

4 June 2018

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Dear Mr Massey

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

1. The Intellectual Property Committee of the Law Council of Australia Business Law Section (**IPC**) makes this submission in response to IP Australia's public consultation paper *The Hague Agreement Concerning the International Registration of Industrial Designs (the Hague Agreement): A cost-benefit analysis for Australia (Economic Analysis)*. The Economic Analysis was prepared following a recommendation to conduct such an analysis by the Productivity Commission (**PC**) in its report entitled *Intellectual Property Arrangements* (Inquiry Report No. 78) dated 23 September 2016 (**PC Final Report**).
2. In its report entitled *Review of the Designs System* in March 2015 (**ACIP Report**), the Advisory Council on Intellectual Property (**ACIP**) recommended that Australia investigate the implications of joining the Hague Agreement. One of the reform proposals contained in the ACIP Report – the extension of the term of protection from 10 to 15 years – was contingent upon Australia deciding to join the Hague Agreement following that investigation. The Government's response to the ACIP Report stated that a number of other reform proposals should also be further considered in the context of that investigation.<sup>1</sup>
3. IP Australia has sought feedback on the methodology and assumptions of the Economic Analysis and also as to the unquantified impacts of joining the Hague Agreement. IP Australia indicates that the Economic Analysis forms "part of the evidence base in relation to whether Australia should join the Hague Agreement" (page 2) – that is, it is but one piece of the puzzle. The IPC welcomes the opportunity to provide feedback in that context.

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<sup>1</sup> Specifically, the recommendation that registered designs must be examined by the first renewal deadline (i.e. after 5 years) and the recommendation that a system of opposition following certification be introduced.

## Commentary on the Economic Analysis

4. The IPC makes the following comments in relation to the methodology and assumptions underlying the Economic Analysis.
5. The conclusion that the costs of joining the Hague Agreement outweigh the benefits is based principally on a finding that there would be significant costs to Australian consumers arising from an extension of term from 10 years to 15 years (as would be required to join the Hague Agreement). In turn, this finding is dependent on an observation that non-residents file almost three times as many designs in Australia as Australian residents file overseas.

### *Underestimating benefits and overestimating costs*

6. One key factor which is not accounted for in the Economic Analysis is that the ACIP Report identified a number of significant changes to Australia's designs law, some of which – in particular, the introduction of a grace period – could be expected to have a significant impact on local filings. The Economic Analysis is conducted without reference to the likely impact of these changes.
7. The experience of IPC members is that designs law is not 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. As the ACIP Report noted (at page 27):

*The main rationale for a grace period is to protect designers who through ignorance or inadvertence publish their design before seeking legal protection. In some cases it may enable a designer to test the commercial worth of a design for a limited time prior to submitting an application (for example, by showing prototypes at trade shows). Evidence from the survey conducted earlier in this review suggests that some loss of protection does occur through inadvertent disclosure. A grace period may be particularly important for SMEs who have less interaction with the IP system and may be less aware of the requirement not to disclose before filing.*

8. If anything, the experience of IPC members is that the ACIP Report findings underestimate the extent of the problem. As such, the introduction of a grace period could be expected to result in a material increase in local filings. While the lack of a grace period in Australia does not mean that protection could not be sought in overseas countries where there is a grace period, the practical reality is that designers will often not seek design protection at all if they cannot obtain protection in their local market.
9. Like the introduction of a grace period, an increase in the term of protection from 10 years to 15 years could reasonably be expected to increase local filings. This is recognised in the Economic Analysis, although the precise impact is not able to be quantified. Specifically, the Economic Analysis notes (at page 23) that "[t]here are a range of benefits which we have been unable to quantify at this stage" and that one of those benefits is "[a]dditional local designs only generated by the incentive of the longer term of protection of 15 years".

10. The IPC considers that the combined effect of the introduction of a grace period and an increased term of protection would be likely to result in a material increase in local filings, and it can be expected that this would also lead to an increase in overseas filings by Australian residents. While the IPC acknowledges that these impacts are difficult to quantify, they are to likely reduce the forecast costs and increase the forecast benefits associated with joining the Hague Agreement.

