quantify. In Telstra's experience, and that of its advisers, it is a very frequent problem.

Nonetheless, the following case law example and discussion of what occurs in practice should serve to highlight the unfortunate situation that currently exists.

As stated in Telstra's December 1999 submission, a trade mark must be *capable of* distinguishing to be registerable. Once registered, however, a registered trade mark is infringed if one or more of its essential features is taken. Registered trade marks may combine both distinctive elements and descriptive elements, with the descriptive element often taking equal or greater prominence than the distinctive element. Once registered, therefore, there is considerable scope for a largely descriptive element to constitute an essential feature. Without mandatory disclaimers even use of the descriptive element without the other distinctive element is a prima facie infringement of the trade mark.

Sports Café Ltd v Registrar of Trade Marks 42 IPR 551 provides a pertinent illustration of the unintended outcomes that arise due to the absence of disclaimers on the register. In that case, the appellant filed applications for the registration of two marks, one for the words "The Sports Café" and the other for a device with the same words. On the register was another trade mark which included the words "The Circuit Sports Café" in respect of similar services. The Full Court of the Federal Court refused the registration of the word mark on the ground that:

"The geometric device is the factor that makes the appellant's device mark unlikely to deceive. Take it away, and there is left only three words that are identical to three of the four words included in the cited mark. Those three words might be used in a manner that would cause confusion to someone who knew of the cited mark. We agree with Burchett J that the appellant's word mark is deceptively similar to the cited mark": at 559.

As the Full Court has pronounced The Sports Café to be deceptively similar to the Circuit device, the applicant would clearly be at high risk if it proceeded to use (or continued to use) the mark.

If the cited mark, "The Circuit Sports Café" included a disclaimer that the registration of the trade mark gave no exclusive right to the separate use of "the", "sports" and "café", these two businesses could legitimately coexist.

Telstra submits that, this result is clearly not in the public interest. It creates two major problems in practice.

First, competition will be enhanced by having clear, sound rights which are certain and predictable in their application. The lack of disclaimers creates an every day problem for traders in the market place, giving rise to considerable uncertainty and increased expenses. The uncertainty and increased costs arise in several ways. For example, in not knowing whether a new trade mark design which contains descriptive elements infringes the descriptive elements of a registered trade mark. Defending an infringement action could easily cost hundreds of thousands of dollars. The decision to abandon a "risky" trade mark, in order to avoid litigation is similarly expensive: paying for detailed trade mark searches; for the design of a

new logo; the creation of a new brand; the payment for legal advice; and the considerable commercial risk that must be taken in either case.

Second, it leads to the inappropriate extension of trade mark rights beyond that anticipated by the legislation. Not only should trade marks be subject to vigorous examination to be registered, but that protection should only be extended to rights that are deserving of that protection. Unfortunately, this is not currently being achieved because use of descriptive, non-distinctive elements of a trade mark may constitute an infringement. As a consequence, business and the public can be forced into stopping use of such descriptive material in the face of these risks.

Both problems identified could be solved by the reintroduction of mandatory disclaimers.

Telstra appreciates that the reintroduction of mandatory disclaimers may lead to some higher costs at the application stage both for applicants and administrators. This is in the public interest, however. Telstra's proposal to reintroduce mandatory disclaimers should not be dismissed because it will require additional administrative costs; for the benefits will clearly outweigh the additional administrative costs as the increases in examination costs is much smaller than the costs to business resulting from the absence of disclaimers.

Further, competition policy does not abandon reforms because they result in additional costs; competition policy seeks to find the most efficient position by weighing up the costs and the benefits. With the reintroduction of mandatory disclaimers, rights will not be granted improperly or with a greater scope than is justified, and the scope of the rights will be clear, predictable and certain. This provides a sound basis on which to make often risky investment decisions. IP owners will have much greater confidence in outcomes to base their investment decisions on as they will be less prone to the risks of courts invalidating their rights or limiting them in unexpected ways. Furthermore, potential competitors and the broader public are not constrained unduly and can more clearly assess what they can do legitimately without infringing. There is less scope for users being deterred from non-infringing activity by threats based on rights of uncertain scope. This promotes both certainty and reduces costs. Overall, efficiency in the market operations will clearly be improved if mandatory disclaimers are re-introduced into the examination system.

It is Telstra's understanding that US law in fact includes provision for mandatory disclaimers and conversations with US attorneys indicate that this provision is rigorously enforced.

5 Section 119 Patents Act - Prior User Rights

Telstra notes the concerns raised in the Interim Report regarding the ambiguity in the scope of protection offered by section 119 Patents Act.

Telstra agrees that section 119 is highly ambiguous, and that, if a strict or literal interpretation is taken, that it does not in fact give the intended protection. Telstra further agrees that the uncertainty surrounding its scope and *"this failure to protect a manufacturer can inhibit competition"*: p 96, Interim Report.

In particular, it is unclear whether section 119 extends to other aspects of "exploiting" a product or process including continued use of the product, sales of the product and the ability to license the product or process.

Clearly it is a very difficult provision. Commentators have taken the view that it should be interpreted broadly, yet, the wording is very narrow. Unlike the UK equivalent which permits a user to do an act **which would otherwise constitute an infringement**, section 119 exempts specifically the actions of making a product and using a process.

Telstra submits that the Committee recommend amending section 119 to provide effective protection to a party with prior user rights from an infringement action. Telstra is concerned, however, that implementing this proposal may involve complicated issues and is not in a position to assess whether or not all parties likely to be affected will have participated in the debate. Therefore, it may be necessary for further consultations to take place on this issue.

We would be happy to discuss these issues further with you as required. In particular, Telstra would be very happy to discuss further with the Committee any prospects for legislative wording it is considering. Please contact:

Mitchell Landrigan
Manager Competition Policy
Telstra Corporation Limited
Level 11
231 Elizabeth Street
Sydney NSW 2000

Jane Perrier
Deputy IP Counsel
Legal & Regulatory
Telstra Corporation Limited
Level 38
242 Exhibition Street
Melbourne VIC 3000