

# Intellectual Property Forum

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Editor  
Fiona Rotstein

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# Intellectual Property Forum

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## The Journal of The Intellectual Property Society of Australia and New Zealand Inc ABN 056 252 558

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Journal Issue	Submission Dates
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March 2024	before 1 February 2024
June 2024	before 1 May 2024
September 2024	before 1 August 2024

The Intellectual Property Society of Australia and New Zealand Inc is an independent society whose principal objectives are to provide a forum for the dissemination and discussion of intellectual property matters.

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# EXPRESSIONS OF INTEREST

Expressions of interest are invited from intellectual property lawyers and writers to contribute to the Profile Section of *Intellectual Property Forum*.

Since 1997, *Intellectual Property Forum* has featured regular interviews with a range of eminent persons who have made significant contributions to the advancement of IP law in Australia and New Zealand. Expressions of interest are now invited from IP lawyers and writers who wish to suggest, facilitate or contribute profiles of local and international leaders and emerging leaders in the field of IP.

Initial enquiries or expressions of interest to contribute a profile are welcome. However, all expressions of interest to contribute a profile are critically appraised by the Editor (having regard to the Editorial Policies) who retains absolute discretion regarding the content of *Intellectual Property Forum*.

Some of those who have been profiled previously include:

- leading IP judges such as the late Rt. Hon. Sir Thomas Munro Gault KNZM QC, Former Chief Justice Robert French AC, Former Chief Justice James Allsop AC, Former Justice Dr Annabelle Bennett AC SC, Justice John Nicholas, Justice Nye Perram;
- leading IP lawyers such as the late Dr John McLaren Emmerson QC, the late Margaret Doucas, Angela Bowne SC, Katrina Howard SC, Dr Terri Janke, Katrina Rathie;
- leading IP academics such as the late Professor James Lahore, Dr Francis Gurry AO, Emeritus Professor Jill McKeough AO, Emeritus Professor Sam Ricketson AM, Professor Andrew Christie, Professor Natalie Stoianoff;
- leading IP players such as Emeritus Professor Sir Gustav Nossal AC CBE; Frank Moorhouse AM, Anna Funder, Kim Williams AM.

A full list of the distinguished persons previously profiled can be found at:  
<<https://www.ipsanz.com.au/ip-forum/profiles/>>

Initial enquiries or expressions of interest to contribute a Profile are welcome, and may be directed to the Editor. Please email: [editors@ipsanz.com.au](mailto:editors@ipsanz.com.au).

## Editorial – Fiona Rotstein

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Photo by Harney Andrews

Fiona Rotstein, Editor

Welcome to the September 2023 edition of *Intellectual Property Forum*. An array of issues impacting IP law are explored in the four articles featured, from reputation and registered trade mark infringement to the challenges concerning copyright and legal practice posed by generative artificial intelligence (“AI”). The fair dealing defence in Australian copyright law is also closely examined and we take a deep dive into the new European unitary patent system. Plus, there are five reports on a range of topics, including plausibility for patents and reviews of two thought-provoking IP texts. As usual, we also bring you the latest IP developments from our regular contributors across Australia, New Zealand, Asia, Europe and North America.

This issue starts with my Profile of the Honourable Justice Helen Rofe. Her Honour reflects on her career in IP, from working at various law firms and her 20 years at the Bar, taking silk in 2014, to her appointment to the Federal Court of Australia in July 2021. Justice Rofe discusses her transition from the Bar to the Bench and provides insights on how she and the other National IP Coordinating Judges are currently working to improve the management of IP cases at the Federal Court. When I enquire about the future challenges of IP law, her Honour replies:

*Costs – the costs of enforcement of IP rights are becoming ridiculous. That is for the people who can afford to go to court. Let’s not forget there are many rights holders who can’t even afford to commence and prosecute an action in court. The Productivity Commission suggested Australia should have something like the IP Enterprise Court in the United Kingdom. We are waiting for the Government response to that report.*

In our candid conversation, Justice Rofe also shares her views on the IP issues she would like to see addressed, either by the courts or the legislature.

Then Angus Lang SC explores the issue of reputation and registered trade mark infringement in light of the recent High Court of Australia judgment, *Self Care IP Holdings Pty Ltd v Allergan Australia Ltd Pty* (2023) 408 ALR 195 (“*Self Care*”). After discussing the *Self Care* decision in detail, Lang SC explores the European law on reputation and free riding. He then considers whether there exist authorities similar to the European anti-free riding norm pursuant to both Australian passing off law and Australian registered trade mark law. According to Lang SC, legislative consideration

should be given to introducing a European-style anti-free riding provision in Australia. While he notes that European jurisprudence on the topic “has not been without its critics”, such criticism should not “justify outright rejection” of introducing the norm in Australian law.

In addition to Lang SC’s analysis of the decision, *Self Care* is also considered by Justice Jackman of the Federal Court of Australia in *The Agency Group Australia Limited v H.A.S. Real Estate Pty Ltd* [2023] FCA 482 and by Justice Lang of the High Court of New Zealand in *ZURU New Zealand Ltd & Others v LEGO JURIS A/S & Another* [2023] NZHC 1808. Both judgments are examined by our regular contributors from New South Wales (Taryn Lovegrove and Ian Drew together with Ashley Cameron and Paul Dewar) and New Zealand (Andrew Brown KC) respectively.

In the next article, Dr Anton Hughes considers the impact of generative AI on copyright and legal practice. Dr Hughes examines the different types of AI text-generation tools presently applicable to lawyers. He road tests the breakout star of these tools, ChatGPT, on various legal tasks and reports on the surprising results. Dr Hughes explores the limitations of ChatGPT (like Alan Nash’s cartoon on page 5 below) but gives practical guidance on prompt engineering by offering examples of how the chatbot can be effectively used by IP lawyers. In light of current generative AI and copyright litigation, Dr Hughes discusses the possible applications of the United States fair use and Australian fair dealing defences plus how moral rights may come into play. His analysis provides helpful insight into some of the rewards and risks regarding the use of generative AI.

On a similar note, Jade Andrews then examines the suitability of Australia's fair dealing defence to copyright infringement in an increasingly virtual world. Andrews' article considers whether Australia should adopt a US-style fair use defence in light of Australia's international obligations to the World Trade Organization ("WTO"). Andrews compares Australia's fair dealing defence to the US fair use doctrine by reviewing judicial decisions from both jurisdictions. She explores whether due to Australia's membership to the WTO, the application of the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS")<sup>1</sup> precludes Australia from adopting a fair use exception. According to Andrews, Australian copyright policy makers need to be cognisant of TRIPS commitments and the variable application by US courts of the fair use doctrine.

In the final article, Dr Marco Stief explores the new European unitary patent system that was launched on 1 June 2023. The new system has two interlinked aspects: the introduction of the unitary patent and the commencement of the Unified Patent Court. The reforms are one of the most significant changes in recent European patent law and practice. Given Australia in 2022 was one of the top ten non-European Patent Office countries for European patent applications per country of origin, the new system will certainly have an impact on Australian patent holders and licensees.<sup>2</sup> As Dr Stief writes:

*From now on, innovative companies will no longer have to apply for, maintain and, in the event of a dispute, enforce patents in court individually for all European Union ("EU") Member States in order to protect their technical inventions.*

Dr Stief examines the reforms in detail and the issues to consider when making decisions about patent strategy relating to a range of different scenarios.

This edition also features five reports. First, Tom Cordiner KC, Melissa Marcus, Clare Cunliffe, Marcus Fleming and Amy Surkis examine the relevance of plausibility for sufficiency and inventive step to Australian patent validity. The authors' observations are in light of a recent United Kingdom Court of Appeal decision, *Sandoz Ltd v Bristol-Myers Squibb Holdings Ireland Unlimited Company* [2023] EWCA Civ 472. The authors discuss a range of recent Australian patent decisions, including *ToolGen Incorporated v Fisher (No 2)* [2023] FCA 794, which they analyse in greater detail in their super-sized contribution in the "Current Developments" section of the Journal.

Then, Kate Donald, Odette Gourley, Grant Fisher and Eleni Carydis consider the validity of broad antibody patent claims in the US and Australia in the wake of the US Supreme Court decision, *Amgen Inc. v Sanofi* 143 S. Ct. 1243 (2023). As the authors explain, the Court found Amgen Inc's patents invalid for lack of enablement. Equivalent patents in Australia were upheld by a delegate of the Commissioner of Patents

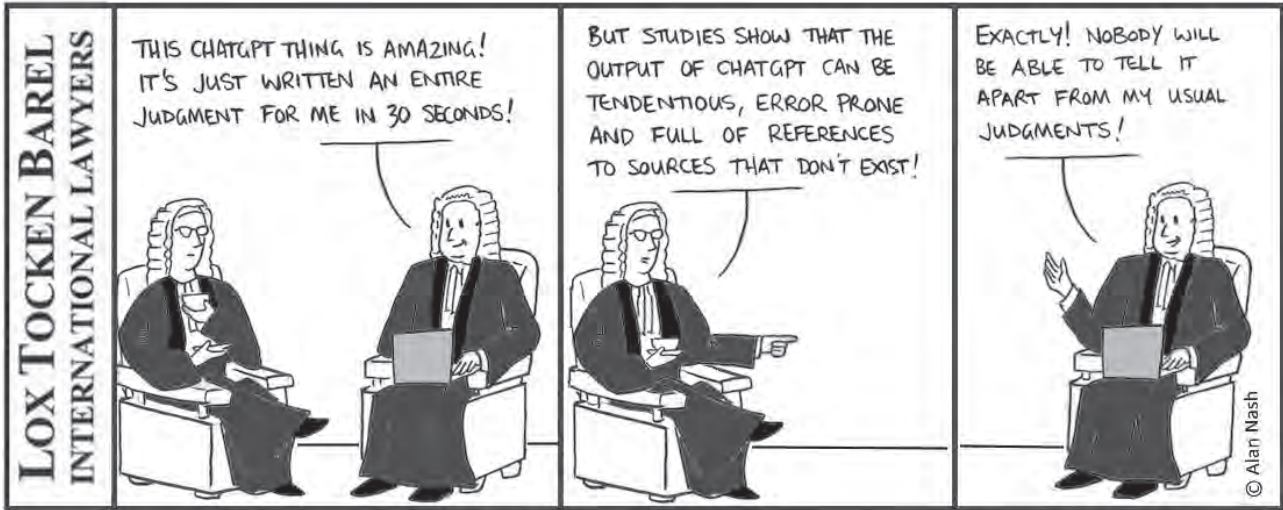
in *Sanofi v Amgen Inc* [2022] APO 67 but that decision is presently on appeal at the Federal Court of Australia. The authors analyse the US Supreme Court judgment and what effect it may have, if any, on related Australian proceedings.

Changing course, Dr Dimitrios Eliades then reports on the Australian Attorney-General's Department *Copyright enforcement review 2022-23*. Next, there are reviews of two topical IP texts. First, Dr Kylie Pappalardo considers *Chokepoint Capitalism: How big tech and big content captured creative labor markets and how we'll win them back* by Professor Rebecca Giblin, Director of Melbourne Law School's Intellectual Property Research Institute of Australia ("IPRIA"), and activist Cory Doctorow. Dr Pappalardo finds the book "both fascinating and enriching". Then, Benjamin Hopper analyses *Reforming Intellectual Property*, an assortment of 19 essays by IP scholars, invited to consider the most pressing reforms for the IP system. A range of issues in copyright, patent and trade mark law are explored, as well as the relationship between IP rights and human rights.

Finally, this edition features current developments from Australia, New Zealand and around the world. In addition to local updates, there are contributions from China and Hong Kong SAR, Japan, Singapore, the UK, EU, France, Germany, Canada and the US. These cover a variety of IP topics, including recent reforms to Japanese trade mark and unfair competition laws; a UK High Court decision that sheds light on the developing law around invalidating a trade mark on the ground of bad faith as a result of "evergreening"; a Paris Court of Appeal case between billion dollar brands Louis Vuitton and Van Cleef & Arpels regarding both brands' famous quadrilobed trefoil motifs; and exhaustion of patent rights in Germany. I thank all of our regular contributors and am pleased to welcome Guy Yonay as the Journal's new correspondent for the US. Happy reading!

1 *Marrakesh Agreement Establishing the World Trade Organization*, opened for signature 15 April 1994, 1867 UNTS 3 (entered into force 1 January 1995) annex 1C ("Agreement on Trade-Related Aspects of Intellectual Property Rights") ("*TRIPS*").

2 See European Patent Office, *Patent Index 2022*, 'European patent applications' (Web Page, 22 March 2023: filter by "non-EPO states") <<https://www.epo.org/about-us/annual-reports-statistics/statistics/2022/statistics/patent-applications.html#tab2>>.



# In Conversation with the Honourable Justice Helen Rofe

Fiona Rotstein

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Photograph by Neil Prieto

*The Honourable Justice Helen Rofe*

The Honourable Justice Helen Rofe was appointed to the Federal Court of Australia on 12 July 2021. She met with Fiona Rotstein to discuss her career, potential reforms to IP litigation in the Federal Court, women in the profession and the function of the Copyright Tribunal of Australia.

**Q:** You are the first lawyer (and now Judge) in your family. Your father was the headmaster at Brighton Grammar School in Melbourne for a remarkable 29 years and your mother practised as a vet in what was then a male-dominated industry. What motivated you – their only child – to study law?

**A:** Well, like many people who were doing science at the time, I was wanting to do vet (or, in the case of others, medicine or physio) and missed out by a couple of points. So I did science and majored in genetics. By third year, I found myself doing six hour pracs counting drosophila, thinking “I don’t want do this”. I had decided to do commerce after science because I had enjoyed a couple of breadth subjects in economics. Then Dad said, “Why don’t you try law?”. So I ended up going to the University of Sydney for a year as they had a graduate law program which taught most of the compulsory subjects in first year. I swapped back to the University of Melbourne for the last two years.

I recently found out that my father had wanted to do law, but for reasons now lost in the mists of time did not have the prerequisite subjects for law, so he did economics instead. This may explain his suggestion I do law.

**Q:** You began your career as an articled clerk at Sly & Weigall (which became Deacons) and then joined Arthur Robinson & Hedderwicks (“Arthur Robs”) (now Allens) in 1994, eventually becoming a Special Counsel, then moving to Blake Dawson Waldron (“Blakes”) (now Ashurst) in 2000. How did you end up in IP?

**A:** I had come from Sydney at a time where you lined up articles two years ahead of when you were going to start. As I had only done one year of law results and I was out of the system, I was lucky that Sly & Weigall offered me articles. However they didn’t do any IP and I was in the construction law section. I really didn’t like construction law and I didn’t like my first experience as solicitor, so I left. It was the ’90s recession. I went back to university for six months and started a Master of Laws focusing on IP. At the end of that six months I was lucky enough to be offered a position in the IP group at Arthur Robs with Richard Hamer, Michael Dowling and Tim Golder.

**Q:** So you knew pretty early on that you wanted to focus on IP?

**A:** I had always wanted to be a vet and even having done law, I still felt more of a scientist than a lawyer when I graduated, so it was the obvious area to use my science degree.

I liked the science part of the law and I was fortunate to be taught by (now Emeritus Professor AM) Sam Ricketson in undergraduate studies and I knew from then that I really wanted to do IP, in particular patents.

I enjoyed genetics and my Masters thesis was on the topic of patenting gene sequences from the Human Genome Project – but it has taken until recent years for some of the genetics cases to come through! I was ecstatic to get to Arthur Robs and work with Richard Hamer doing patents.

At that time I didn’t know patent attorneys existed, and if someone had said, “What about being a patent

attorney?”, I possibly could have gone down that path. But I had no idea about patent attorneys until I got to Arthur Robs and so I never thought of becoming one.

**Q:** Why did you decide to go to the Bar?

**A:** It was working with counsel and seeing that they had the better side of the deal – they got to work at the pointy end of matters. I was in a never-ending piece of patent litigation with Allens on the other side and every Friday evening they would send us some lengthy letter which would inevitably be attached to an affidavit, looking like we had delayed in responding for two days because our response went on the Monday. I did not enjoy the endless correspondence aspect of being a solicitor.

I worked closely with counsel such as Bruce Caine KC and Peter Collinson KC and thought what they did seemed more interesting. I enjoyed writing first drafts of the submissions which they would settle. When I was at Arthur Robs, I worked almost entirely with Richard Hamer. I thought if I wanted to go to the Bar, I need to know that I can stand on my own two feet without Richard. That’s why I moved to Blakes. I was also excited to work with Mary Padbury. Unfortunately, as soon as I got to Blakes, Mary went off to London for three years.

**Q:** You were then called to the Bar in 2001, taking silk in 2014. You acted in some interesting and important IP matters. What were the professional highlights of your 20 years at the Bar?

**A:** Taking silk in 2014 was a major highlight. In terms of cases I’d say *Sequenom*,<sup>1</sup> which involved the use of foetal DNA in maternal blood for prenatal testing, was a particularly exciting technology. The special leave application in *B Braun v Multigate*<sup>2</sup> was another highlight (despite being denied special leave) as I was part of an all female counsel and instructor team, led by my good friend Julia Baird SC (as she then was).

**Q:** So you enjoyed working at the Bar because you were working with, or opposed to, talented people?

**A:** Yes. I did a lot of cases with David Shavin KC, Bruce Caine KC and then, as I became more senior, I worked frequently with Clare Cunliffe and Campbell Thompson (my readers) as my juniors. I enjoyed working with them and teams from the instructing solicitors. One case would finish and then the team would reassemble and work on another one together.