#### *Limited scope of protection afforded by registered designs*

11. It is also important to recognise the limited scope of a registered design right. A registered design protects aspects of the *appearance* of a product; it does not provide protection in relation to functional aspects. The forecast costs to Australian consumers in the Economic Analysis need to be seen in this context: an extended term of protection for a registered design does not inhibit (or impose a cost on) consumers purchasing a product which performs the same function as the design owner's commercial product, provided it is different in appearance. In that regard, it is also worth observing that recent Australian case law demonstrates that design infringement is difficult to prove.

#### **Reaching a tipping point**

12. The Economic Analysis acknowledges that a "tipping point" may be reached (when the benefits of joining the Hague Agreement come to outweigh the costs) as more countries join the Hague Agreement. The Economic Analysis notes (at page 3) that the People's Republic of China, Canada and Thailand are expected to join the Hague Agreement in the near future.
13. The IPC notes that, since the Economic Analysis was prepared, the United Kingdom has joined the Hague Agreement – following the recent accessions of the United States of America, Japan, and the Republic of Korea.
14. Given their recent accession, the full impact of the United States of America and Japan joining the Hague Agreement is yet to be felt.
15. The IPC considers that the strong indication that the People's Republic of China and Canada will join the Hague Agreement should be accepted as representing that tipping point, bearing in mind the time which it will take for the Hague Agreement obligations to be reflected in domestic law. The IPC notes that consultation in relation to proposals for reform to be included in a future Intellectual Property Laws Amendment (A modern designs system) Bill (Cth) is anticipated to commence in 2018 or 2019. The IPC assumes that this means that the Bill will not be introduced into Parliament until at least 2019. The IPC considers that this would be the appropriate vehicle in which to give effect to the changes necessary to join the Hague Agreement.
16. The IPC considers that this long lead time for the implementation of the Hague Agreement into domestic law, combined with the recent and announced accessions of a number of Australia's significant trading partners, are such that Australia should begin preparations to join the Hague Agreement.

#### **Additional factors to be considered**

17. The IPC considers that there a number of other factors which should also be considered and which support Australia joining the Hague Agreement.

18. First, Australia should be mindful of its treaty obligations in assessing whether to join the Hague Agreement. Specifically, Article 17.1.5 of the *Australia-United States Free Trade Agreement* requires Australia to "make its best efforts to comply with the provisions of the Geneva Act of the *Hague Agreement Concerning the International Registration of Industrial Designs* (1999)... subject to the enactment of laws necessary to apply those provisions in its territory". It is unclear how a decision to further delay joining the Hague Agreement could be said to be consistent with that treaty obligation.
19. Second, the clearing of obstacles in the path of Australian designers is consistent with the Government's National Innovation and Science Agenda. The administrative complexities faced by Australian designers wishing to protect their new and distinctive designs internationally currently act as a significant disincentive for Australian designers to seek designs protection both domestically and overseas. Australian designers should be supported and encouraged to adopt a more global outlook. Joining the Hague Agreement would help to encourage Australian designers to be more innovative and also to monetise their innovation including by obtaining design protection in export markets.
20. Third, it is important to recognise that there are benefits to being "inside the tent" – that is, Australia will have greater influence on the future direction of designs protection (and intellectual property protection more broadly) if it is seen to be an active participant in global mechanisms to facilitate the protection of intellectual property. This is a benefit that is recognised in the Economic Analysis, and the IPC agrees with what is said there (at page 36):

*As a general principle, international alignment of IP laws facilitates trade and makes it easier for Australian businesses to export their IP. Wide participation in international IP treaties and agreements helps harmonise international IP systems; can reduce the regulatory burden on Australian IP rights applicants; and increase certainty for IP applicants of a consistent outcome across jurisdictions.*

21. This is particularly so where, as in the case of the Hague Agreement, the international harmonisation reduces administrative "red tape". Arguably international harmonisation is even more important in streamlining administrative procedures than it is in bringing substantive law into alignment.
22. While it is true that these additional factors cannot be readily quantified, they are substantial practical benefits for Australian businesses.

## **Conclusion**

For these reasons, the IPC considers that Australia should begin preparations to join the Hague Agreement in the near future.

Please contact John Collins, Chair of the IPC at [jcollins@claytonutz.com](mailto:jcollins@claytonutz.com) or 02 9353 4119 in the first instance, if you require further information or clarification.

Yours sincerely

A handwritten signature in black ink, appearing to read 'RMS', written in a cursive style.

**Rebecca Maslen-Stannage**  
**Chair, Business Law Section**