

8 June 2018

IP Australia  
Discovery House  
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ACT 2606

**By email only**  
*consultation@ipAustralia.gov.au*

Dear Sirs

**Re:** Response to IP Australia Public Consultation:  
Hague Agreement Cost-Benefit Analysis

**Background**

We refer to the paper “The Hague Agreement Concerning the international Registration of Industrial Designs: A cost-benefit analysis for Australia” released in March 2018 by IP Australia. The paper was prepared following a recommendation to conduct such an analysis by the Productivity Commission (PC) in its report entitled *Intellectual Property Arrangements* dated 23 September 2016, in which it adopted the former Advisory Council on Intellectual Property (ACIP) position (set out in ACIP’s *Review of the Designs System*, Final Report, March 2015) that Australia should not join the Hague Agreement (“Hague”) until a cost-benefit analysis had been conducted. ACIP’s report also emphasized that greater harmonization with international treaties and practice in design protection would be positive both for users of the designs system and governments administering the designs system.

We make the following submissions in response to the issues raised in the cost-benefit analysis and in particular comment on the methodology and assumptions of the economic analysis on which the report relies, and address other impacts and benefits of joining the Hague Agreement.

**About IPTA**

The Institute of Patent and Trade Mark Attorneys of Australia (IPTA) is a voluntary organization representing registered patent attorneys, registered trade marks attorneys and student members in the process of qualifying for registration as a patent or trade marks attorney in Australia. The membership of IPTA includes over 87% of registered patent attorneys located in Australia and it is believed that its members make up more than 90% of registered patent attorneys in active practice in Australia. The membership of IPTA includes registered patent attorneys in private practice as well as patent attorneys working in industry, universities, research institutes and others that practice as barristers. IPTA members represent large local and foreign corporations, SMEs, universities, research institutes and individual inventors.

IPTA members work with local clients to assist them in developing strategies for protecting and enforcing their intellectual property rights including Registered Designs in Australia and overseas, and also represent overseas individuals and companies in their efforts to obtain and enforce their intellectual property rights in Australia.

### **Overview**

The conclusion reached by the economic analysis that the costs of joining Hague outweigh the benefits is overwhelmingly based on a finding that there would be significant costs to Australian consumers if the term of a Registered Design (Design) was increased from 10 years to 15 years. While other factors are addressed in the report, their economic effects are largely *de minimis* compared with the costs that are estimated to be incurred by increasing the term of a Registered Design. IPTA strongly disagrees with the analysis of costs resulting from the increase in term, and believes that the costs are vastly overstated. It appears to IPTA that the nature of the monopoly provided by a Registered Design is not properly understood in the economic analysis, and that the majority of the assumptions made therein are simply assumptions with no real basis in reality.

### **Costs of joining Hague resulting from an increase in term**

These costs are addressed in chapter 6 of the report. The chapter focuses mainly on the extra net profit earned by foreign design owners, on which it is admitted that there is no reliable data. A survey of data relating to Australian designers filing in Australia is used as a proxy.

In IPTA's view there are three critical flaws in the analysis. The first results from a failure to understand the nature of a Registered Design, the second results from the interaction of Designs with other IP rights, and the third in the calculation of profit margins.

A Registered Design merely protects the appearance of a product. It does not protect functional features of the product. The monopoly does not in fact provide a "*certain monopoly power*" as suggested by the economic analysis (page 39 2<sup>nd</sup> full para). The appearance may be the shape and configuration of the product or the pattern or ornamentation applied to the product. Only a product which is the same as the Registered Design or substantially similar in overall impression to the Registered Design would infringe the Registered Design. A Registered Design is not a monopoly on a product *per se*, just on the appearance of the product. There are relatively few current Registered Designs currently in force in Australia. According to IPTA's calculations, the number of in force Registered Designs totals approximately 60,000. The number of products available for sale in Australia is difficult to estimate. However it is noted that, according to a recent article in The Financial Review, Amazon Australia alone offers approximately 60 million products for sale. Amazon's US website which from July 2018 will not be accessible to Australian consumers offers over 400 million. It is clear therefore that the vast majority of products on the market in Australia are not protected by a Registered Design and only a miniscule fraction of less than 0.1% are protected by Registered Designs.

Hence the pricing power provided by a registered design is clearly somewhat limited, and in almost all cases it will be possible for a customer to purchase a competing product which is not subject to a Registered Design. The economic analysis appears to fail to account for this "substitution effect".