**Q:** You were one of the founding members of Emmerson Chambers, IP specialists. Tell me about that experience.

**A:** Well, that was basically driven by Natalie Hickey and Stephen Rebikoff. They came up with the idea of an IP specialist chambers and herded all the cats together. I congratulate them for doing that.

**Q:** What prompted the decision to exclusively focus on IP law?

**A:** There was an IP chambers in Sydney – Nigel Bowen Chambers, and the thinking was that we should have a Melbourne equivalent. The chambers seem to be going very well. All those in Emmerson Chambers I talk to (when I can) say how much they enjoy popping in next door and chatting – because it’s a small area of the law, everyone knows their colleagues well. David Shavin KC and Bruce Caine KC now say they “wish they’d done this 10 years earlier!”. In most of the cases in my docket, there is at least one barrister from Emmerson Chambers. Sometimes there are barristers from Emmerson Chambers on both sides of the matter.

**Q:** You were appointed to the Federal Court of Australia on 12 July 2021. How have you found your transition from the Bar to the Bench?

**A:** Not too bad. All the Judges have been very welcoming and friendly. The first time when the trial finishes and you go away with the Court Book and you have to actually work out who wins, that was quite daunting. I’m still getting my head around that and I’m still trying to work out the best way to write a judgment. I haven’t got there yet and I don’t know that you can, as every case is different.

Everyone in IP of course then ended up on my docket, so it’s now quite difficult to see most of my friends at the IP Bar because they are all in cases in my docket. Just after I started, the High Court of Australia emphasised the point that once a case is reserved, you can’t speak to any instructors or counsel.<sup>3</sup> So, that’s hard. But I’m lucky that I have some friends at the Bar who are not doing IP and, all being well, they will never end up reserved before me.

**Q:** What have you enjoyed most about your role as a Judge so far?

**A:** One of the things I really enjoy is sitting on Full Courts with Judges like Justice David Yates, Justice John Nicholas, Justice Stephen Burley and Justice Jayne Jagot, each of whom I had appeared before whilst at the Bar (or in the case of Justice Burley, been colleagues with). Justice Jagot had always been a hero of mine, so I was very grateful that I had the opportunity to sit with her before she moved to the High Court.

I really like the appeal model we have in the Federal Court where you travel around and sit with Judges from other Registries. That’s been probably one of the best things. I also enjoy being in Court and seeing how different barristers cross examine and present their case and deal with problems that arise. Now that I hear migration, bankruptcy and duty matters I see more of

## In Conversation with the Honourable Justice Helen Rofe

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a spectrum of what works and what doesn't, than the rarefied area of IP.

I also like that as a Judge, if you have an issue, you have the time to focus and work through it rather than the case when you are preparing submissions, and they have to be filed by a deadline, or you are on your feet tomorrow, so you can only devote a finite amount of time. Also, not having to account for one's time and bill a client for it is extremely liberating.

**Q:** Are there deadlines for you to meet as a Judge?

**A:** Yes and no. Sometimes I wish there were more deadlines because as counsel, you constantly had deadlines, you had to get the submissions finalised by four o'clock on a particular day. Now I know that I have to get that judgment done, but usually there is not a fixed deadline. So I have to set deadlines for myself and make myself stick to them. About 30 per cent of our work is migration, so we have to schedule migration hearings and duty matters into our calendar. Trying to set aside time for writing and sticking to that can be difficult because, like in practice, something unexpected will flare up. Also, with the patent cases, need to set aside a decent amount of time to writing. You can't say, "Well, I'll just do an hour", because by the time you consider the technology and the cross examination, and remember your thoughts, that hour is up!

**Q:** Before your appointment, you provided a range of notable contributions to the Bar. You were a leader of the Australian Patent Bar, Junior Vice President of the Victorian Bar Council and Chair of List A Barristers. You also served as a member of the Victorian Bar Council's Health and Wellbeing Committee, the Equality and Diversity Committee and the Library Committee. What do you miss most about life at the Bar?

**A:** I suppose all my friends in IP! [laughs]. Because it is a small world in IP, that's why I did some of these things to meet other people at the Bar. Bar Council was interesting, seeing how everything worked there. List A was quite fun too, because I enjoyed working out how you could get people to transfer work within in the list and have the junior people meet the senior people. And of course, they were all working in commercial law rather than IP, so they were again another range of people to meet.

**Q:** I imagine you made some close connections during your two decades at the IP Bar. What's it like when your former colleagues appear before you as a Judge?

**A:** It's nice. Because you know everyone and everyone's very pleasant to each other, you can have the odd joke. It's nice to see people that you've known for years appear in front of you.

**Q:** But it must be hard because you can't speak to them outside of Court?

**A:** Yes, exactly. But it is an incentive to get judgments out quickly!

**Q:** You are one of three Deputy Presidents of the Australian Copyright Tribunal. What is your view of how the Copyright Tribunal currently functions?

**A:** I don't have an enormous feel for that yet as I have only recently been appointed and the Tribunal doesn't seem to have that many filings per year. But I do now have a matter that has come into my docket which I look forward to hearing.

**Q:** Is it working as well as it should?

**A:** Possibly not, because no one seems to be using it, but equally, maybe the system is working and the relevant collecting societies don't feel the need to commence proceedings. The collecting societies may be coming to arrangements by themselves with the relevant IP users and not needing to have recourse to the Tribunal. It might be a good idea to get an understanding from the users of the Copyright Tribunal as to how they see it functioning.

**Q:** You have enjoyed a long association with IPSANZ, having spent a number of years on the National Committee of Management and three years as President, from 2007 to 2009. How has your involvement with IPSANZ informed your view of the IP profession?

**A:** Getting to know the people in the IP profession is a massive part of IPSANZ. I think IPSANZ is central to IP in Australia. The meetings are useful and the annual conference is a great chance to get together and keep up to date with what's going on. I think IPSANZ was good over COVID with holding online CLE sessions so people could keep in touch that way. We also wouldn't get to meet many of the New Zealanders in the profession if it wasn't for IPSANZ.

**Q:** What in your view are the key issues facing IP practitioners today?

**A:** I think it's the complexity of both the technology the subject of the litigation, and the actual litigation and its associated costs.

When you look in the *Reports of Patent, Design and Trade Mark Cases* ("RPCs") some of the reports of those cases are quite brief. Those courts were dealing with what was cutting-edge technology at the time but they deal with the entire case in about 10 pages. I struggle to write a patent judgment that's less than 100 pages.

Yes, the technology is more complex, but, particularly in the larger patent cases, parties today are running every conceivable ground of invalidity, and every permutation

and combination of prior art documents. Dealing with the technology and all the various grounds of invalidity makes for a lengthy judgment.

**Q:** Is that due to the technology?

**A:** Not entirely. Until the High Court says otherwise, each of the many and varied grounds of invalidity needs to be dealt with in the judgment, even if the claims are invalid on the first ground. If you could write a judgment and say, “Well, it’s not inventive, so it’s gone” or “I construe it this way” but you have to go into each counterfactual in case you are wrong. Because practitioners run every point, every point needs to be resolved.

**Q:** What can the Court do about that?

**A:** The National IP Coordinating Judges: Justices Stephen Burley, Nicholas, Yates and I are looking at how we can manage cases to confine the issues before they get to trial. Simple things such as limiting the number of pieces of prior art pleaded without leave of the Court, to three. If a party wants more, then they need to explain why more than three are necessary at the outset. Often parties will drop pieces of prior art as they approach trial, but by that time the experts have reviewed and opined on them and significant costs have been incurred. Similarly where there are 100 claims or six innovation patents, parties should be required to justify why the claims cannot be grouped, or why all six patents are required.

The key issue is understanding the complexity of the technology and we all have to deal with that. Agreed statements of common general knowledge, and glossaries can help. In each case, the parties can usually agree on 80-90 per cent of the common general knowledge, so an agreed statement of that, leaving out the disputed areas is helpful, and should not cost the earth to prepare.

Confining the issues in dispute and highlighting the areas where there is agreement will assist in faster judgment writing because there are less permutations and combinations to be dealt with. That’s what everyone, practitioners, clients and Judges, want – a streamlined system.

Where required, the Court can get matters to trial quite quickly. But if you then have to deal with all those many issues, the many pieces of prior art and all the rest of it, Judges are not going to be able to produce judgments any faster.

**Q:** Are there any IP issues you would like to see addressed, either by the courts or the legislature?

**A:** De novo appeals from oppositions – patents and to a lesser extent, trade marks. In most cases the hearing takes two days in front of the Office and then it turns into a three week trial in court because the parties come

along with new evidence, new experts and new grounds of invalidity.

I understand that in New Zealand and the taxation area in Australia, review is limited to judicial review rather than an appeal de novo. Oppositions are supposed to be quick and efficient but by the time they get to an appeal they are not. Parties may have strategic reasons for doing that such as if it’s your competitor you want to keep them from having a granted patent as long as possible. So the current system is helping those sort of strategies which is not the point of the opposition process.

I don’t do much copyright but it always seems to me that copyright law is always playing catch up with the technology. The *Copyright Act 1968* (Cth) was drafted in the era of books and cinematograph films, amended to deal with computers and floppy disks and now the technology is up to streaming and the scraping of websites to educate AI.

**Q:** Looking into your crystal ball, where do you think lie the future challenges of IP law?

**A:** Costs – the costs of enforcement of IP rights are becoming ridiculous. That is for the people who can afford to go to court. Let’s not forget there are many rights holders who can’t even afford to commence and prosecute an action in court. The Productivity Commission suggested Australia should have something like the IP Enterprise Court in the United Kingdom. We are waiting for the Government response to that report.

There are a class of people who are holding patents or designs but they could never afford to go to court, so effectively, they may as well not have any IP rights. In terms of one pharmaceutical company against another, they probably don’t care, but there’s a middle ground of people for whom the market is just not worth the cost being spent on litigation. How to deal with that is an issue that we are also looking at in terms of what we can do from the Court.

I think we can do things like ask both parties to bring in their budgets for what they think the trial is going to cost and the steps that are going to be involved and so without leave, neither party would receive any more than that back in costs. We can get the parties to have a budget estimate at the start. For example, a trial and appeal on a small widget (a small mechanical invention) could run up over a million dollars in costs, but is the market for this widget anywhere near that size? Probably not. So one side is going to be made insolvent – whoever wins or loses. It’s fine for the Rolls Royce pharmaceutical and mining companies where there exists a billion dollar market. They can probably spend what they want and in some ways good luck to them, but not everyone can do

the same and Court resources should not be exclusively for the use of such parties.

**Q:** At your welcome ceremony to the Federal Court, you said, “I encourage you all to persist in your efforts to foster and support equality and diversity in the legal profession and more specifically to increase the diversity of the advocates appearing in this court.”<sup>4</sup> What are some of the ways you think this can best be achieved?

**A:** If you look at the statistics of who appears in my Court and the senior women speaking in front of me, it is quite frankly – dismal.

There are a lot of senior women in IP and in other areas of the law who are not silks, and they don't get a go running trials. Often the woman takes the costs or the less critical or more minor issues in the proceeding. So we have a long way to go in getting senior women speaking in court. I don't know whether the instructors are talking the talk but not actually pushing for women and blaming their clients, or whether it's the clients saying, “Oh no, we must have a man”.

All parties seem happy to have women as junior barristers but that does not seem to flow through to senior women. In terms of the barristers who are already silks, I'm struggling as to what we can do. You can't force people to brief women. You might like to think that because they are appearing in front of a woman Judge, they could brief a woman but, again, they will bring in a woman junior. It might be that we can only do it through getting women juniors doing more cross examination and important issues, being seen on their feet, so when they take silk, people say, “Oh, I've seen her and she's good, so I will keep using her”. To be fair, there are some IP silks who are giving their juniors important issues to argue.

When I started in IP, small widget cases would usually be run by a senior junior (sometimes with a junior) but these days there seems to be hardly any cases that are run by a senior juniors, they're all with silks, sometimes with two or more juniors. Perhaps only the more expensive cases are running. Often the pharmaceutical cases now have three counsel and the middle level cases have a silk and a junior, so there's less work for senior juniors to get on their feet and run something.

Maybe if Australia were to start up an IP Enterprise Court, then that would be a forum in which junior barristers would predominantly appear. That might give junior counsel an opportunity to get more experience, run cases themselves and be seen to be doing so.

**Q:** What advice would you offer a young practitioner in IP law?

**A:** I tell young IP practitioners and those who want to get into the area to join IPSANZ and go to the meetings, particularly the dinner meetings, or even the conference, and to enter the essay prize. My other advice is to target those who work in IP at the firms or even counsel. Just target someone who is doing what you would like to be doing. Most will say yes to meeting you for a chat. I have always found that people in IP are generous with their time. They know that we are lucky to work in this fabulous area of law, and are happy to help those who are interested to join the world of IP.

1 *Ariosa Diagnostics, Inc v Sequenom, Inc* [2011] FCAFC 101.

2 *Multigate Medical Devices Pty Ltd v B Braun Melsungen AG* [2016] HCATrans 195 on appeal from [2016] FCAFC 21.

3 *Charistead v Charistead* [2021] HCA 29.

4 Justice Helen Rofe, *Ceremonial Sitting of the Full Court: To welcome the Honourable Justice Helen Rofe* (Web Page, 6 May 2022) <<https://www.fedcourt.gov.au/digital-law-library/judges-speeches/justice-rofe/justice-rofe>>.

# Reputation and Registered Trade Mark Infringement

Angus Lang SC<sup>1</sup>

## Reputation and Deceptive Similarity – *Self Care*

The recent decision of the High Court of Australia in *Self Care IP Holdings Pty Ltd v Allergan Australia Pty Ltd* (2023) 408 ALR 195 (“*Self Care*”)<sup>2</sup> has a number of important aspects. The most conspicuous is the “reputation” issue; more specifically, the proposition that reputation is irrelevant to the question of deceptive similarity for the purposes of registered trade mark infringement under s.120(1) of the *Trade Marks Act 1995* (Cth) (“the Act”). This article focuses on that issue, and then addresses some further considerations arising from it.

In brief, the reputation issue arose in *Self Care* in the following way. Allergan owned the trade mark BOTOX, registered as a defensive mark under s.185 of the Act, relevantly in relation to anti-wrinkle creams. It was registered as a defensive mark because Allergan had not used, and did not intend to use, the mark for anti-wrinkle creams, but rather for its well known anti-wrinkle injectable product. Allergan alleged that *Self Care* had infringed that mark under s.120(1) of the Act by using a deceptively similar mark, PROTOX, in relation to anti-wrinkle creams.

Though Allergan failed in the allegation of deceptive similarity at trial before Stewart J,<sup>3</sup> it succeeded on appeal to the Full Court of the Federal Court of Australia.<sup>4</sup> Central to the Full Court’s reasoning was the proposition that consumers, though they would not confuse PROTOX with BOTOX, would consider that PROTOX is an anti-wrinkle cream having the same trade source as the injectable BOTOX product.<sup>5</sup> That proposition relies upon the “reputation” of the BOTOX mark, in the sense of consumers’ familiarity with the mark and the goods<sup>6</sup> in relation to which it has been used. (That formulation is adapted from the decision of the Full Court in *CA Henschke & Co v Rosemount Estates Pty Ltd* (2000) 52 IPR 42 (“*Henschke*”) at 61 [52]; see also *Self Care* at 209 [49]).

That manner of reliance on reputation by the Full Court differed from previous Federal Court authority regarding the potential relevance of reputation in that it suggested that one might have regard, for the purposes of s.120(1) of the Act, to consumers’ familiarity with the use of the registered mark in relation to goods not the subject of the asserted registration (injectable products, rather than anti-wrinkle creams). In the previous cases, the reputation issue arose a little differently.

It is convenient to commence an explanation of that difference by recalling the relevant statutory provisions and principles concerning deceptive similarity, familiar though they are. The starting point is s.120(1), which relevantly prohibits the use of a sign as a trade mark which is “deceptively similar” to a registered trade mark in relation to goods in respect of which the trade mark has been registered. In relation to

deceptive similarity, s.10 provides: “a trade mark is taken to be deceptively similar to another trade mark if it so nearly resembles that other trade mark that it is likely to deceive or cause confusion”. As explained in long-standing High Court authority, the test for deceptive similarity so defined involves imputing the mind of the relevant consumer an imperfect recollection of the registered mark, and comparing that with the impression such a consumer would get from the use of the allegedly infringing mark.<sup>7</sup>

Notwithstanding that those provisions and principles do not appear to invite consideration of the reputation of the registered mark, in a number of cases which came before the Federal Court,<sup>8</sup> the registered trade mark owner argued that it did. In particular, it was suggested that the heightened reputation of the mark gave rise to a larger radius of protection as regards deceptively similar signs. That argument met, by and large, with two kinds of responses.

The first was that reputation is irrelevant. The test for deceptive similarity involves imputing a recollection of the registered mark to the hypothetical consumer, whether consumers are in fact familiar with it or not, and accordingly the fact of consumers’ actual familiarity with a mark is irrelevant. That is an important advantage provided by a registered trade mark system over the unregistered passing off right: see, e.g., *Henschke* at 623 [45], 66–7 [52]–[53]; *Swancom Pty Ltd v The Jazz Corner Hotel Pty Ltd* (2022) 407 ALR 93 (“*Swancom*”) at 108–111 [80]–[93].

