



**THE AUSTRALIAN FEDERATION OF INTELLECTUAL PROPERTY ATTORNEYS
FICPI AUSTRALIA**

12 June 2018

By Email

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Dear Andrew

RE: Hague Agreement Economic Analysis Report

We refer to the above referenced report by IP Australia and welcome the opportunity to make submissions on the findings outlined in this paper.

1. About FICPI Australia

FICPI Australia is an organisation whose members are all registered Patent Attorneys or registered Trade Marks Attorneys or registered Patent and Trade Marks Attorneys who have senior roles in Patent and Trade Marks Attorney firms conducting business in Australia.

2. Summary view

While FICPI Australia recognises that this economic analysis is intended to form only one part of the evidence base in relation to whether Australia should join The Hague Agreement, it is of the view that such analyses in relation to IP international compliance and reform, are not relevant and are inherently impossible to perform with any accuracy or confidence in the results. Indeed, had such analyses been undertaken in the past using the assumptions used in the subject analysis, those reports would not have supported accession to the Madrid Protocol or the PCT.

FICPI Australia is also of the view that where reports of this kind are produced based on incorrect assumptions which are fundamental to the final computations and conclusions, with no possibility of correction, such reports should be disregarded in their entirety.

Our primary concerns in relation to this particular report are summarised in general terms below, after which follows comments on benefits not considered in the report, including observations in response to various sub-sections of the report and a concluding comment.

3. Incorrect assumptions

3.1 An increased term from 10 to 15 years correlates directly to increased costs to Australia due to monopoly pricing

Conceding that there will likely remain a larger percentage of foreign owners of design rights in Australia, than local owners, the following facts are important

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and will clearly have a major influence on the figures and recommendations that have not been considered in the report.

3.11 Design monopoly rights are limited and not absolute

Unlike patents, design rights only protect a unique and individual appearance of a product. As such, they rarely operate to provide an exclusive product monopoly to the owner of those rights. In most instances, competitors can avoid design rights covering a product by creating an alternative visually distinct design applied to the same product type and which may perform the same function.

As such, even if design rights are the only IP relating to a given product, they do not and can not prevent competition in the form of similarly functioning products that have a distinctively different appearance. A design right is primarily used to dissuade exploitation of the direct copying of the visual appearance of a product, and that enables the owner to maintain a premium price for the product associated with a particular design, but unless the design is primarily functional, it will not prevent competitors offering alternatives that look different.

Accordingly, it is incorrect to assume that an increase in the term of a design right implies an increase in cost to local consumers. The ultimate state of play will depend, for example, on how much product competition is present in the market, the pricing of the competing products and the degree to which consumers elect to choose an alternative product, none of which can be predicted or modelled in any meaningful way. Therefore it cannot be assumed that there is a single reason for consumers to choose between functionally similar products that look different.

Furthermore, presently a low percentage of registered designs are renewed beyond the initial 5 year term. By increasing the maximum term from 10 to 15 years, one would similarly expect that an even lower proportion of designs would actually be renewed for the full 15 year term, and this would only occur for a limited subset of design registrations which turn out to be commercially successful over an extended period of time. In many instances the appearance and/or the product of the design will be protected not only by a design right, but likely also a trade mark and possibly also a longer term patent right.

In addressing concerns raised by IP Australia that proportionately more Australian design applications are filed by foreign entities than local entities, the introduction of grace period provisions should be considered as a means to promote more local design applicants to file. This is despite the likelihood that membership of another International filing and registration system will encourage overseas applicants to file into Australia.

3.12 Design rights often exist as an adjunct to related longer term and broader patent rights

Due to the fact that design rights are limited to appearance, and have a limited term in Australia, many applicants do not rely solely on this form of protection, but also file in parallel, with due timing considerations, for patent and trade mark rights to protect their products. Where this is the case, a potential increase in term from 10 to 15 years for a design right is clearly insignificant given that a patent for the functional aspect of the same product will provide broader protection for 20 to 21 years.

Where a product is protected by both a design right and a much broader patent right, it would make sense to attribute more of the estimated cost in the report as arising from the broad patent monopoly than the design right for the reasons set out above.

As there is no formal link between patent and design applications, the only way to determine how many design applications historically have had related patent rights, would be to conduct a detailed analysis of patent and design applications filed by the same applicant having the same or close priority dates, allowing for potential delays in filing patent applications in Australia via the PCT route for those design rights within the past 31 months. Even so, this may not be an accurate predictor of future ratios either.

Accordingly, as the report fails to give any consideration to the factors discussed above, it must be concluded that the figures relating to costs arising from an increase in term have in our view been grossly over estimated.

3.13 Increasing rate of change of design

A review of the consumer product markets in particular, such as relate to mobile phones, household devices and fashion items, average design life as it pertains to consumer influence, is clearly decreasing. This is especially so as manufacturers continuously seek to maximise profits by releasing new and improved versions of the same product, which make the earlier versions less valuable and/or less desirable. As such it is clearly possible that this trend will result in a decrease in the number of designs that are extended to full term. Again, this is potentially very relevant to the analysis, but not considered or quantified in the current report, acknowledging that in any event it is very difficult to measure and thus quantify.

Accordingly, as the report fails to give any consideration to the factors discussed briefly above, it can be concluded that the figures relating to costs to Australia arising from an increase in term to 15 years are not modelled on reasonable assumptions. Consequently the figures are very likely over-estimated and in our view grossly over-estimated.