So a customer seeking to buy e.g. a sofa may choose to buy one from a manufacturer/retailer that is covered by a current Registered Design, perhaps an earlier design from the same manufacturer that is no longer subject to a Registered Design, or one from another manufacturer/retailer that is not protected by a Registered Design. The Registered Design does not provide the owner with a certain monopoly over the sale of sofas, only their specific designs, if registered. This in IPTA's view, a Registered Design *per se* does not significantly limit competition in the marketplace.

### **Related IP and Alternative Protection**

In paragraph 6.1 the report refers to the existence of alternative protection mechanisms for design protection in certain circumstances referring to shape trade marks (which can be renewed in perpetuity) and copyright which has very long duration but does not apply when industrially applied. For a number of reasons, shape trade marks are not generally useful in protecting new designs, since the shape of the product is not usually functioning as a trade mark so the analysis unsurprisingly notes that few designers are relying on (3D) trade mark protection.

However the analysis overlooks a very critical aspect of design protection and that is its use in conjunction with other IP rights, all of which have a longer duration particularly patents (up to 20 years) and trade marks which are perpetual, if renewed. For example a complex product such as a smart phone is likely to be protected by patents, designs and trade marks. Registered Designs are often only one piece of a complex jigsaw of IP protecting a product. When the Registered Design for e.g. the shape of a particular smart phone expires, it is very likely that the product would still be protected by patents and trade marks so any suggestion that the price may drop when the Registered Design expires is questionable. Regardless of patent protection, almost all products sold in Australia are sold under a trade mark which is a perpetual monopoly. So even where a Registered Design expires, a customer can be expected to pay a premium for a genuine branded product from the original manufacturer rather than a copy. In other words, the premium paid for a product that is covered by a Registered Design may be sustained more in the trade mark and branding protecting the product, than the Registered Design.

### **Average profit rate of 20%**

The report (page 39 3<sup>rd</sup> para) assumes “*an average moderate net profit rate of 20% due to its certain monopoly market power*”. According to footnote 126 the “average Australian industry profit margin 2014-2015 was 13.8% with professional services profit margins averaging 25.7%. This paper selects a 20% midpoint as representing a reasonable estimate for annual profit rates of firms using design rights”.

IPTA cannot understand the basis for that assumption. Registered Designs cover products not services. Professional service firms sell services not products. There is no logic or economic basis for selecting the midpoint of 20% between those two figures. It would be more logical to adopt the 13.8% industry average for products.

It appears that the report then assumes that the 20% profit margin is some form of super profit resulting from the monopoly provided by the Registered Design. The logic appears flawed. A business making products whether they are protected by IP or not has to have a profit margin in order to be economically viable. The report appears to assume that when the Registered Design expires, the 20% margin will immediately change to zero. That does not appear to be logical as the manufacturer still needs to make a profit to stay in business and cannot sell product at zero margin. There is no evidence to show that there would be any change in margin when the Registered Design expires and if there is a change it cannot be one that eliminates the manufacturer's profit margin entirely.

If the 20% margin is used in the analysis because it is being assumed that the customer is paying 20% more than they would otherwise, if there was competition, then that argument again fails because a competitor putting a copy of the product with a zero profit margin would quickly go out of business, leaving an absence of competition.

The cost of registered design to the Australian consumer would be the additional margin over and above what a non-protected product could be sold for. There is no evidence in the report to establish what that figure might be.

Further as explained above, that additional margin is so tied up with other IP such as trade marks, it would be almost impossible to quantify accurately what percentage of that additional margin, if any, could be the result of having the Registered Design.

#### **Australians cannot readily access the Hague system**

There is a suggestion in the executive summary and in section 2.1 of the report, that Australian applicants can already access Hague e.g. through the use of subsidiaries based in countries which are members of Hague. This is at best optimistic as IPTA's understanding is that those Hague design applications could not be filed by the Australian applicant's local Australian attorneys who would be entrusted with coordinating and handling their IP but would have to be filed by attorneys based in a Hague country. This would increase complexity and costs. More significantly the majority of Australian applicants do not have subsidiaries domiciled in Hague countries and even if they did, many Australian companies have overarching IP strategies in which their IP will be held by specific companies for tax and other business purposes and a "back door" Hague application using an overseas subsidiary is unlikely to satisfy that strategy.

The report goes on to note that, somewhat unsurprisingly, this "existing route" is rarely used. The report makes suggestions that lack of awareness or lack of desirability may be reasons for this, however IPTA believes that the reasons set out in the paragraph above are more likely, and that if Australia were to join Hague, use of the Hague system would increase, as of course would awareness of the Hague system once it is properly made available to Australian applicants.