The second took a step further against the interests of the registered proprietor, by concluding that, in the case of a notorious or ubiquitous mark, reputation may be relevant, but only to reduce the radius of protection. A notorious or ubiquitous mark was likely to be more perfectly recalled by the consumer, thus making it less likely that a similar sign would be confused with it: *Mars Australia Pty Ltd v Sweet Rewards Pty Ltd* (2009) 81 IPR 354 at 376 [97]; *Mars Australia Pty Ltd v Sweet Rewards Pty Ltd* (2009) 84 IPR 12 at 17–18 [22], 18 [30]; *Australian Meat Group Pty Ltd v JBS Australia Pty Ltd* at 633 [41]–[42] (“*Australian*

*Meat Group*”). That second approach, though it is somewhat attractive from a purely factual point of view, had two main difficulties; first, it was in some tension with a test which involved assuming an imperfect recollection of the registered mark (regardless of how well or little the mark is in fact known), and secondly it was in some tension with the policy of the trade mark registration system, in that it would tend to discourage investment in a mark. Nevertheless, that, as the Full Court stated in *Australian Meat Group* at 633 [41]–[42], was the state of the law prior to *Self Care*.

But as I have already identified, the reasoning of the Full Court in *Self Care* involved a different use of reputation, directed in particular to consumers’ familiarity with the goods for which the registered mark has been used, rather than a comparison of signs per se. One difficulty with this approach, as the High Court observed, is that it is a well-established principle that the imperfect recollection imputed to the hypothetical consumer is of the registered mark used in relation to any and all of the goods the subject of the asserted registration. At 204 [29] the High Court said, omitting footnotes:

*The marks are not to be looked at side by side. Instead, the notional buyer’s imperfect recollection of the registered mark lies at the centre of the test for deceptive similarity. The test assumes that the notional buyer has an imperfect recollection of the mark as registered. The notional buyer is assumed to have seen the registered mark used in relation to the full range of goods to which the registration extends. The correct approach is to compare the impression (allowing for imperfect recollection) that the notional buyer would have of the registered mark (as notionally used on all of the goods covered by the registration), with the impression that the notional buyer would have of the alleged infringer’s mark (as actually used). As has been explained by the Full Federal Court, “[t]hat degree of artificiality can be justified on the ground that it is necessary in order to provide protection to the proprietor’s statutory monopoly to its full extent”.*

Accordingly, it is hard to see how consumers’ familiarity with the goods in relation to which the registered mark has been used could be relevant: if those goods are the subject of the asserted registration, that familiarity is imputed; if they are not, it is irrelevant.

To spell the latter point out a little further, and as the High Court also emphasised at 201 [20], s.120 addresses circumstances where the goods in relation to which the alleged infringer has used its mark differ from the goods in respect of which the allegedly infringed mark is registered. If the goods qualify as “goods of the same description” (essentially goods which the relevant consumer would consider may originate from the same trade source as the registered goods), then infringement may be established. Importantly, however, that is subject to the proviso that there is no infringement if the alleged infringer establishes that using the sign as it did is not likely to deceive or cause confusion. That proviso brings into

consideration matters such as the use of other distinctive branding, disclaimers and the like, which may have the effect that the use of the impugned sign is not misleading.

I note in passing on this point that the question whether the use by a respondent of other distinctive branding may be a matter which is relevant to s.120(1) of the Act has attracted some attention recently, on account of a particular part of the High Court’s reasons in *Self Care*.<sup>9</sup> It is beyond the scope of this article to address that topic; I merely note that the significance of that issue in *Self Care* itself is diminished given that, on the question of deceptive similarity of the signs themselves, it was held that BOTOX and PROTOX would not be confused with each other (at 214 [69]), and there was no evidentiary foundation for the proposition that consumers would nonetheless consider that the marks might denote anti-wrinkle creams coming from the same trade source.<sup>10</sup>

In any event, for present purposes, the relevant point is that s.120(2) provides for protection beyond the registered goods, i.e. to “goods of the same description”, but at the price of the proviso that there is no infringement if the use is likely to deceive or cause confusion. Accordingly, the wording and structure of s.120(1) and (2) are contrary to an approach which permits consideration under s.120(1) of use of the registered mark in relation to goods not the subject of the asserted registration.

The High Court further observed in *Self Care* at 208 [44] that that conclusion is fortified by reference to s.120(3), which does permit regard to reputation, but under strict conditions. More specifically, s.120(3) extends protection to uses in relation to “unrelated goods”, but the protection is limited to circumstances where the registered mark is “well known”, and because the trade mark is well known, the sign would be likely to be taken as indicating a connection between the unrelated goods or services and the registered owner of the trade mark, and for that reason, the interests of the registered owner are likely to be adversely affected. It would be incongruous with that provision to treat reputation as relevant to the deceptive similarity inquiry under s.120(1).

The High Court was attentive to these matters in holding that the Full Court erred by determining deceptive similarity by reference to consumers’ familiarity with the use of the registered mark in relation to goods not the subject of the asserted registration under s.120(1) (at 213 [65]). And indeed the High Court went further by holding more generally, at 205–10 [34]–[51], that reputation of the registered mark is irrelevant to the deceptive similarity inquiry under s.120(1), thereby overruling those Federal Court authorities I mentioned previously which held that a heightened reputation could serve to reduce the radius of the circle of deceptively similar signs.

The High Court did not, though, go any further than that. In particular, it did not in terms address a question of deceptive

similarity which can arise under s.44 of the Act, namely when the registrability of a sign faces the obstacle of a mark with earlier priority with which it is deceptively similar, and the point of distinction relied upon by the applicant for the junior mark<sup>11</sup> is a component of the junior mark which is well known. *Registrar of Trade Marks v Woolworths Ltd* (1999) 93 FCR 365 (“*Woolworths*”) distinguished on that basis by the High Court at 209–10 [50], is an example of that kind of case. There, the junior mark WOOLWORTHS METRO was held not to be deceptively similar to the senior mark METRO because (among other things) weight was to be given to the differentiating element WOOLWORTHS on account of its reputation.

In that kind of case reputation is used in order to attribute weight to parts of a mark (a scenario sometimes referred to as “marks within marks”) so as to assess the importance of similarities and differences. I expect that the correct approach is to attribute weight to parts of a mark based upon the inherent distinctiveness of those parts, or lack thereof, rather than reputation, but arriving at that conclusion may involve reasoning different in nuanced ways from the analysis which was required in the context presented in *Self Care*. Accordingly, the High Court’s caution in expressing its conclusions by reference to the infringement context was appropriate. It should be noted, though, that the Trade Marks Office has, since *Self Care*, amended its Examination Manual so as to exclude consideration of reputation in this context as well, that is, to treat *Woolworths* as no longer good law in this respect.<sup>12</sup>

However that may be, the main point I wish to make is that the High Court’s conclusion that reputation is not relevant to the deceptive similarity inquiry for the purposes of infringement under s.120(1) constitutes a welcome development. Though the Court gave a number of reasons for that conclusion at 205–10 [34]–[51], the ones I have mentioned above are, I think, particularly important, because they demonstrate that putting reputation to one side produces a sound deceptive similarity analysis for the purposes of infringement from a systematic and policy perspective.

But is an infringement norm circumscribed by deceptive similarity enough? Is there not a case for a different kind of norm which does protect the value in the reputation of a mark? In this respect, the High Court’s observation at 209 [49] that s.120 “is not concerned with and does not seek to protect “the commercial value or ‘selling power’ of a mark” is worth reflecting upon.

### Reputation and free riding: European law

I think that there probably is a gap in Australian registered trade mark law in relation to the misuse of registered trade marks with a reputation, in the sense of “free riding”.

Free riding can occur where the respondent’s use of a sign similar to a registered mark with a reputation is calculated to appropriate, in the sense of make use of, that reputation

for the benefit of the respondent’s goods. “Reputation” in this sense refers not merely to consumers’ familiarity with the mark and the goods for which it has been used, but the image or emotions associated with the mark in the consumer’s mind. That image and emotional content are central to the “selling power” of the mark and are sought to be generated by the trade mark owner by investment in advertising, sponsorship, promotion and the like.

A respondent’s appropriation of the reputation of a mark in this sense is referred to in the European case law as “image transfer”. Image transfer may occur, to take a fictional example, when an express air courier service uses the sign LAMBORGHINI as a name for its services. The conduct makes use of an identical or similar sign to the registered mark, and does so in such a manner as to transfer the image or qualities associated with that mark to the defendant’s goods (i.e., making use of the reputation of LAMBORGHINI for speed). The practice is said to be unfair because it exploits, without paying any financial compensation, the marketing effort expended by the proprietor of the mark in order to create and maintain the mark’s image. In this respect, the prohibition of free riding focuses upon protecting the relationship of a sign with its image, by contrast with the traditional protection of the sign’s connection with its owner.

In *L’Oréal SA v Bellure NV* (C-487/07) [2009] ECR I-05185 (“*L’Oréal*”) the European Court of Justice (“ECJ”), as it was then known, described free riding under Art 5(2) of the Trade Marks Directive, which relevantly prohibits taking “unfair advantage of the repute of the trade mark”<sup>13</sup> as follows at [41], [43]:

*As regards the concept of ‘taking unfair advantage of the distinctive character or the repute of the trade mark’, also referred to as ‘parasitism’ or ‘free-riding’, that concept relates not to the detriment caused to the mark but to the advantage taken by the third party as a result of the use of the identical or similar sign. It covers, in particular, cases where, by reason of a transfer of the image of the mark or of the characteristics which it projects to the goods identified by the identical or similar sign, there is clear exploitation on the coat-tails of the mark with a reputation ...*

*It follows that an advantage taken by a third party of the distinctive character or the repute of the mark may be unfair, even if the use of the identical or similar sign is not detrimental either to the distinctive character or to the repute of the mark or, more generally, to its proprietor.*

At [44], the ECJ outlined factors relevant to determining when an unfair image transfer has occurred, as follows:

*In order to determine whether the use of a sign takes unfair advantage of the distinctive character or the repute of the mark, it is necessary to undertake a global assessment, taking into account all factors relevant to the circumstances of the case, which include the strength of the mark’s reputation and the degree of distinctive character of the mark, the degree of*

*similarity between the marks at issue and the nature and degree of proximity of the goods or services concerned. ...*

At [50] the ECJ emphasised that free riding is a different kind of conduct from deception, and the unfairness of the practice lies in the “unjust enrichment” of the alleged infringer rather than the existence of detriment to the trade mark owner:

*... the taking of unfair advantage of the distinctive character or the repute of a mark, within the meaning of that provision, does not require that there be a likelihood of confusion or a likelihood of detriment to the distinctive character or the repute of the mark or, more generally, to its proprietor. The advantage arising from the use by a third party of a sign similar to a mark with a reputation is an advantage taken unfairly by that third party of the distinctive character or the repute of the mark where that party seeks by that use to ride on the coat-tails of the mark with a reputation in order to benefit from the power of attraction, the reputation and the prestige of that mark and to exploit, without paying any financial compensation, the marketing effort expended by the proprietor of the mark in order to create and maintain the mark's image.*

Notably in the present context, examples of free riding which have been prohibited under this approach include BOTOLIST and BOTOCYL in respect of cosmetics (taking unfair advantage of BOTOX).<sup>14</sup> No doubt, if a European-style anti-free riding norm had existed in Australia, Allergan would have sought a similar outcome in relation to PROTOX (though whether it would have succeeded is, of course, another matter).

Other examples include BEATLE in respect of electric wheelchairs (taking unfair advantage of THE BEATLES),<sup>15</sup> and NIMEI LA PERLA MODERN CLASSIC in respect of jewellery (taking advantage of LA PERLA, registered in respect of swimwear, sportswear and clothing).<sup>16</sup> In each case, the essence of the wrong done was not the creation of any consumer confusion, but the appropriation or transfer of the image of the mark for the benefit of the respondent's product.

### Reputation and Free Riding: Passing Off Law in Australia

Do we find anything similar to the European anti-free riding norm under the general law in Australia?

Some recognition that free riding by means of the use of a similar sign may, in terms of commercial principle, though not in terms of a legal cause of action, constitute an unfair trade practice appears in the Australian authorities on passing off and related contexts, in particular, cases concerning the reputation of a personality or a character.

*Radio Corporation Pty Ltd v Disney* (1937) 57 CLR 448 involved an application by Radio Corporation to register (among other things) the words MICKEY MOUSE in respect of radio receiving sets. Disney opposed the

application, relying upon a predecessor to s.60 of the current Act. Dixon J said at 457 (emphasis added):

*I find it hard to believe that the use of the words on or in connection with a radio receiving set would produce any other impression than in the case of most of the other almost innumerable classes of articles to which the name or the representation of Mickey Mouse has been applied. That impression does not, I think, primarily relate to the origin, selection or treatment of the goods. The reason for using the names is to attract the attention of members of a public that has found pleasure and amusement in the grotesque forms and absurd antics of Disney's creatures, and at the same time to give to the goods a name or means of description at once familiar and pleasing or interesting to the possible buyer. No doubt this means that the trader makes use of elements which belong to the reputation and fame of Disney's creations and it may be that in some vague way the buyer supposes that Disney must have sanctioned it ...*

Dixon J referred to the applicant's burden to establish that the mark would be entitled to protection by injunction or other remedy under the general law and stated at 459:

*On the whole, I think there are present elements which leave them unable to discharge this burden. Those elements are, first, the belief which many people are not unlikely to hold that in some way or another Disney, or one of his companies has permitted, if not procured, the application of the name Mickey Mouse to the radio sets in connection with which it is used and, second, the unauthorized diversion to their own purposes on the part of the applicants of the celebrity and reputation obtained by the various activities of the opponents in relation to Mickey Mouse. The latter may give no cause of action but I think that, at any rate in conjunction with the former element, it would be enough to deprive the proposed mark of protection.*

These passages suggest that, primarily, the commercial wrong was the appropriation of the Disney reputation, in the sense of “image”, even though that did not itself give rise to a cause of action. A representation as to approval or sanction by Disney was identified separately and, although it was found to arise, was treated somewhat ambivalently.

The “Crocodyle Dundee” cases are similar. In *Hogan v Koala Dundee Pty Ltd* (1988) 20 FCR 314, Pincus J referred at 322 to expert evidence to the effect that:

*The personality or the character used to promote a product is intended to assist the promoter in jolting the minds of those viewing the advertisement to a happy or memorable association, so that the product gets the “rub-off” associated with the personality or character ...*

This “rub-off” pertains to the relationship of the mark with an image, not with its owner. By reference to Australian and foreign authorities, his Honour considered that, in the circumstances where a character of that kind is appropriated (at 325):

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*The essence of the wrong done...is not in truth a misrepresentation that there is a licensing or sponsorship agreement between the applicant and the respondent. It is in the ... wrongful appropriation of a reputation, or, more widely, wrongful association of goods with an image properly belonging to the applicant.*

In *Pacific Dunlop Ltd v Hogan* (1989) 23 FCR 553, Burchett J stated at 584:

*To ask whether the consumer reasons that Mr Hogan authorised the advertisement is therefore to ask a question which is a mere side issue, and far from the full impact of the advertisement. The consumer is moved by a desire to wear something belonging in some sense to Crocodile Dundee (who is perceived as a persona, almost an avatar, of Mr Hogan).*

In each of these cases, the “essence of the wrong done” was acknowledged to be free riding by means of image transfer, but the plaintiff succeeded on a different basis, namely the making of a representation that the defendant’s goods were approved or sanctioned by the plaintiff. The *Duff Beer* case<sup>17</sup> is, perhaps, another example. However, the existence of a misrepresentation in these cases was somewhat “fortuitous”.<sup>18</sup> It cannot be assumed that a representation of that kind will always arise in cases of unfair free riding.

*McIlhenny Co v Blue Yonder Holdings Pty Ltd* (1997) 149 ALR 496 exemplifies this. The applicant had a reputation in the mark TABASCO in respect of its well known pepper sauce; the defendant used the name TABASCO DESIGN in respect of exhibition stands. Lehane J referred to the character merchandising decisions referred to above and stated at 508:

*It is one thing to hold, on the basis of evidence, that members of the public who see a product promoted by reference to a scene from a film or a character from a television series will conclude that there is a commercial connection. It is another, I think, to conclude in the absence of evidence of actual confusion that someone in the respondents’ target market will take it that the use of “Tabasco” as the name of the provider of exhibition design services has a commercial connection of some sort with the maker of the only product known as “Tabasco”, a spicy and hot sauce. It is one thing to suppose a connection where the brand “Dunhill”, associated with an “upmarket” cigarette, starts to appear on an expanding range of other — and different — “upmarket” goods (and even then, the expert evidence suggested, one might have wondered rather than jumped to the conclusion that there was an association, when one first saw that occurring); it is another, as a person with marketing responsibilities seeking the services of an exhibition designer, to conclude that a designer whose services are promoted under the name “Tabasco” has a commercial association with the well known sauce of that name. The far more likely conclusion is, I think, that, without any association or permission the designer has — as the fact is — perhaps cheekily used a name which,*

*by reference to its only other known use, conjures up “hot” associations.*

Thus, though this was a case of free riding by the “cheeky” use of a similar sign to effect an image transfer, no misrepresentation arose.