4. Benefits omitted from consideration

4.1 Benefits

4.11 More time and flexibility for local applicants to obtain overseas protection

While few practitioners in Australia are fully conversant with the operation of the Hague system, the understanding is that the applicant needs to elect the designated countries (and pay the relevant fees) at the time of filing the Hague application, so the ability to delay making a decision regarding national protection, which is such a valuable advantage to the PCT system, is not available in the Hague system. However, it is our understanding that an application filed using the Hague system is likely to offer cost savings when compared to the filing of separate national applications, this being one of the attractive advantages of Madrid Trade Mark filing system. Further, in a streamlined and more harmonious filing requirement in the future, is the likelihood of the applicant avoiding additional (foreign agent and official) charges, if the application is in order for acceptance before each IP Office in the chosen territories.

Currently, design applications in Australia must be filed prior to public disclosure and commitments made to filing corresponding Convention applications within the following six months. As there is no grace period for design applications, the 6-month priority period provides a relatively short period for consideration of overseas rights. Commercially, it may be difficult to determine important foreign jurisdictions in such a short period. Therefore in the case of a Hague system filing despite its attendant costs and uncertainties associated with current filing requirements, any process to keep the design filing options open for a longer period, or reduce the cost of securing protection in multiple jurisdictions would be welcome to Australian applicants.

Another benefit concerns the possible deferment of publication, which can be deferred for up to 30 months depending on the designated countries, likely allowing Australian applicants to file overseas more widely and with more confidence, than compared with current options.

The Hague Agreement also offers centralised ownership transfer and payment of annuities through WIPO which provides cost savings for Australian applicants.

4.12 Hague benefits to Australians to increase with time

It is our understanding that the Hague system in its current form is far from ideal, due to the lack of harmonization of formalities requirements at filing. This means that advisors need to be aware of, and provide consideration for, different drawing requirements and file only one version

in the application for use in multiple countries of interest. This process inherently increases costs and may restrict filing into those many countries into which it is not possible to remedy such defects post filing. This explains in part why the Hague system is not used as extensively as is the case with similar systems such as Madrid and the PCT, which have their own harmonisation issues but not as critical as those known to befall the current inconsistency amongst Hague member territories.

However, given the flexibility of Australian filing formalities with respect to drawing requirements, Australia is better placed than other existing countries to cope with the different national drawing requirements who do not have the same flexibility with drawing requirements governing their own design systems. This combined with the likelihood that more and more countries, including some very significant countries, will join the system in the near future, it is reasonable to expect that this significant shortfall in useability will be addressed expeditiously and allow potential benefits to Australian applicants to be more readily realised.

5. Comments on specific aspects of the report

5.1 Australians can already access the Hague System

Very few local Australian clients meet the requirements to file through the Hague system, and the current shortfalls in the system increase filing preparation costs which offset the potential cost savings of using the system. The perceived ease with which Australian countries can currently circumvent the national restrictions associated with filing a Hague application by establishing a foreign corporate presence are quite misplaced when the costs associated with creating the elaborate corporate structure and attendant legal instruments required to maintain control are factored in. Therefore, we consider that this observation should be given little or no weight.

5.2 Non-residents file more designs in Australia than Australians file abroad

FICPI Australia agrees that when China and New Zealand join the Hague Agreement, it will further benefit Australian designers as those countries are Australia's top two filing destinations. Therefore it would be likely that the number of overseas applications filed by Australians would increase and counter the current imbalance to some extent.

5.3 Australian designers will have to avoid more design rights

While the comments made in the report regarding additional search costs may be relevant, it must still be remembered that designers need not only avoid prior design registrations, they have the much higher hurdle of avoiding prior patents which are both more pervasive/broader in scope than designs and generally more prevalent for products which are not solely aesthetic.

Furthermore, the available information indicates that a majority of Hague Agreement applicants pursue optional immediate publication, which occurs shortly after lodgement, because it provides provisional rights, similar to having a published patent application. In contrast, most regular national design applications, such as US design patents, are not published until after grant, which can be several years after lodgement.

Accordingly, anecdotal evidence suggests that in general, users of the design system will typically have a better idea of infringement risks and competitor behaviour when their competitor uses the Hague Agreement as compared with separate national applications.

6 Concluding remarks

FICPI Australia appreciates the huge amount of work that has gone into the analysis, but is of the view that the majority of the key assumptions are incorrect, and as such the report has limited value.


FICPI Australia believes that the Hague system has potential to provide benefits to local applicants once the issues identified in the current Hague system have been addressed, which is more likely to occur with the entry into the system of major Australian trading partners and other countries influential in the IP arena.

FICPI Australia urges the relevant Australian authority to actively engage with the Canadian IP Office and the relevant bodies in Canada, to learn more about the decision process used to justify their likely accession to the Hague Agreement in early 2019, since there are significant similarities with Australia and their respective IP systems and economic situation.

FICPI Australia encourages IP Australia to reinvigorate discussions concerning the DLT, which will provide benefits that flow over to the Hague system. In this regard we understand that in recent trade agreement discussions with the UK, it was suggested that consideration is being given to increasing the maximum Australian design term to 25 years which FICPI would support. Other harmonization measures, as always, need to be considered on a case by case basis.

In the meantime FICPI Australia reiterates its support for an increase in the maximum Design registration term, irrespective of whether Australia joins Hague or not, as it would be in the interests of Australian design rights holders. The increased maximum Design registration period will better align with the conditions that are offered by countries that have significant trade with Australia. We refer to our comments above which support the position that this move will not result in an increased cost to Australians. The way in which the registered Design system is used by our clients, now and in the future, will always be determined in good part by the market and the ever increasing rate of change in design thinking.

Yours sincerely

A handwritten signature in black ink, appearing to read 'W.G. McFarlane', with a long horizontal line extending to the right.

W.G. (Bill) McFarlane
Secretary
FICPI Australia