#### **Filing by non-residents**

The finding that the costs of joining the Hague Agreement outweigh the benefits is also based on the observation that non-residents file almost three times as many designs in Australia as Australian residents file overseas, and that the extra margins from those sales go overseas and therefore are a negative.

As set out above, IPTA strongly disagrees that there are large extra margins as the "*certain monopoly power*" referred to in the economic analysis is not at all certain, and the fact is that any design monopoly is likely to be supported by perpetual rights such as trade marks, which will not disappear when the Registered Design expires.

However it is noted that the PC report suggested the introduction of a grace period for designs. In IPTA's experience designs law is not always well understood by the design industry in Australia. In particular, the need to seek protection prior to a product launch or other publication of the design is not widely appreciated and IPTA believes that the introduction of a grace period will significantly increase filings by Australian applicants not only those who have inadvertently published their design but also those who successfully launch a product in the Australian market, and subsequently seek to protect it following a successful launch, expected or otherwise.

### **Australians Filing Overseas**

Sections 4 and 5 try to forecast the impacts of joining Hague in terms of the number of additional applications likely to be filed and the benefits of doing so. At least section 5.2 appears to be based on the assumption that at the time Australian applicants decide to file overseas, they have an idea of how much profit is likely to be made on selling the product overseas and applicants chose to file or not file based on that factor. That is not usually the case, as a decision on where to file overseas is made very early on, within six months of the initial Australian filing and it is usually far too early to establish where the product will sell well. Often the product will only have just reached the Australian market, if that. Trying to use limited sales, if any, over six months perhaps in limited territories to forecast worldwide sales over 10 to 25 years depending on the territory is not realistic. Filing decisions are typically made on the basis of where the Australian manufacturer makes sales or has existing distributors, where the Australian manufacturer wishes to expand sales to, and on the basis of budget, ease of enforcement of IP, location of competitors' manufacturing facilities and other factors. IPTA does not attempt to predict how many additional overseas design applications might be filed if Australia joins Hague, however, if the filing costs are reduced, and the addition of extra countries is an incremental additional cost, then IPTA's experience from joining the PCT and Madrid is that overseas designs filings by Australian applicants will increase.

### **Tipping Point**

In the conclusions (8.2) the economic analysis acknowledges that a "tipping point" may be reached when the benefits of joining Hague Agreement come to outweigh the costs, as more countries join the Hague Agreement, and notes that the People's Republic of China, Canada and Thailand are expected to join the Hague Agreement. IPTA notes that a number of Australia's major trading partners are already members of Hague and that Britain, the USA, Japan and Korea have all recently joined. Once China and Canada have joined, IPTA believes that the tipping point will have been reached.

### **Harmonisation Aspects and Additional International Benefits**

IPTA notes that designs law is not as harmonised as patent law and that many countries have different drawings requirements, and different requirements for written description, statements of novelty and monopoly and the like. Some countries conduct a substantive examination, some do not. While there are complications in using Hague because the signatories have differing requirements, increased harmonisation will reduce those issues and any reduction in complexity should reduce costs.

IPTA is strongly in favour of increasing harmonization and believes that Australia should support the process of design harmonisation generally. We note that section 5.6 of the report acknowledges that joining an international treaty such as Hague provides additional benefits that are difficult to quantify including providing increased choice for Australian business to access design protection overseas, providing a domestic IP system that is consistent with international norms and enabling IP Australia to participate more in shaping future international design developments. We are supportive of those views. IPTA is a supporter of the Designs Law Treaty and believes that by joining Hague, although Hague of itself does not harmonise substantive designs law, Australia will be better able to participate in and influence harmonisation of Designs law.

8 June 2018

**Timelines and Conclusion**

IPTA understands that even if a decision was made today to join Hague, the process of acceding to the Hague Agreement would take several years, possibly 4 to 5 years or more. IPTA notes that proposed amendments to *The Designs Act 2003* resulting from the recommendations of the PC report are likely to be drafted soon and that consultation in relation to proposals for reform to be included in a future *Intellectual Property Laws Amendment (A modern designs system) Bill* are anticipated to commence in 2018 or 2019. In the light of the long lead time before the Hague Agreement can be joined, IPTA considers that this would be an appropriate vehicle in which to canvas the additional changes necessary to join the Hague Agreement with a view to joining Hague in the near future.

Yours faithfully

FB Rice

A handwritten signature in blue ink, appearing to read 'J. Dobbin', is positioned below the typed name.

Jeremy Dobbin

The Institute of Patent & Trade Mark Attorneys of Australia

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