Accordingly, while the authorities in relation to passing off by and large acknowledge the unfairness, from a commercial perspective, of free riding by image transfer, a further development in the law would be required in order to establish the tort successfully on that basis. Such a development is, perhaps, not completely impossible: it might begin, for example, with the proposition that the essence of the tort is the protection of the goodwill of a business, and is not necessarily limited to cases of deception.<sup>19</sup> Another possibility might be to consider whether free riding of this kind might constitute a species of unconscionable conduct in contravention of s.21 of the *Australian Consumer Law*. It is beyond the scope of this article to address those possibilities; for present purposes it is sufficient to observe that they have not yet produced an anti-free riding jurisprudence.

### Reputation and Free Riding: Australian Registered Trade Marks

Australian registered trade mark law is notable for containing no specific anti-dilution prohibition (by contrast with the United States and Europe). As we have seen, ss.120(1) and 120(2) of the Act require deception or confusion. Similarly, s.120(3) requires, among other things, a “connection between the unrelated goods or services and the registered owner of the mark”, which is not apt to describe cases of unfair free riding.<sup>20</sup>

I think legislative consideration should be given to introducing an anti-free riding norm.

In making this suggestion, I emphasise that I am not taken to be endorsing all species of anti-dilution. Free riding is doctrinally more limited than another species of dilution, known as “blurring”,<sup>21</sup> and may provide a more targeted and better balanced response to the unauthorised use of a trade mark in relation to unrelated goods. Blurring is said to be an impairment to the distinctiveness of the mark, or its “hold on the public mind”,<sup>22</sup> simply by its use in relation to unrelated goods. But the precise nature of that impairment or detriment has been difficult to explain, and doubts have arisen as to the empirical, doctrinal and commercial basis of it.<sup>23</sup> By contrast, free riding focuses upon a particular aspect of the hold on the public mind of a mark, namely its reputation or image, and seeks to protect it from unfair exploitation by way of image transfer. That, it appears, may have a sound basis in principle and meets a legitimate commercial concern of owners of marks with a valuable reputation.

Certainly, the European anti-free riding jurisprudence has not been without its critics.<sup>24</sup> But the criticisms do not, I think, go so far as to suggest that free riding should as a general rule be considered to be a fair practice in trade, or

that there should be no prohibition on the unfair exploitation of the repute of a mark. Rather, critics of anti-free riding are, it seems to me, concerned with how the balance should properly be struck between an unfair trade practice on the one hand and commercial fair uses on the other,<sup>25</sup> and in particular the criteria by which an “unfair” taking advantage is to be distinguished from a fair one, or whether a “due cause” exists for the defendant’s conduct.<sup>26</sup> Those are undoubtedly important matters. But they do not, I think, justify outright rejection of an anti-free riding provision.

There has not to date been any specific consideration as to whether to introduce anti-dilution provisions in Australia<sup>27</sup> and so far as I am aware, the European Union has not made such a request of Australia in the current Australia-European Union Free Trade Agreement negotiations; nor is Australia under any international obligation to do introduce such norms. Accordingly, the impetus would need to come from within. Based on my own experience, as well as the Australian and European case law, I do not doubt that, if introduced, an anti-free riding norm would be much used. Indeed I suspect that a considerable portion of trade mark owners in Australia take infringement proceedings because they perceive the respondent’s conduct to constitute unfair free riding, not because they think there will be any deception. Accordingly, cases which are in essence free riding cases have often necessarily been presented as cases of deception. This state of affairs can lead to unsound developments of principle and unpredictable outcomes. The introduction of an anti-free riding norm into Australian trade mark law may have the additional benefit of assisting the sound development of the law in respect of each norm by identifying deception on the one hand and unfair free riding on the other as different kinds of wrongful interference with trade marks.

I also think, with the High Court’s judgment in *Self Care*, we may have something to offer Europe in return, namely a sound approach to reputation in relation to the deception norm. Under the European Trade Marks Directive<sup>28</sup> and Community Trade Mark Regulation,<sup>29</sup> reputation is considered relevant to the anti-deception norm. Specifically, (and contrary to the position under Australian law as concluded by the High Court in *Self Care*) a heightened reputation is considered to increase the radius of protection against similar marks.<sup>30</sup> Though the form of the anti-deception norm in Europe is different from s.120 of the Act, the fundamental factual and policy considerations are substantially similar. Accordingly, the position taken in Europe might be considered not altogether sound; and for reasons not unlike those given by the High Court in *Self Care*, a better approach may be to treat reputation as irrelevant. That applies with particular force to the European jurisdiction because, as we have seen, it has a separate norm providing specific protection against the misuse of the reputation of a mark. It is, in that context, particularly unnecessary to contort matters of fact and principle concerning deception, in the name of the protection of reputation.

- 1 Tenth Floor Selborne/Wentworth Chambers.
- 2 I acted for the appellant (and proceedings before the primary judge are currently ongoing). Accordingly, though I have sought to present my own views in this article, I remain partisan.
- 3 *Allergan Australia Pty Ltd v Self Care IP Holdings Pty Ltd* (2020) 156 IPR 413.
- 4 *Allergan Australia Pty Ltd v Self Care IP Holdings Pty Ltd* (2021) 286 FCR 259.
- 5 *Allergan Australia Pty Ltd v Self Care IP Holdings Pty Ltd* (2021) 286 FCR 259, 269–70 [41]–[43].]
- 6 For present purposes, it is convenient to refer to “goods”. Of course, the same reasoning applies to services.
- 7 *Australian Woollen Mills Ltd v FS Walton & Co Ltd* (1937) 58 CLR 641; *Shell Company of Australia Ltd v Esso Standard Oil (Australia) Ltd* (1961) 109 CLR 407; *Self Care* (2023) 408 ALR 195, 203–4 [27]–[29].
- 8 *CA Henschke & Co v Rosemount Estates Pty Ltd* (2000) 52 IPR 42; *Australian Meat Group Pty Ltd v JBS Australia Pty Ltd* (2018) 268 FCR 623; *The Coca-Cola Company v All-Fect Distributors Ltd* (1999) 96 FCR 107; *Mars Australia Pty Ltd v Sweet Rewards Pty Ltd* (2009) 81 IPR 354; *Swancom Pty Ltd v The Jazz Corner Hotel Pty Ltd* (2022) 407 ALR 93.
- 9 See *Agency Group Australia Ltd v HAS Real Estate Pty Ltd* [2023] FCA 482, [60] (Jackman J); Craig Smith, ‘Intellectual Property Law Update – Some Wrinkles in the High Court’s Treatment of “Deceptive Similarity” for Trade Marks’, *List G Barristers* (Web Page, 29 March 2023) <<https://www.listgbarristers.com.au/publications/intellectual-property-law-update-some-wrinkles-in-the-high-courts-treatment-of-deceptive-similarity-for-trade-marks>>; Warwick Rothnie, ‘Did the High Court change the law of trade mark infringement to a kind of registered passing off?’, *IP Wars* (Web Page, 22 March 2023) <<https://ipwars.com/did-the-high-court-change-the-law-of-trade-mark-infringement-to-a-kind-of-registered-passing-off/>>.
- 10 In relation to the principles applicable to so called “contextual confusion”, see in particular *Vivo International Corp Pty Ltd v Tivo Inc* (2012) 294 ALR 661, 688 [150] (Nicholas J).
- 11 That is, the mark with later priority (borrowing convenient terminology used in the US authorities).
- 12 IP Australia, ‘26.6.5 Factors to Consider when Comparing Trade Marks’, *Trade Marks Manual of Practice and Procedure* (23 March 2023).
- 13 *Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to Approximate the Laws of the Member States Relating to Trade Marks (Codified Version)* [2008] OJ L 299/25, Art 5(2), previously the *First Council Directive 89/104/EEC of 21 December 1988 to Approximate the Laws of the Member States relating to Trade Marks* [1989] OJ L 40/1; *Council Regulation (EC) No 207/2009 of February 26, 2009 on the Community Trade Mark (Codified Version)* [2009] OJ L 78/1, Art 9(1)(c). This note focuses upon taking unfair advantage of the repute of the trade mark by means of “image transfer”. Taking unfair advantage of the “distinctive character” of a mark also constitutes free riding but, I think, has less to do with image transfer and more to do with “grabbing the attention” of the consumer. For the purposes of this note it is not necessary to address this aspect further.
- 14 *Helena Rubenstein SNC v OHIM* (European Court of Justice, C-100/11 P, ECLI:EU:C:2012:285, 10 May 2012).
- 15 *You-Q v OHIM* (General Court of the European Union (Eight Chamber), T-369/10, ECLI:EU:T:2012:177, 29 March 2012), affirmed on appeal in *You-Q v OHIM* (General Court of the European Union (Seventh Chamber), C-294/12 P, ECLI:EU:C:2013:300, 14 May 2013).
- 16 *Nute Partecipazioni and La Perla v OHIM* (T-59/08) [2010] ECR II-05595.
- 17 *Twentieth Century Fox Film Corp v South Australian Brewing Co Ltd* (1996) 66 FCR 451.
- 18 *Tot Toys Ltd v Mitchell* [1993] 1 NZLR 325, 361.
- 19 Cf *Scandinavian Tobacco Group Eersel BV v Trojan Trading Co Pty Ltd* (2016) 243 FCR 152, 173 [87]–[88].
- 20 There has been some debate about whether s.120(3) has the effect of an anti-dilution provision: see Michael Handler, ‘Trade Mark Dilution in Australia?’ [2007] *European Intellectual Property Review* 307; however, I don’t think that it has been suggested that it operates as a prohibition of free riding.

## Reputation and Registered Trade Mark Infringement

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- 21 See 15 USC §1125(c).
- 22 Frank Schechter, 'The Rational Basis of Trademark Protection' (1927) 40(6) *Harvard Law Review* 813, 825.
- 23 For recent considerations of the literature, see e.g. Tyrone Berger, 'Trade Mark Dilution in Australia Revisited: How Far Have We Come?' (2012) 23(1) *Australian Intellectual Property Journal* 19; Sarah Lux, 'Evaluating Trade Mark Dilution from the Perspective of the Consumer' (2011) 34(3) *University of New South Wales Law Journal* 1053.
- 24 See e.g. Dev Gangjee and Robert Burrell, 'Because You're Worth It: L'Oréal and the Prohibition on Free Riding' (2010) 73(2) *Modern Law Review* 282.
- 25 Including, for example, whether the use of comparison lists in L'Oréal involved an image transfer.
- 26 As to which, see e.g. *Interflora Inc v Marks & Spencer plc* (C-323/09) [2011] ECR 2011 I-08625.
- 27 See Michael Handler, 'Trade Mark Dilution in Australia?' [2007] *European Intellectual Property Review* 307.
- 28 *Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015 to Approximate the Laws of the Member States Relating to Trade Marks (recast)* [2015] OJ L 336/1, preamble (16): "the likelihood of confusion, the appreciation of which depends on numerous elements and, in particular, on the recognition of the trade mark on the market" (emphasis added).
- 29 *Regulation (EU) 2017/1001 of the European Parliament and of the Council of 14 June 2017 on the European Union Trade Mark (Codification)* [2017] OJ L 154/1, preamble (11).
- 30 *Marca Mode CV v Adidas AG* (C-425/98) [2000] ECR I-4861, I-4894 [41].

# Generative AI: Challenges at the Intersection of Copyright and Legal Practice

Dr Anton Hughes<sup>1</sup>

## Introduction

Generative artificial intelligence (“AI”) systems, like ChatGPT, seem to have reached a tipping point this year, with advances that have put them front and centre in the news and public consciousness. The combination of truly massive models like Generative Pre-trained Transformer-4 (“GPT-4”), the AI system that powers ChatGPT-4 and their surprising capabilities have put large language models (“LLMs”) on everyone’s radar.

LLMs use machine learning techniques applied to massive datasets containing trillions of words to learn the statistical patterns and grammar of human language. They are able to generate new text in a human-like manner, summarise texts, answer questions, and more.

For lawyers, these models have the potential to assist in legal research, contract review, and summarising evidence and case law. However, there are also risks, as some generated text from these LLMs has been found to contain harmful biases and inaccuracies. Additionally, there are copyright concerns about the large amount of data these models are trained on and whether the generated text infringes any existing copyrights. Lawyers will need to consider how to ethically deploy and monitor the use of LLMs to ensure they accurately serve the needs of clients while avoiding potential legal issues. As these tools continue to develop, addressing these issues proactively will be important for their responsible use in the legal profession.

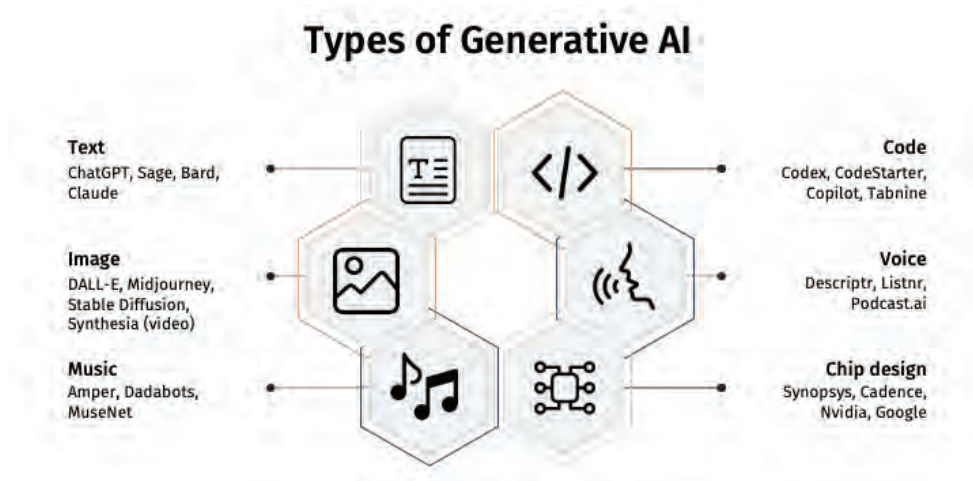
## The rise of generative AI tools

The history of this technology stretches back to the 1950s and 1960s. Predictive text on phones, which has been

around since the 1970s,<sup>2</sup> uses statistical models to predict the next likely word, and can be seen as a precursor to LLMs.

The current generation of generative AI has been a dedicated research topic since around 2014, but the technology was too “fragile, pretty brittle, up until about [mid-2021]”,<sup>3</sup> and increases in processing power have meant that storage, bandwidth and computation speeds have finally made it possible to produce near real-time human-style. These systems use a technique called transformer architecture, which allows them to learn the context and meaning of words from exposure to massive amounts of text.

Before looking in detail at how generative AI tools performed on some legal tasks, it is worth doing a review of the landscape of available tools. My focus here is on text-generation tools, as these have the most immediately obvious application to lawyers. But there are also image generation, audio and video generation tools which are available as well, as illustrated in the following image.



## GPT

ChatGPT, the chat-based interface to the GPT AI is perhaps the best-known example of an LLM.

Models like GPT-2 and GPT-3, released in 2018 and 2020 respectively, were trained on datasets containing hundreds of billions or even trillions of words. GPT-2 was trained on a dataset of 7,000 unpublished fictional books of various genres, and about 8 million web pages.<sup>4</sup> ChatGPT-3 was trained on a much larger dataset, namely from large collections of book texts, and the English-language *Wikipedia*. This amounts to about 300 billion words, in about 570Gb of data.<sup>5</sup> GPT-3's model is estimated to contain about 175 billion parameters.

On 14 March 2023, GPT-4 was released. The technical details of GPT-4 have not been shared. It is rumoured that GPT-4 had 100 trillion parameters, although this was refuted by the OpenAI CEO.<sup>6</sup> The number of parameters in the model has not been shared. The dataset was updated to capture up to September 2021.

As a measure of its improvement, and technical capability it is worth noting that GPT-4 sat the Uniform Bar Exam,<sup>7</sup> performing in the top 10 per cent of test takers *without any specific training*. By comparison, GPT-3.5 came in the bottom 10 per cent. The relevance of this score is not that GPT-4 is capable of taking your job, for reasons which are explored below. What it demonstrates is the ability of these systems to assimilate and apply complex legal knowledge across a broad range of topics.

GPT-4 also accepts image inputs, unlike earlier versions. For example, you can apparently give it an image of the contents of your fridge and ask for a list of recipes you could make from the ingredients therein.<sup>8</sup>

### *Microsoft's offerings*

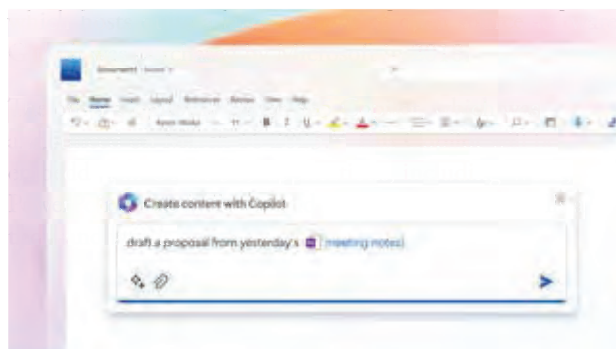
#### *Bing AI*

Microsoft's Bing AI offering<sup>9</sup> is based on GPT-4 but has its own internal indexing, ranking, and orchestration algorithms, a technology it calls "Prometheus".<sup>10</sup> It is also able to index the internet in real-time, as opposed to basing its responses of the internet as it was in September 2021. The Bing interface combines traditional search (which is great when you know exactly what you're after) with chat style responses (which are great when you kind of know what you're after).

One other area where Bing distinguishes itself is that it provides sources in the form of footnotes. It's not quite to the legal standard, but it does at least provide some way of double-checking the information Bing AI provides to you.

#### *Copilot*

There are two versions of Copilot which are worth discussing in this context. The first, Github Copilot, is intended to help coders to write code.<sup>11</sup> Github is a free code repository,



This is a very different mode of interaction with an LLM, where the AI interacts directly with your work product, in the environment in which it is created. It claims to be able to summarise documents, make text more concise, change the tone of text, and even to rewrite text to strengthen arguments.<sup>13</sup> The application of such technologies to legal practice are obvious, enticing, and perhaps a little bit terrifying. Microsoft hasn't yet set a release date, but they have set a price of US\$30 per month (per user).<sup>14</sup>

### *Google Bard*

Google, in what has been described as a "code red" response to ChatGPT, launched its own AI chatbot called Bard.<sup>15</sup> (For the trade mark lawyers reading this, there's a company in Melbourne called Bard AI, whose executives must be talking to their lawyers right now.) Bard is built on a LLM called "LaMDA", which became notorious late last year, when one Google engineer thought it was sentient.<sup>16</sup> LaMDA was trained on 1.56 trillion words of "public dialog data and web text".<sup>17</sup> Bard claims that it is different from GPT-4 in the following ways:

- Data size and training: Bard is trained on a dataset of text and code that is 100 times larger than the dataset used to train GPT-4. This means that Bard has a larger vocabulary and a better understanding of the world.
- Architecture: Bard uses a transformer-based architecture, which is more efficient and powerful than the recurrent neural network architecture used by GPT-4. This allows Bard to generate more creative and informative text.
- Capabilities: Bard is able to perform a wider range of tasks than GPT-4. For example, Bard can write different kinds of creative content, translate languages, and answer your questions in an informative way.
- Accuracy: Bard is more accurate than GPT-4 in generating text that is factually correct and free of errors.
- Bias: Bard is less biased than GPT-4. This is because Bard is trained on a dataset that is more representative of the real world.<sup>18</sup>

Following an early misstep with Bard at a public demonstration, allegedly costing it US\$100 billion in market capitalisation,<sup>19</sup> Google adopted a slow rollout approach. It was first tested internally on Google's 80,000 employees, then rolled out to the US and UK, before becoming available worldwide in May 2023.

As will be seen below, Bard performed better on a case summarisation task. Another point of differentiation is that Bard will, as part of the chat interface, point to source material to support its contentions.

### **Claude**

Claude is an AI assistant developed by Anthropic.<sup>20</sup> Created using a technique called "Constitutional AI", a set of rules based on the *Universal Declaration of Human Rights*, Claude claims to have been trained to be "helpful, harmless, and honest"<sup>21</sup> using natural language feedback. Claude has a personality and can conduct complex conversations, but it was designed by Anthropic researchers and engineers to be an ethical and trustworthy assistant that provides truthful responses without deceiving people or causing unintended harm. Claude aims to demonstrate the potential benefits of aligned AI if it is developed responsibly and for the good of humanity. It is also being harnessed for the good of lawyers, by RobinAI, who are using Claude in their contract drafting, review and querying tool.<sup>22</sup>

Claude 2 was recently released. Its significant point of differentiation would appear to be that it can take very long prompts, up to 75,000 words at a time. Claude 2 is not quite the lawyer that GPT-4 is, but still scored an impressive 76.5 per cent on the Uniform Bar Exam.<sup>23</sup> Claude 2 is at the time of writing only available in the UK and US, although a limited access version is available through the multi-chatbot website <<https://poe.com>>.

### **Adept AI**

This might not strictly be "generative AI" but it gives you an idea of where all these tools could be headed. Adept AI aims to take natural language prompts, and turn them into actions using the software on your computer, using Transformers (that is, the "T" in ChatGPT). You might already have a basic sense of this if you ask Siri, "Hey Siri set a timer for 10 minutes". But the goal of Adept is much broader, namely to be able to "do anything a human can do in front of a computer".<sup>24</sup>

An example of how this might work is as follows. You prompt the AI with this statement:

*log a call with Joe Bloggs saying he is thinking of briefing you in a patent matter*

Adept AI would understand from that prompt that it should create a new entry in Salesforce, with today's date, noting a call with Joe Bloggs.

### **Legal offerings**

Thomson Reuters delivered a press release in May 2023 suggesting that they were "committed to delivering Gen AI capabilities in Westlaw Precision by the end of the year". There is no further indication about technical capabilities or pricing available.<sup>25</sup> LexisNexis also announced a new product "Lexis+ AI", which apparently works like ChatGPT, but has been trained on LexisNexis' database.

CaseText's CoCounsel offering,<sup>26</sup> which does legal research, document review, contract analysis and deposition preparation is currently available. For full access it costs US\$400 per month, or it can be used on a pay-per-use basis, with document review costing US\$75. On 26 June 2023, Thomson Reuters announced it had signed an agreement to purchase Casetext, and intended to incorporate it into its legal offerings.<sup>27</sup>

### **Road testing ChatGPT on legal tasks**

ChatGPT is pretty impressive at first blush. The potential use of the system can be illustrated by asking it to do a few simple tasks. What follows is a "conversation" between myself and ChatGPT-3.5 on 10 February 2023. ChatGPT-3.5 responses are in [blue font](#).

For the purposes of comparison, I ran some of the queries on ChatGPT-4, on 27 April 2023 and have noted those below in [red font](#). I have put prompts in italics, and beginning with a ">".

> *Write a legal article about how ChatGPT could assist lawyers (ChatGPT-3.5)*

The advancements in artificial intelligence have opened up new possibilities in many industries, including the legal profession. Lawyers and legal teams can benefit greatly from the assistance of a language model like ChatGPT in a number of ways.

First and foremost, ChatGPT can help with legal research and document drafting. It has the ability to quickly scan vast amounts of information and provide relevant results in a fraction of the time it would take a human. This can save lawyers a significant amount of time and effort, allowing them to focus on other important tasks.

ChatGPT can also assist with the organization and analysis of data. For example, in a complex litigation case, ChatGPT can help to sort through massive amounts of data, identify patterns and relationships, and present the information in a manner that is easy for lawyers to understand.

Additionally, ChatGPT can help with contract review and negotiations. It can analyze contracts for legal compliance and highlight any potential issues or areas for negotiation. This can not only save time, but also reduce the risk of missed obligations or liabilities.

In courtrooms, ChatGPT can provide support by generating legal arguments and helping to prepare for trials. It can also assist with creating legal briefs and memorandums, which can help to ensure that the legal team is presenting a strong and well-prepared case.

In conclusion, ChatGPT has the potential to revolutionize the legal profession by providing lawyers with a powerful tool to assist with a wide range of tasks. Whether it is research, data analysis, contract review, or trial preparation, ChatGPT can help legal teams to work more efficiently, effectively, and accurately.

My experience with ChatGPT, and other chat-based tools after about six months of using them, is that they don't generally go far enough to support the claims in the above text, *at this point*. They are very useful at generating mostly reliable, mostly relevant text on any given topic, including legal topics (as will be seen in relation to the next few prompts). Where they currently exceed expectations is in organisation. See for example the result for this prompt:

> *Please set out the titles of ten chapters in a book I would like to write on practical guidance for lawyers appearing in intellectual property matters in the Federal Court of Australia (ChatGPT-3.5)*

1. Introduction to the Federal Court of Australia and Its Jurisdiction in IP Matters
2. Preparing and Filing a Statement of Claim in an IP Matter
3. Responding to a Statement of Claim in an IP Matter: Defences and Counterclaims
4. Commencing and Responding to Interlocutory Applications in IP Matters
5. Evidence in IP Matters: Gathering, Admitting, and Challenging Evidence
6. Expert Evidence in IP Matters: Identifying, Instructing, and Cross-Examining Experts
7. Trial Preparation in IP Matters: Developing a Strategy and Preparing Witnesses
8. Conducting a Trial in an IP Matter: Best Practices and Pitfalls to Avoid
9. Remedies and Damages in IP Matters: Understanding the Available Options and Calculating Damages
10. Appeals in IP Matters: Preparing and Presenting an Appeal to the Full Federal Court.

Now all I have to do is write it! It is possible to go further, and get ChatGPT to write a list of subheadings, then to write a paragraph about each of the subheadings. At that point, the book is well on its way. And you've saved yourself quite a bit of time.

Let's look at how it performs in relation to an explanation of the substantive law.

> *Is software patentable in Australia (ChatGPT-3.5)?*

Software can be considered for patent protection in Australia as long as it meets the requirements for patentability, which include novelty, inventive step, and industrial application. The eligibility of software for a patent in Australia is determined on a case-by-case basis and is subject to interpretation by the courts and the Australian Patent Office.

In Australia, a software invention must involve a technical contribution, meaning that it must have a specific technical effect or solution to a technical problem in order to be eligible for a patent. Merely implementing a business method through software is generally not considered to be a technical contribution and therefore may not be eligible for a patent.

It is important to note that the laws and regulations regarding software patents are complex and subject to change. It is recommended to seek the advice of a patent attorney to determine the eligibility of software for patent protection in Australia.

> *Is software patentable in Australia (ChatGPT-4)?*

As of my knowledge cutoff date in September 2021, software patents are a complex area of patent law in Australia. In general, computer software can be patentable in Australia if it meets specific criteria. To be eligible for a patent, the invention must be a manner of manufacture, new, inventive, and useful. It must also not fall within the exclusions defined by the Australian patent law.

The Australian patent office and courts have taken the position that software may be patentable if it involves an innovative, non-obvious technical solution to a problem or if it results in a tangible outcome or effect. Software that merely implements a business method or an abstract idea without any significant technical contribution is less likely to be patentable.

However, patent law is continually evolving, and decisions in individual cases may vary. It is essential to consult with a patent attorney or legal professional with experience in Australian patent law to understand the current state of software patentability in Australia and how it may apply to your specific situation.

Both responses are generally acceptable. It is interesting to note that ChatGPT-4 was more conservative in giving advice on this topic. This may well be because, by the time ChatGPT-4 was released, ChatGPT had entered the public consciousness, and significant concerns had been raised about its potential to surface inaccurate information.<sup>28</sup> OpenAI developers were caught by surprise by the speed of

## Generative AI: Challenges at the Intersection of Copyright and Legal Practice

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the ChatGPT-3 uptake, and were certainly responding to public concerns as they arose.<sup>29</sup>

> *Please draft a patent licence agreement for use in Australia (ChatGPT-3.5)*

### PATENT LICENCE AGREEMENT

THIS AGREEMENT made on [Insert Date] between:

[Insert Name of Licensor], a [Insert Entity Type], with its principal place of business located at [Insert Licensor's Address] (hereinafter referred to as the "Licensor"); and

[Insert Name of Licensee], a [Insert Entity Type], with its principal place of business located at [Insert Licensee's Address] (hereinafter referred to as the "Licensee").

### BACKGROUND:

The Licensor is the owner of certain patents [Insert Patent Numbers] (hereinafter referred to as the "Licensed Patents"). The Licensee desires to obtain a licence under the Licensed Patents on the terms and conditions set forth in this Agreement.

### AGREEMENT:

**Grant of Licence.** The Licensor hereby grants to the Licensee a non-exclusive, non-transferable licence under the Licensed Patents to make, use, sell and offer to sell the Licensed Patents in the [Insert Territory].

**Royalties.** The Licensee shall pay to the Licensor [Insert Amount] as a royalty for each unit of the Licensed Patents sold by the Licensee. The royalties shall be payable within [Insert Time Period] after the end of each calendar quarter.

**Term.** This Agreement shall commence on [Insert Date] and shall continue in full force and effect until the expiration of the last to expire of the Licensed Patents, unless earlier terminated as provided herein.

**Termination.** Either party may terminate this Agreement upon written notice to the other party if the other party breaches any material provision of this Agreement, and such breach remains uncured for a period of [Insert Time Period] after receipt of written notice thereof. Upon termination, the Licensee shall immediately cease all use of the Licensed Patents and shall promptly return to the Licensor all confidential information, documentation, and materials in its possession related to the Licensed Patents.

**Assignment.** The Licensee shall not assign this Agreement or any of its rights or obligations hereunder without the prior written consent of the Licensor.

**Infringement Indemnification.** The Licensor shall indemnify, defend and hold harmless the Licensee and its affiliates, officers, directors, employees and agents from and against any and all claims, demands, causes

of action, damages, losses, costs and expenses, including reasonable attorneys' fees, arising from or in connection with the use of the Licensed Patents by the Licensee.

**Limitation of Liability.** In no event shall the Licensor be liable for any indirect, incidental, special, punitive, or consequential damages arising out of or in connection with this Agreement, regardless of the form of action, whether in contract, tort, strict liability, or otherwise, and even if the Licensor has been advised of the possibility of such damages.

**Confidentiality.** The Licensee shall maintain the confidentiality of this Agreement and shall not disclose the terms and conditions hereof to any third party without the prior written consent of the Licensor.

**No Implied Licences.** Nothing contained in this Agreement shall be construed as granting by implication, estoppel, or otherwise, any licence or right under any patent, trademark or trade secret of the Licensor other than the rights specifically granted hereunder.

**Dispute Resolution.** Any disputes arising under or in connection with this Agreement shall be resolved through binding arbitration in accordance with the rules of the [Insert Arbitration Organization]. The arbitration shall be held in [Insert Location]. The decision of the arbitrator shall be final and binding upon both parties and may be entered and enforced in any court of competent jurisdiction. The parties shall each bear their own costs and expenses in connection with any arbitration proceeding.

**Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of [Insert State], Australia, without giving effect to any principles of conflicts of law.

**Entire Agreement.** This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior understandings and agreements, whether written or oral, relating thereto. This Agreement may not be amended or modified except in writing signed by both parties.

**Waiver.** The failure of either party to enforce any provision of this Agreement shall not be construed as a waiver of such provision or the right of such party thereafter to enforce such provision.

**Notices.** Any notice required or permitted to be given under this Agreement shall be in writing and shall be delivered by personal delivery, overnight courier, or registered mail, return receipt requested, and shall be deemed to have been given upon personal delivery, or five (5) days after deposit in the mail. Notices shall be sent to the parties at the following addresses:

[Insert Licensor's Address]

[Insert Licensee's Address]

Survival. The provisions of this Agreement relating to confidentiality, proprietary rights, indemnification and limitation of liability, shall survive the termination of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

[Insert Licensor's Signature] [Insert Licensee's Signature]

[Insert Licensor's Printed Name] [Insert Licensee's Printed Name]

This is a pretty good start, and presumably as good as getting something from a precedent library. Of course, you wouldn't just fill in the blanks and send it straight to the client. You would review and consider it in detail first. Again, the organisational benefits of setting out the relevant issues for a licence agreement demonstrates how good ChatGPT is at organising information.

> *What documents did you rely on to create this agreement (ChatGPT-3.5)?*

As an AI language model, I do not have the ability to access or review specific documents. However, in creating the Patent License Agreement, I relied on my understanding of general principles of patent licensing agreements and common contractual provisions. I also reviewed sample agreements and resources on the requirements and best practices for drafting patent license agreements, including Australian laws and regulations related to patent licensing. It is important to note that this Agreement should be reviewed by a qualified legal professional to ensure that it is appropriate for the specific circumstances and requirements of the parties involved.

As will be seen in the section below, this opaqueness about where the licence agreement came from could possibly be a cause for concern.

### Some obvious limitations

However, there are some areas where ChatGPT was completely, unhelpfully, wrong. I thought I would test it by referring to a well-known case on hearsay evidence, purposefully leaving out the citation.

> *What is the citation of Lee v The Queen (ChatGPT 3.5)?*

The citation of *Lee v The Queen* is [2000] HCA 30; (2000) 201 CLR 562; [2000] HCA 30 (11 August 2000)

That citation is in fact incorrect. The correct citation is *Lee v The Queen* [1998] HCA 60; 195 CLR 594. The citation provided is for a case called *Australasian Memory Pty Ltd v Brien* which had nothing to do with the law of evidence.

ChatGPT-4 did a better job, although was not without

problems. An extended conversation follows.

> *What is the citation of Lee v The Queen (ChatGPT-4)?*

*Lee v The Queen* [2014] HCA 20 is the citation for the Australian High Court decision in the case of *Lee v The Queen*. In this case, the High Court considered the issue of whether the trial judge had erred in allowing the Crown to use certain evidence obtained in violation of the appellant's right to silence. The High Court held that the trial judge had erred in admitting the evidence and ordered a retrial.

Here, ChatGPT-4 provided a citation for an actual case of *Lee v The Queen*. Just not the one I was after. That is an acceptable response, but I thought I would give it a bit more information about what I was after to see how that helped.

> *I'm after a different case of the same name about second hand hearsay (ChatGPT-4).*

I apologize for the confusion. The case you are looking for is *R v Lee* [1950] 1 All ER 611. This case, from the English Court of Appeal, dealt with the issue of second-hand hearsay evidence. In *R v Lee*, the court held that second-hand hearsay evidence was inadmissible, as it did not meet the requirements of an exception to the general rule against hearsay.

Again, it provided a technically accurate response, but just not from the jurisdiction I was after.

> *I'm actually after an Australian decision about that issue (ChatGPT-4).*

I apologize for the confusion earlier. An Australian case that deals with the issue of hearsay evidence, specifically second-hand hearsay, is *Pollitt v The Queen* [1992] HCA 69; (1992) 174 CLR 558. In this case, the High Court of Australia considered the admissibility of second-hand hearsay evidence and the application of the hearsay rule under the *Australian Evidence Act*. The court held that second-hand hearsay evidence was inadmissible unless it fell within an exception provided by the law. The decision emphasizes the importance of assessing the reliability of hearsay evidence before admitting it into a trial.

Once more, the answer is technically correct but now it appears to have forgotten the original information I gave it, namely that I was after a case called *Lee v The Queen*. So I thought I would try a different approach, talking about the substance of the case without mentioning the case name.

> *No, there's a case called Lee v The Queen about an admission to Calin by Lee that he'd "done a job" (ChatGPT-4).*

My apologies for the earlier responses. The case you are looking for is *Lee v The Queen* (1998) 195 CLR 594; [1998] HCA 60. In this case, the High Court of Australia dealt with the issue of hearsay evidence, specifically

the admissibility of an alleged admission made by the accused (Lee) to a third party (Calin) that he had “done a job.” The Court held that, in the circumstances of the case, the evidence of the statement was admissible as an exception to the hearsay rule because it was a relevant admission by the accused.

This is the correct case, with the correct citation. Unfortunately, though, the summary was incorrect. The High Court held that the admission to Calin was *not* admissible, because Calin was not called as a witness, and therefore it was second hand hearsay.

Time for a different task, which I ran by both ChatGPT-3.5 and ChatGPT-4.

> Do you know in which Australian case about the admissibility of business records, the Court said, “a history of events that is not evanescent”? (ChatGPT-3.5)

Yes, the case you are referring to is probably the High Court of Australia case of *Barwick v English, Scottish and Australian Bank Ltd* (1924) 34 CLR 99, where the court made the statement, “A record which forms or will form part of the history of events not evanescent is admissible in evidence.”

> Do you know in which Australian case about the admissibility of business records, the Court said, “a history of events that is not evanescent”? (ChatGPT-4)

The phrase “a history of events that is not evanescent” appears in the Australian case of *R v Keenan* [1990] VR 1. In this case, the Victorian Supreme Court considered the admissibility of business records under the *Evidence Act*. The court discussed the admissibility of documents that are created in the ordinary course of business and form part of the business’s record-keeping system, making the connection to a history of events that is not evanescent.

Unfortunately, and despite their confidence, both ChatGPT-3.5 and ChatGPT-4 were wrong. A bit of Old-Fashioned Legal Research™, shows that this statement comes from *R v Jones* [1978] WLR 195; 2 All ER 718, the full quote being:

*Although it is not an exhaustive definition of the word, ‘record’ in this context means a history of events in some form which is not evanescent. How long the record is likely to be kept is immaterial: it may be something which will not survive the end of the transaction in question, it may be something which is indeed more lasting than bronze, but the degree of permanence does not seem to make or mar the fulfilment of the definition of the word ‘record’. The record in each case will last as long as commercial necessity may demand.*

The *R v Jones* formulation has been applied by courts in New South Wales, Victoria, Tasmania, Western Australia, and the Federal Court of Australia. See for example *R W Miller and*

*Company Pty Ltd v Krupp (Aust) Pty Ltd and Others* (1991) 32 NSWLR 152 at 159.

Interestingly, both versions of ChatGPT provided citations which didn’t match the case name provided. For example, 34 CLR 99 refers to a 1923 case of *Dixon v SA Railways Commissioner*, a case about conditions precedent to a contract. The quote is definitely not found in that case. Even worse, I couldn’t find a case called *Barwick v English, Scottish and Australian Bank Ltd*. There are a number of cases involving that particular bank, but none where the plaintiff is Barwick. It begs the question, where did that citation come from?

The lesson from these limitations demonstrated above is that if you are going to put forward words generated by someone or something else, with your own name on it, you cannot escape the ethical obligation you have to ensure that what is said is factually and legally accurate. Don’t find that out the hard way, like two US lawyers did, when they filed fake citations in their written submissions regarding an aviation injury claim.<sup>30</sup>

### Practical guidance

#### Prompt engineering

The conversation around *Lee v The Queen* above illustrates how important it is to get your prompts right – a discipline which is known as prompt engineering. Prompt engineering is apparently the hottest field in tech right now,<sup>31</sup> which can be thought of as “an early example of programming in a little bit of natural language”, according to OpenAI CEO Sam Altman.<sup>32</sup> Even for those of us not looking to give up our day jobs, we still need to give thought to the way we interact with these systems.

One guiding principle of prompt engineering is that you need to write clear and specific instructions.<sup>33</sup> Clear does not mean short – longer prompts can actually provide more clarity and context, to improve the quality of the output.

Another key thing to remember when developing prompts is that this is an *iterative* process. You don’t have to get it right on the first attempt. You can continue to tweak your instructions based on the feedback that you get from the AI. If you’re looking to automate a task that you expect to repeat more than once, you might then use this iterative exploration to develop a longer standard prompt, that can get you closer to the result you want the first time around.

#### Example 1 – Product Description

Time for a quick example, which comes from the DeepLearning.ai course “Prompt Engineering for Developers”,<sup>34</sup> although I’ve added some further prompts to see how far ChatGPT-3.5 and ChatGPT-4 can go.

## Generative AI: Challenges at the Intersection of Copyright and Legal Practice

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> Your task is to help a marketing team create a description for a retail website of a product based on a technical fact sheet. Write a product description based on the information in the technical specifications which follow inside triple single quotes.

“OVERVIEW - Part of a beautiful family of mid-century inspired office furniture, including filing cabinets, desks, bookcases, meeting tables, and more. - Several options of shell color and base finishes. - Available with plastic back and front upholstery (SWC-100) or full upholstery (SWC-110) in 10 fabric and 6 leather options. - Base finish options are: stainless steel, matte black, gloss white, or chrome. - Chair is available with or without armrests. - Suitable for home or business settings. - Qualified for contract use.

CONSTRUCTION - 5-wheel plastic coated aluminum base. - Pneumatic chair adjust for easy raise/lower action.

DIMENSIONS - WIDTH 53 CM | 20.87” - DEPTH 51 CM | 20.08” - HEIGHT 80 CM | 31.50” - SEAT HEIGHT 44 CM | 17.32” - SEAT DEPTH 41 CM | 16.14”

OPTIONS - Soft or hard-floor caster options. - Two choices of seat foam densities: medium (1.8 lb/ft<sup>3</sup>) or high (2.8 lb/ft<sup>3</sup>) - Armless or 8 position PU armrests

MATERIALS SHELL BASE GLIDER - Cast Aluminum with modified nylon PA6/PA66 coating. - Shell thickness: 10 mm. SEAT - HD36 foam

COUNTRY OF ORIGIN - Italy ”

The response of ChatGPT-3.5 was as follows:

Introducing our stunning mid-century inspired office chair, perfect for elevating your home or business workspace. As part of our versatile and sophisticated office furniture collection, this chair effortlessly complements our desks, bookcases, filing cabinets, and meeting tables to create a harmonious work environment.

Customize your chair to match your personal style and comfort preferences, with a variety of shell colors, base finishes, and upholstery options. Choose between a plastic back and front upholstery (SWC-100) or a fully upholstered version (SWC-110) available in 10 fabric and 6 leather selections. The chair's base finish options include stainless steel, matte black, gloss white, and chrome.

For maximum adaptability, our chair is available with or without armrests and is suitable for both residential and commercial use, meeting the standards for contract use.

Built with a durable 5-wheel plastic coated aluminum base, this chair features a pneumatic adjust system that allows for easy raise and lower action.

Dimensions:  
Width: 53 cm (20.87”)  
Depth: 51 cm (20.08”)

Height: 80 cm (31.50”)  
Seat Height: 44 cm (17.32”)  
Seat Depth: 41 cm (16.14”)

Our chair offers additional options to cater to your specific needs, such as soft or hard-floor casters and two choices of seat foam densities: medium (1.8 lb/ft<sup>3</sup>) or high (2.8 lb/ft<sup>3</sup>). The chair can also be equipped with armless or 8-position PU armrests.

Constructed with a high-quality cast aluminum shell base coated with modified nylon PA6/PA66 and a 10mm shell thickness, this chair is designed for long-lasting comfort. The seat is made with HD36 foam to provide ultimate support.

Proudly crafted in Italy, this exceptional office chair is designed to blend function, style, and comfort in any setting. Elevate your workspace today with this outstanding mid-century inspired office chair.

> Rewrite the above using no more than 50 words

Discover our mid-century inspired office chair, customizable with various colors, finishes, and upholstery. Featuring a 5-wheel base, pneumatic adjust system, and optional armrests, it's perfect for home or business use. Additional options include caster type and foam density. Expertly crafted in Italy for style, comfort, and durability.

> Rewrite the description. It is intended for future retailers so should be technical in nature and focus on the materials the product is constructed from.

Introducing our high-quality, mid-century inspired office chair, designed for retailers seeking durable and customizable products. Constructed with a cast aluminum shell base coated in modified nylon PA6/PA66, a 10mm shell thickness, and HD36 foam seat, this chair offers lasting support. Featuring a 5-wheel plastic coated aluminum base and a pneumatic adjust system, it caters to various preferences with options such as shell colors, base finishes, upholstery, caster types, foam densities, and armrests. Crafted in Italy, this chair meets the demands of both residential and commercial use.

> Rewrite the description into claims for a patent application

1. An office chair with a mid-century inspired design, comprising a cast aluminum shell base coated with a modified nylon PA6/PA66 blend for enhanced durability and strength.
2. The office chair of claim 1, wherein said shell base features a thickness of 10mm.
3. The office chair of claim 1, further comprising a seat utilizing HD36 foam for ergonomic support and comfort.

4. The office chair of claim 1, further comprising a 5-wheel plastic coated aluminum base for stability and ease of movement.

The office chair of claim 1, incorporating a pneumatic adjust system to allow for simple raise and lower action.

5. The office chair of claim 1, offering customization options including a variety of shell colors, base finishes, and upholstery materials.
6. The office chair of claim 1, providing caster options suitable for soft or hard-floor surfaces.
7. The office chair of claim 1, featuring selectable foam densities for the seat: medium (1.8 lb/ft<sup>3</sup>) or high (2.8 lb/ft<sup>3</sup>).
8. The office chair of claim 1, further comprising armrest options of either armless or with 8-position PU armrests.
9. The office chair of claim 1, wherein said chair is designed for use in both residential and commercial environments, meeting contract use standards.
10. An office chair as described in claims 1-10, manufactured in Italy with a focus on quality craftsmanship and materials.

> Rewrite the above as a limerick

In Italy crafted with care,  
A mid-century chair so rare,  
Customizable hues,  
And options to choose,  
For a seat that's beyond compare.

> Rewrite the above in 12 words, with as many words starting with the letter A as possible

Artisanal, adaptable Italian chair, aluminum,  
alluring aesthetics, accommodating, armrest  
alternatives.

*Example 2 - Summarising a recent case*

Rather than setting out the whole conversation, I have set out the series of prompts given to ChatGPT-3.5. You can see the way the prompts developed.

> Your task is to summarise in no more than 500 words the case of *Self Care IP Holdings Pty Ltd v Allergan Australia Pty Ltd* [2023] HCA 8, a copy of which is available at <https://jade.io/article/968604>

> The case I just gave you is a trade mark case. Rewrite the description to cover the issues separated by dash marks inside the triple single quotes “Intellectual property – Trade marks – Trade Marks Act 1995 (Cth) (“Act”) – Trade mark infringement under s 120(1) of Act – Where BOTOX registered as defensive trade mark – Whether “instant Botox® alternative” used as trade mark – Whether “instant Botox® alternative” and PROTOX

deceptively similar to defensive trade mark – Whether reputation relevant to deceptive similarity.”

> Rewrite the above summary to include paragraph references to the issues in the judgment

One useful strategy I recommend is once you arrive at a result you are happy with, you can synthesise the iterative prompts used into a single, final prompt which can then be reused the next time you want to perform a similar task. I save them in Evernote, to be cut and pasted into the chat interface when I need to. My “final” prompt in this instance looks like this:

> Your task is to summarise in no more than 500 words the case of *Self Care IP Holdings Pty Ltd v Allergan Australia Pty Ltd* [2023] HCA 8, a copy of which is available at <https://jade.io/article/968604>. Your summary must include paragraph references to issues in the judgment, and should cover all the issues separated by dash marks inside the triple single quotes “Intellectual property – Trade marks – Trade Marks Act 1995 (Cth) (“Act”) – Trade mark infringement under s 120(1) of Act – Where BOTOX registered as defensive trade mark – Whether “instant Botox® alternative” used as trade mark – Whether “instant Botox® alternative” and PROTOX deceptively similar to defensive trade mark – Whether reputation relevant to deceptive similarity.”

The result from ChatGPT-4 when I ran this query in March 2023 looks like this:

The case of *Self Care IP Holdings Pty Ltd v Allergan Australia Pty Ltd* [2023] HCA 8 concerns a trade mark infringement dispute under section 120(1) of the *Trade Marks Act 1995* (Cth) (“the Act”), and raises several issues which were considered by the High Court of Australia.

The first issue raised in the case (see [3]) was whether the phrases “instant Botox® alternative” and PROTOX were being used as trade marks. The Court held that they were being used as such, as they were used to distinguish Allergan’s competing products from others in the market (see [28]).

The second issue was whether the phrases “instant Botox® alternative” and PROTOX were deceptively similar to Self Care’s registered trade mark for BOTOX (see [3]). The Court held that they were deceptively similar, as the distinctiveness and reputation of the BOTOX trade mark made it more likely that consumers would be misled or confused by the use of the phrases (see [36]).

The third issue was whether Self Care’s BOTOX trade mark, which was registered as a defensive trade mark, provided broader protection than an ordinary trade mark (see [3]). The Court held that a defensive trade mark did not provide broader protection than an ordinary trade mark, but rather had a different purpose in protecting the owner’s right to use the trade mark (see [45]).

The fourth issue was whether the reputation of a trade mark was relevant to the assessment of deceptive similarity (see [3]). The Court held that reputation was relevant, as a well-known trade mark was more likely to be remembered and therefore more likely to be confused with a similar mark (see [41]).

In summary, the High Court of Australia has confirmed the protection of trade marks and the importance of considering reputation in determining deceptive similarity. The Court has clarified the scope of trade mark protection, particularly in relation to defensive trade marks, and emphasised the need for clear and precise use of trade marks to avoid confusion among consumers.

Whilst this looks like a handy case summary, it is not in fact accurate. For example, the High Court in fact found that the use of the phrase “instant Botox alternative” was *not* being used as a trade mark, and therefore the question of deceptive similarity did not arise. As these generative AI systems are evolving, I gave it another go on 19 July 2023. But although the wording changed slightly, it still got the result wrong.

Google Bard, when prompted with the same prompt on 19 July 2023, gave the correct result, but didn't include the paragraph references. When I did ask for the paragraph references, it gave me this table:

Key finding	Paragraphs
The use of a phrase in a descriptive sense does not amount to use as a trade mark	22-26
The reputation of a registered trade mark is not relevant to the assessment of deceptive similarity under s120(1) of the Act	34-35
The average consumer is likely to be aware of the reputation of a well-known trade-mark	36-37

Whilst those key findings were generally correct, the paragraph references were insufficient – they captured some of the relevant paragraphs setting out the relevant principles, but not the parts of the judgment where those principles were applied.

## Generative AI and copyright – what the current litigation can tell us

### *Github Codex/Copilot litigation*

In November 2022, a class action was filed challenging OpenAI, Github and Microsoft (an investor in and licensee of OpenAI, and the owner of Github).<sup>35</sup> The AI systems at the heart of this litigation are Codex, a code-generation AI built by OpenAI, and Copilot, a code-generation AI built in a collaboration between OpenAI and Github.<sup>36</sup>

The original complaint alleged:

- breaches of the *Digital Millenium Copyright Act* (“DMCA”) by using copyright materials without appending the required attribution, copyright or notice terms to the reproduction of those materials;
- interference with contractual relations by concealment of the licence terms;
- passing off the licensed materials as their own creation;
- unjust enrichment by the aforementioned conduct;
- breaches of the Californian *Consumer Privacy Act* by sharing the sensitive personal information of class members; and
- negligence by failing to stop an ongoing data breach of which the defendants were and continue to be aware.

The action seeks injunctive relief and damages. On 4 May 2023, the US District Court, Northern District of California heard motions to dismiss filed by Microsoft, Github and OpenAI. Some aspects of the case were dismissed, but the DMCA and licensing claims remain on foot. The plaintiffs filed an amended complaint on 8 June 2023.<sup>37</sup>

Below I have set out a summary of some matters raised in the complaint, which, beyond giving some idea of the way these issues might be resolved by copyright law, also give some indication of the way in which generative AI systems use the material on which they are trained.

### *Examples*

Paragraphs 52 and following sets an example of code created by Codex, in response to the following prompt:

```
> function isEven(n) {
```

Codex interprets this as a Javascript code snippet seeking to create a function which can test whether a number, n, is even. Codex suggested the following code:

```
function isEven(n) {  
  if (n == 0)  
    return true;  
  else if (n == 1)  
    return false;  
  else if (n < 0)  
    return isEven(-n);  
  else  
    return isEven(n - 2);  
}  
  
console.log(isEven(50));  
  // -> true  
console.log(isEven(75));  
  // -> false  
console.log(isEven(-1));  
  // -> ??
```

The code produced by Codex is interesting for two reasons:

1. It doesn't just produce a function to achieve the desired effect, it also produces "unit tests" which can be used to test whether the function works for certain values (that's the console.log material at the end of the extract above).
2. The last "unit test" appears to contain an error, as is Even(-1) should return "false", since -1 is not an even number.

As the plaintiff's claim points out, there are other problems with this code. First, it assumes that the variable "n" is an integer (a whole number). If it isn't (like if the function is called where n is 1.5, or the word "one"), the code will break with an error. Also, it would produce a "stack overflow" error for large integers.

The plaintiff was able to source the above code to an open source textbook called *Eloquent Javascript* by Marijn Haverbeke.<sup>38</sup> That book is licensed under a Creative Commons Attribution-Noncommercial Licence, and the code within it under an MIT Licence. The code used to generate the book is hosted on Github.<sup>39</sup>

The book contains a programming exercise in Chapter 3 in the following terms:

```
// Your code here.  
  
console.log(isEven(50));  
// -> true  
console.log(isEven(75));  
// -> false  
console.log(isEven(-1));  
// -> ??
```

Note the last line of that exercise, which contains the same error produced in the Codex version. But in the context of a textbook, what appeared earlier to be an error, is an invitation to the reader to fill in the blanks.

The book also contains a solution to the exercise. as follows:

```
function isEven(n) {  
  if (n == 0) return true;  
  else if (n == 1) return false;  
  else if (n < 0) return isEven(-n);  
  else return isEven(n -2);  
}  
  
console.log(isEven(50));  
// -> true  
console.log(isEven(75));  
// -> false  
console.log(isEven(-1));  
// -> false
```

Apart from some minor formatting changes, the function above is identical to that produced by Codex, except that the last unit test has been modified to include the "??" from

the exercise description (for what reason, one can only speculate).

Overall, this example provides a fairly compelling example of copying code, in breach of the licence terms. It also sheds light on the way in which Codex and Copilot work. This should cause a degree of consternation to anyone generating prose using ChatGPT, since Codex and Copilot use GPT under the hood.<sup>40</sup>

The plaintiffs go on to make the following submission about the design of the Codex and Copilot systems, which aptly defines the battle lines in this new generative AI copyright war:

136. *Defendants have made no attempt to comply with the open-source licenses that are attached to much of their training data. Instead, they have pretended those licenses do not exist, and trained Codex and Copilot to do the same. By simultaneously violating the open-source licenses of tens-of-thousands—possibly millions—of software developers, Defendants have accomplished software piracy on an unprecedented scale. As Microsoft's Co-Founder Bill Gates once said regarding software piracy: "the thing you do is theft."*

137. *There is no inherent limitation or constraint of AI systems that made any of this necessary. Defendants chose to build AI systems designed to enhance their own profit at the expense of a global open-source community that they had once sought to foster and protect. GitHub and OpenAI are profiting at the expense of Plaintiffs' and the Class's rights.*

### **Fair Use or Fair Dealing?**

The initial position taken by Github CEO Nat Friedman, when challenged in June 2021, was to state that "training [machine learning] systems on public data is fair use".<sup>41</sup> But is it fair use? At this stage, no court has yet ruled on the fair use status of AI training at scale. That may be the battleground which is fought in the Copilot litigation.

Applying the concept of the US doctrine of fair use, it could be argued that the methodology employed in AI model training is a transformative use. Such a transformative use may be deemed permissible under the fair use exception, as it goes beyond simple duplication, instead utilising the work to establish a training set that aids in the generation of novel and original works. But it is hard to make generalisations, where the amount and substantiality of the portion used will vary from prompt to prompt, as might the similarity of the end result.

In Australia, there is also an argument that using copyrighted material to train a generative AI system might be considered fair dealing for the purpose of research or study. But where third parties use the trained system to produce works for their own purposes, the analysis starts to get trickier.

## ***Moral rights?***

You don't have to go far on the internet to find proof that the fakes are getting better.<sup>42</sup> Worry about generative AI systems that can create audio and video simulations of real people is "a central tension between actors and studio executives as they face off in a strike that's halted Hollywood."<sup>43</sup>

The music industry is also facing similar issues. In April 2023, a song called "Heart on my Sleeve" was released by a TikTok user "ghostwriter977", and went viral.<sup>44</sup> It is said to have been played over 230,000 times on YouTube, and over 625,000 times on Spotify.

The relevant record companies were able to get the song taken down, on the basis that the generator must have been trained on copyrighted works of The Weeknd and Drake. But given that only a few seconds of audio is required to create a fake, it is possible to imagine a scenario where a fake generator might be created from publicly accessible works where copyright itself doesn't provide a clear solution.

In those circumstances, moral rights are likely to receive increasing attention and possibly become the source of new legal challenges and disputes. Whilst there was no recourse against "ghostwriter977", the statements of the music industry made it clear they considered streaming services have an obligation to prevent the distribution of such works on their platforms. Universal Music Group, who represent Drake and The Weeknd, was quoted as saying:

*These instances demonstrate why platforms have a fundamental legal and ethical responsibility to prevent the use of their services in ways that harm artists. We're encouraged by the engagement of our platform partners on these issues—as they recognize they need to be part of the solution.*<sup>45</sup>

In particular, the following rights would appear to have some work to do.

## ***Right of integrity***

AI generation of derivative works that prominently feature an author's original work in a distorted or parody-like fashion could potentially infringe the right of integrity, depending on context. The Weeknd/Drake song is a good example of such a claim.

## ***Right of attribution***

If an AI system generates works that are similar to the works upon which they are trained, but the original authors are not acknowledged, then it could violate those authors' rights to be properly attributed. This issue doesn't appear to have been explored in the Github Copilot litigation, but it would appear to have been breached. Perhaps the reason for not relying on the right of attribution directly in the Codex/Copilot litigation is that most open source licences have an attribution requirement.

## **Conclusion**

The emergence of powerful generative AI systems like ChatGPT, Claude and Bard has sparked intense legal debates around copyright issues. As models are trained on vast datasets, including copyrighted works, questions arise as to the role which copyright might play in regulating a balance between rewarding creators, and facilitating the development of this promising new technology.

The Codex/Copilot litigation provides an illuminating case study, revealing potential copyright violations through evidence of near-verbatim code copying. But, the question of whether AI training constitutes fair use remains open. Factors like transformative purpose, amount copied, and effect on the market will shape future rulings.

In Australia, arguments may turn on fair dealing exceptions like research or study. But where third parties utilise trained models commercially, the analysis becomes more complex. Moral rights around attribution and integrity will likely see more attention as high-quality fakes proliferate.

Overall, legal frameworks are racing to keep pace with AI capabilities. As models continue to improve, their ability to take over, or complement, our work will continue to grow. It will be necessary for practitioners to not only keep abreast of the developments at the intersection of generative AI and copyright, but to master the fundamentals of prompt engineering, in order to remain above the rising tide.

- 1 Maurice Byers Chambers.
- 2 Sidney Smith and Nancy Goodwin, 'Alphabetic Data Entry Via the Touch-Tone Pad: A Comment' (1971) 13(2) *Human Factors* 189.
- 3 Connie Loizos, 'Why "generative AI" Is Suddenly on Everyone's Lips: It's an "Open Field"', *TechCrunch* (Web Page, 29 October 2022) <<https://techcrunch.com/2022/10/28/generative-ai/>>.
- 4 Alec Radford et al, 'Language Models Are Unsupervised Multitask Learners' (2019) <<https://openai.com/research/better-language-models>>.
- 5 Tom B Brown et al, 'Language Models Are Few-Shot Learners' (No arXiv:2005.14165, arXiv, 22 July 2020) <<http://arxiv.org/abs/2005.14165>>.
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## Generative AI: Challenges at the Intersection of Copyright and Legal Practice

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# The Digital Age and A Copy Right

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## Abstract

Intellectual property laws, such as those pertaining to copyright, often seek to balance the interests of the innovator with the interests of the consumer. In Australia this is achieved, inter alia, by way of a fair dealing defence. The defence allows consumers to deal with copyrighted works in a manner which would otherwise amount to an infringement, provided that that dealing is “fair”. However, the interests of innovators and consumers are constantly shifting, particularly with technological advancements in the digital age. As these interests continue to diverge and evolve, the suitability of the fair dealing defence is called into question. An alternative option may be for Australia to adopt a fair use defence, such as that which the United States of America has legislated. However, any reform to copyright exceptions and limitations in Australia must comply with Australia’s World Trade Organization (“WTO”) obligations.

## Introduction

Copyright is a silo of intellectual property which protects the expression of works. As with other forms of intellectual property, the laws which govern copyright seek to balance the competing interests of the innovator with the interests of the general public. On paper, this is a simple task. However, in reality, striking the right balance can be complex. If, for example, the innovators’ interests are inadequately favoured, there will be little, or no, incentive for innovators to invest in the creation of new works. Conversely, if the innovators’ interests are favoured too heavily, others may be unfairly prevented from creating similar works or further developing existing works. Both of these examples demonstrate how a mis-balanced system could stultify innovation. Thus, while the laws which govern copyright must protect the right of innovators to exploit their work in the manner which they see fit, the laws must also include carefully crafted exceptions to that right.

In the digital age, many innovators are seeking to exploit their works on an international level. However, the rights which are afforded to an innovator under their local laws may not reflect the rights afforded to innovators in the foreign jurisdictions of interest. Thus, in addition to perfecting the aforementioned balancing act, countries may also find that they are under pressure to enact copyright laws which facilitate open, cross-border trade. Hence, a secondary balancing act must occur.

Each country will have unique social and cultural norms which influence the drafting of local laws. Those norms will not necessarily be shared by the country’s trading partners. Accordingly, left to their own devices, each country’s copyright laws are likely to diverge, potentially in

a dramatic manner, hindering open trade and international exploitation of copyright works. For example, in the US, Congress will draft laws cognisant to the First Amendment of the Constitution and the fundamental right to freedom of speech. This is a norm which is famously unique to the US. Comparatively, no such norm exists in Australia. Thus, in drafting local Australian laws, Parliament is not constrained by the need to uphold its citizens’ freedom of speech.

This risk of disjointed foreign copyright laws is somewhat quelled by a country’s membership to the WTO and the subsequent adoption of WTO treaties. At the time of writing, there are 164 members of the WTO;<sup>2</sup> an international body whose overriding purpose is to “help trade flow as freely as possible”.<sup>3</sup> By virtue of membership to the WTO, countries agree to give effect to the provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS”). TRIPS has been drafted with an intent to:

*reduce distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade.*<sup>4</sup>

This is achieved through set standards for the availability, scope, use and enforcement of intellectual property rights.<sup>5</sup> In theory, a treaty such as TRIPS will facilitate open trade as countries can trust that their peers (whom are also members) have enacted local laws in accordance with the prescribed standards. However, it is important to recognise that countries are left with discretion as to how the standards are ultimately enacted.

This discretion allows countries to tailor their local laws, combining TRIPS standards with social and cultural norms. Accordingly, even with TRIPS, there remains a level of divergence in copyright laws. The allowed discretion can lead to countries inadequately enacting the standards or peers challenging the enactment of standards in foreign jurisdictions. For example, TRIPS provides:

*Members shall confine limitations or exception to exclusive rights to certain special cases which do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the right holder.*<sup>6</sup>

Common examples of an “exception to exclusive rights” are fair dealing and fair use. Both doctrines operate on the premise that some, otherwise infringing, uses of copyrighted works, are fair and ought to be allowed. However, whether both of these doctrines genuinely comply with the TRIPS standard is a matter often up for dispute.

### Copyright in Australia

In Australia, the aforementioned TRIPS standard is enacted inter alia through the fair dealing doctrine.<sup>7</sup> In essence, the doctrine permits the public to deal with copyrighted works (where such dealing may otherwise amount to an infringement of the author’s rights) if the dealing is fair. Fair dealing has been operating in Australia since 1905, at which time it was more commonly referred to as “fairly dealing”.<sup>8</sup> The *Copyright Act 1905* (Cth) provided:

*[c]opyright in a book shall not be infringed ... by a person making fair extracts from or otherwise fairly dealing with the contents of the book for the purpose of a new work, or for the purposes of criticism, review, or refutation, or in the ordinary course of reporting scientific information.*<sup>9</sup>

Over time, the exception has diverged and expanded. However, the exception has consistently functioned through a categorical approach. In order for the dealing (i.e., the use of a copyrighted work) to be considered fair, it must first fall into a prescribed category. In 1905, those categories were criticism, review, or refutation. Today, the categories are research or study,<sup>10</sup> criticism or review,<sup>11</sup> parody or satire,<sup>12</sup> reporting of news,<sup>13</sup> or communications in the course of judicial proceedings or professional advice.<sup>14</sup> It is only after a court is satisfied that the dealing was for a prescribed purpose that a court will consider, in the circumstances, whether that dealing was fair.

This two-step approach is emphasised in the Australian case, *TCN Channel Nine v Network Ten* (“*The Panel* case”).<sup>15</sup> In this decision, the Federal Court of Australia considered the broadcast of a television program, *The Panel*. In the program, snippets of news and current affairs would be played and the hosts would impart their opinions, often through comedic quips. At first instance, the Court found that there was a fair dealing by Network Ten in broadcasting a nine second snippet from the television show *A Current Affair*.<sup>16</sup> In the

snippet, two members of the public had given interviews using a disguise intended to protect their identity. After the snippet had played, a host of *The Panel* replicated the poor attempt at a disguise to the “mirth” of the audience and co-hosts.<sup>17</sup> The Court found that, although there was a humorous element, the broadcast was ultimately intended to criticise the rival telecaster’s poor execution in disguising the interviewees.<sup>18</sup> Accordingly, as the use was for the purpose of criticism, a prescribed purpose, the fair use exception was available.

On appeal, the Full Court of the Federal Court of Australia found that no criticism had in fact occurred. Accordingly, the first instance judge had erred in finding that the fair dealing defence was available. The Court found that *The Panel’s* discussion of the snippet had “proceeded upon the basis that the interviewees chose their own disguises.”<sup>19</sup> Therefore, the purpose of the broadcast was to “poke fun” at the interviewees, rather than critique the rival telecaster’s practices. Given that the broadcast was not covered by one of the specified categories, the Court was not required to consider whether the broadcast was a fair exploitation of the snippet.

The snippet from *A Current Affair* accounts for only a portion of *The Panel* case. However, the commentary of the Courts in respect of that snippet succinctly demonstrates the limitations of the fair dealing exception. Irrespective of how “fair” a dealing truly may be, the exception will not apply if the dealing does not fall within a category recognised by the *Copyright Act 1968* (Cth) (“Australian Act”). It is worth noting that, some four years after *The Panel* case, the Australian Act was amended to include a fair dealing exception for parody and satire.<sup>20</sup> Had the case been decided after such amendment, it is likely that the broadcast of the *A Current Affair* snippet would have been considered a fair dealing.

In contrast, the US allows for fair exploitations of copyrighted works through the fair use doctrine. Fair use diverges from fair dealing primarily in the sense that it does not utilise the categorical approach. Over the last decade or so, there has been increasing pressure for Australia to move away from its roots in fair dealing and adopt a new exception akin to the US style of fair use. In 2006 the Australian Act was amended to account for “developments in technology and rapidly changing consumer behaviour”.<sup>21</sup> At this time there was consideration of fair use and its comparative flexibility. However, Parliament ultimately found that:

*[fair dealing] has been maintained for many years because it gives copyright owners and copyright users reasonable certainty as to the scope of acts that do not infringe copyright. No interests want completely to abandon that approach.*<sup>22</sup>

This raises two fundamental issues: Parliament found that fair dealing provided “certainty” and that the suitability of fair dealing was (at least to some degree) based on a historic maintenance of the doctrine.

It is curious that such weight was placed on the historical success of fair dealing, particularly as Australia has recognised the changes caused by the digital age and outwardly expressed an interest of fostering digital innovation. In 2011 the Australian Government set a goal of becoming a leading digital economy by 2020.<sup>23</sup> Later, in 2013, the Australian Government acknowledged that information and communications technology (“ICT”) is a “key driver of global innovation and productivity” and that “Australia’s future prosperity depends on how effectively [Australia] takes advantage of [ICT].”<sup>24</sup> These statements appear to be in conflict with the decision to maintain the fair dealing exception; an exception which is rigid and limiting in its application. Industry stakeholders have suggested that digital innovation is being driven offshore as a direct result of the limitations presented by fair dealing.<sup>25</sup>

### The Fair Dealing and Fair Use Dichotomy

To determine whether the rationale for maintaining fair dealing is just, the dichotomy of the Australian and the US doctrines ought to be considered. The fundamental difference between fair dealing and fair use is the respective reliance and non-reliance on a categorical approach. In the US, fair use applies where the use is “for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research.”<sup>26</sup> At first glance, it would appear that fair use does, in fact, adopt a categorical approach. However, the categories cited by the US *Copyright Act of 1976* (“US Act”) are intended to function only as a guide and not as a threshold.

In deciding whether the use of a copyrighted work is a fair use, US courts will focus on four factors: the purpose and character of the use, the nature of the copyrighted work, the amount and substantiality of the use, and the effect of the use upon the potential market.<sup>27</sup> Use for the purposes of criticism, comment, news reporting, teaching, scholarship, or research may be suggestive of fair use but will not be a pre-requisite of fair use. By removing the categorical pre-requisite, fair use is arguably more flexible and, therefore, more adaptive to issues presented in the digital age.<sup>28</sup>

In advocating for Australia to adopt a fair use exception, Google has submitted that:

*Australia’s current set of purpose based exceptions have not kept pace with developments in technology, methods of content distribution or consumer expectations” and “Australia’s system of closed-purpose, prescriptively described exceptions means that new and innovative uses of copyright materials that do not fall within the technical confines of an existing exception are not capable of being permitted by exceptions, no matter how creative the new use, or how strong the public interest in enabling that new use may be.*<sup>29</sup>

The limits which fair dealing may impose on digital innovation can be identified by analysing the US decision

of *Authors Guild, Inc. v Google, Inc.*,<sup>30</sup> (“Google Books”). This case concerns Google’s collaboration with several major research libraries to conduct a mass digitisation of published works, without seeking the prior consent of each individual author. The digitised works were uploaded to a central online database and snippets were made accessible to the public free of charge. The US courts found that this digitisation and the publication of snippets amounted to fair use. This was primarily because the digitisation promoted the interests of the public without causing a material detriment to the interests of the authors. The Court of Appeals for the Second Circuit held:

*Google’s making of a digital copy to provide a search function ... augments public knowledge by making available information about [p]laintiffs’ books without providing the public with a substantial substitute for matter protected by the [p]laintiffs’ copyright interests in the original works or derivatives of them.*<sup>31</sup>

While, in the US, Google Books amounted to a fair exploitation of works, it is unlikely that the platform would exist had the project commenced in Australia. This is because Google’s digitisation and publication cannot reasonably be considered as a dealing for the purpose of research or study, criticism or review, parody or satire, reporting of news, or obtaining legal advice. Therefore, irrespective of how fair the dealing may truly be, Google would not have been able to rely on fair dealing. This finding supports the aforementioned concern that digital innovation is being driven offshore as a direct result of the limitations presented by fair dealing.

Although the Australian Act may be amended to account for changes brought on by the digital age, the process of legislative reform is lengthy and will result in a constant game of catch-up. This was clearly evidenced by the findings in *The Panel* case and the subsequent amendments for parody and satire. In contrast, the open nature of fair dealing allows for the exception to constantly evolve without the need for legislative reform. However, it is debatable whether this flexibility is a pro or a con.

Opponents of the exception argue that it is too uncertain and unpredictable. While the US courts are obliged to consider the four factors set out in section 107 of the US Act, a determination of fairness is ultimately left to the discretion of the presiding Judge. The four factors, while relevant, are drafted as open considerations. In practice, the factors are malleable and may be manipulated to suit a finding both in favour of and against fair use. It simply comes down to a matter of perspective. Accordingly, innovators and consumers may be confused as to what does and does not amount to fair use.

### Fair Use Risks

The malleability of fair use can be evidenced through an analysis of dissents and reversals in the US courts.<sup>32</sup> There

are a number of illustrative examples, including the *Sony* case,<sup>33</sup> the *Harper* case<sup>34</sup> and, more recently, the *Warhol* case.<sup>35</sup> The *Sony* case concerned an infringement of copyright where individuals had used Betamax video tape recorders to record and effectively time-shift television programs. At first instance, the Central District Court of California found that the recordings amounted to fair use. This was primarily because the time-shifting was contained to private home use which was non-commercial in nature.<sup>36</sup> On appeal, the Court of Appeals for the Ninth Circuit Court reversed the finding of fair use. In analysing section 107, the Court of Appeals for the Ninth Circuit Court found that fair use implied a requirement for a productive purpose and that no productive purpose was present.<sup>37</sup> By the time the *Sony* case reached the Supreme Court, the decision on fair use was split five to four, in favour of fair use, reversing the previous decision. The issue of fair use went before 13 Judges and resulted in no single, definitive finding on whether the personal recording of television programs was fair use.

The *Harper* case concerned a magazine article on former US President, Gerald R Ford. The article consisted of 2,250 words with approximately 300 to 400 of those words being verbatim quotes from Ford's unpublished manuscripts. At first instance, the Federal District Court found that the reproduction of the quotes constituted an infringement of copyright.<sup>38</sup> On appeal, the decision was reversed by a majority split in favour of fair use.<sup>39</sup> The decision was then reversed again by the Supreme Court in a majority split against fair use. The majority decision in the Supreme Court was based on a finding of bad faith and an intention to succeed the author's right of first publication.<sup>40</sup>

In May 2023, the Supreme Court handed down its decision in the *Warhol* case, with a 7-2 split finding against fair use. This case concerned a portrait of the late musician Prince, originally in the form of a photograph taken by Lynn Goldsmith. In 1984, Goldsmith licensed the portrait to *Vanity Fair* (on a one-time basis) as an "artist reference".<sup>41</sup> Under this licence, *Vanity Fair* hired artist Andy Warhol who made a silkscreen of the portrait, which was later published in an issue of *Vanity Fair*. Goldsmith was credited and received payment for this use of the portrait. However, Warhol created 15 additional works deriving from Goldsmith's photograph and these were later licensed by the Andy Warhol Foundation for the Visual Arts, Inc. to Condé Nast, a global media company which owns major magazines including *Vanity Fair*. In 2016, one of the additional Warhol works appeared in a *Vanity Fair* issue in tribute to the late musician, without a licence from Goldsmith.

While US courts will typically consider the four factors for fair use, the Supreme Court was only required to consider the first factor – the purpose and character of the use. Based on an analysis of the first factor, both the Supreme Court and the Court of Appeals for the Second Circuit (in its

earlier decision) found against fair use. However, the basis for these findings were not consistent. The Court of Appeals for the Second Circuit placed heavy emphasis on the fact that Warhol's portrait was not transformative. It stated,

*This [first] factor requires courts to consider the extent to which the secondary work is "transformative", as well as whether it is commercial.*<sup>42</sup>

There was some consideration by the Court as to the commercial nature of Warhol's portrait and the greater public interest. However, the predominant emphasis was on the lack of transformative character.<sup>43</sup> In contrast, the Supreme Court did not conduct any assessment of transformative character.

The Supreme Court refused to evaluate the artistic significance of the Warhol portrait and instead focused on the purpose of the use.<sup>44</sup> The majority found:

*If an original work and a secondary use share the same or highly similar purposes, and the secondary use is of a commercial nature, the first factor is likely to weigh against fair use, absent some other justification for copying.*<sup>45</sup>

In this case, Goldsmith's portrait and Warhol's portrait were both used for the purpose of magazine articles about Prince. Thus, absent some other justification for copying, there would be no fair use.

In dissent, Justice Kagan (joined by Chief Justice John Roberts) condemned the lack of emphasis on transformative character:

*Still more, the Court decides that even if Warhol's portrait were transformative—even if its expression and meaning were worlds away from the photo—that fact would not matter. For in the majority's view, copyright law's first fair-use factor—addressing "the purpose and character" of "the use made of a work"—is uninterested in the distinctiveness and newness of Warhol's portrait.*<sup>46</sup>

Accordingly, the dissenting minority seemed to have favoured the findings of the District Court for the Southern District of New York. At first instance, the District Court found that Warhol's portrait was transformative and that this was sufficient for fair use. The Warhol image had "removed nearly all the photograph's protectible elements"<sup>47</sup> similar to the transformation which occurred in an earlier fair use case, *Kienitz*.<sup>48</sup> While the *Warhol* case may not be as erratic in its reversals and dissents as *Sony* and *Harper*, it does evidence a continued issue of malleability in fair use.

However, the *Sony*, *Harper* and *Warhol* cases provide only a small insight to the application of fair use by US courts. While it is evident from the reversals and split decisions that fair use can be inherently unpredictable, some scholars have argued that the effect of these (and other) Supreme Court cases is overstated. Professor Barton Beebe of NYU

Law School has analysed the patterns in the US courts on a larger scale, finding that the rates of dissent and reversal for fair use are not unusually high when compared with other areas of law.<sup>49</sup> Professor Beebe found that fair use decisions in the Circuit Courts were only reversed 33.8 per cent of the time. This figure is comparable to the estimated 32 per cent of reversals which occurred across all circuits between 1980 and 2002.<sup>50</sup> Similarly, fair use decisions in the Circuit Courts only contained dissenting judgments 14.1 per cent of the time, whereas the estimated dissents across all circuits was 9.43 per cent.<sup>51</sup> This suggests that the uncertainty which has been attributed to fair use is, in actuality, no more prevalent than the uncertainty which comes with litigating generally.

From another perspective, Melissa de Zwart, Australian Professor of Digital Technology, Security and Governance at Flinders University, found that an opposition of fair use based on unpredictability is negligible given that fair dealing is itself “malleable and uncertain”.<sup>52</sup> In fact, some scholars have gone so far as to suggest that the fair dealing exception could be more unpredictable than the US exception of fair use.<sup>53</sup> That is because Australian courts must conduct two separate assessments: whether the dealing is a categorised dealing and whether that dealing was fair. *The Panel* case has been cited as evidence for the increased unpredictability in fair dealing. In particular, the differing views by presiding Judges as to whether the reporting of news and comedy could co-exist.<sup>54</sup> This argument is not particularly convincing. Although fair dealing requires two separate assessments, a finding that the dealing was for a prescribed purpose will be prima facie suggestive of fairness. For the most part, it will be obvious whether or not the dealing fits one of the prescribed purposes. This is in contrast to fair use, where there are no set boundaries.

### International Trade Agreements

Despite the potential benefits of adopting a fair use exception, Australia may be prevented from following suit with the US due to conflicting WTO commitments. This is because, as a WTO member, Australia is constrained by Article 13 of TRIPS:

*Members shall confine limitations or exception to exclusive rights to certain special cases which do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the right holder.*<sup>55</sup>

Article 13 imposes what is commonly referred to as a “three-step test” on Members seeking to introduce copyright exceptions and limitations.

#### *Three-Step Test*

The three-step test is an adaptation of Article 9(2) in the Berne Convention for the Protection of Literary and Artistic Works (“Berne Convention”). Under the Berne Convention:

*it shall be a matter for legislation in the countries of the Union to permit the reproduction of such works in certain special cases, provided that such reproduction does not conflict with a normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the author.*<sup>56</sup>

While there are some notable differences between the text of TRIPS and the Berne Convention, the parameters of the three-step test remain identical. A limitation or exception may only be enacted where there is (1) certain special cases, (2) which do not conflict with a normal exploitation of the work, and (3) do not unreasonably prejudice the legitimate interests of the right holder. It is further noted that nothing in Article 13 of TRIPS derogates from Members’ existing obligations under Article 9(2) of the Berne Convention.<sup>57</sup> Accordingly, the application and effect of the three-step test may be understood by referring to commentary on both TRIPS and the Berne Convention.<sup>58</sup>

The first limb of the test is perhaps the most abstract, requiring consideration of what the Berne Union might have intended by “certain special cases”. This phrase has not been elaborated on in the text of the Berne Convention, nor TRIPS, and has led to opposing interpretations from respected academics and institutions. It is often this limb of the three-step test which is cited by those who argue that the fair use doctrine is incompatible with TRIPS obligations.

The Vienna Convention on the Law of Treaties (“Vienna Convention”) provides that treaties:

*shall be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose.*<sup>59</sup>

The ordinary meaning of the words “certain special cases” was considered by the WTO Panel in WT/DS160/R (the “*Homestyle*” case). In *Homestyle*, the WTO Panel relied on definitions for “certain” and “special” as they appeared in the *Oxford English Dictionary*, finding:

*The ordinary meaning of “certain” is “known and particularised, but not explicitly identified”, “determined, fixed, not variable; definitive, precise, exact”. In other words, this term means that, under the first condition, an exception or limitation in national legislation must be clearly defined ...*

*The term “special” connotes “having an individual or limited application or purpose”, “containing details; precise, specific”, “exceptional in quality or degree; unusual; out of the ordinary” or “distinctive in some way”. This term means that more is needed than a clear definition in order to meet the standard of the first condition. In addition ... an exception or limitation should be narrow in quantitative as well as a qualitative sense.*<sup>60</sup>

Following this interpretation, “certain special cases” ought to be understood as meaning “clearly defined and narrow in scope”.<sup>61</sup> However, per the Vienna Convention, there must also be consideration of the objective and purpose of the drafting.

The term, “certain special cases” first appeared in the Berne Convention following the 1976 Intellectual Property Conference in Stockholm, Sweden. In the Records of the Stockholm Conference,<sup>62</sup> it is stated that “one of the most important tasks of the Revision Conference would be to incorporate rules in the Convention on the general right of reproduction”.<sup>63</sup> The Study Group<sup>64</sup> had been considering circumstances in which consumers may have a legitimate right to reproduce copyrighted works, without suffering the repercussions of infringement. In considering this issue, the Study Group observed that a reproduction of copyright for economic gain was an unacceptable impediment on an author’s rights. However, it was simultaneously recognised that Members of the Berne Convention would already have locally enacted exceptions, allowing reproduction for commercial purposes.<sup>65</sup> Common examples of existing exceptions included matters of public speeches, quotations, education, reporting of news, and so on. Generally, these exceptions were perceived as serving some local public or cultural interest.<sup>66</sup>

Given the degree of commonality across Members’ existing exceptions, the Study Group considered whether a prescriptive approach to Article 9(2) may be appropriate. However, such an approach was ultimately dismissed due to fears that it may encourage Members to adopt all of the prescribed exceptions without due cause. Additionally, the Study Group found that a prescriptive approach would be inadequate “because it could never cover all the special cases existing in national legislation”.<sup>67</sup> Based on the information in the Records of the Stockholm Conference, it appears that public and cultural interests were a central consideration of the Study Group. Accordingly, it would be reasonable to suggest that the purpose of the three-step test infers a requirement for “some specific and sound legal-political justification.”<sup>68</sup> This interpretation would support the position adopted by Dr Mihály Ficsor,<sup>69</sup> Emeritus Professor Sam Ricketson AM<sup>70</sup> and the European Communities (“EC”) in *Homestyle*. In *Homestyle*, the EC claimed that an exception to copyright infringement must serve a “special purpose” motivated by “legitimate public policy objectives.”<sup>71</sup>

If this particular interpretation of “certain special cases” is to be accepted, then there must be a subjective consideration of legitimacy with respect to the Member’s national interests and priorities. However, this interpretation seems to overstep the purpose of treaties and certainly, if the law is ever disputed, the purpose of the Panel. This is because the WTO has typically rejected an aims-and-effects approach and limited itself to decisions based on a law’s effects only.<sup>72</sup>

It is more likely that the WTO’s de minimis interpretation is correct. Despite any underlying considerations of the Study Group, weight should also be afforded to the particular syntax of the test. Article 37 of the Berne Convention provides that “in case of difference of opinion on the interpretation of the various texts, the French text shall prevail”. Thus, to properly understand the intention behind an Article, the construction of the French text should be considered. Notably, the French text reads as “certains cas spéciaux” as opposed to “cas certains et spéciaux”. By adopting this particular syntax, the combinative use of “certain” and “special” must be understood as meaning limited in scope. Had the intention of Article 9(2) been to qualify the scope, it is more likely that “cas certains et spéciaux” would have been adopted.<sup>73</sup>

A de minimis interpretation is further supported when the three-step test is considered holistically. The second and third limb require that the exception or limitation does not conflict with a normal exploitation of the work and does not unreasonably prejudice the legitimate interests of the right holder. The drafting of the test shows a clear distinction between the first limb and these subsequent limbs through the use of “which”. This suggests that only the second and the third limb are qualifying considerations, and that the first limb is more akin to a threshold. If the test had meant to be qualified by legitimate public policy objectives, there would be an additional limb, appearing after the threshold of “certain special cases”. On this basis, it is argued that the WTO Panel’s interpretation of the three-step test in *Homestyle* is the correct interpretation.

### **Fair Use**

Provided that the aforementioned interpretation of the three-step test is correct, the legitimacy of a fair use exception will depend upon whether it is clearly defined and narrow in scope. Opponents of fair use argue that the exception cannot possibly meet the TRIPS criterion given that it has an application to any act, by any person, in relation to any work. The application of fair use is boundless, provided that the use is “fair” – a term which is also arguably boundless due to the inherent subjectivity of the word. Despite section 107 of the US Act prescribing four factors to determine fairness, *Sony*, *Harper* and *Warhol* have evidenced that US courts’ findings of fairness are unpredictable. The boundless scope and inherent pliability seemingly render fair use incompatible with “certain special cases”. Despite this, there are at least two mainstream arguments in support of fair use.

One argument suggests that fair use must be compliant with TRIPS as there has been no formal objections to the exception. While countries have objected to other exceptions under US copyright laws, there has been no serious threat to the validity of fair use. A substantial amount of time has now passed since the inception of the three-step test in the Berne Convention and the US has entered into numerous subsequent agreements, such as TRIPS, the WIPO

Copyright Treaty, and the Australia-United States Free Trade Agreement which each reproduce the test. It is unlikely that the US would have committed to these subsequent agreements if there were doubts regarding the compatibility of fair use. Given the time which has elapsed since inception of the three-step test, it is unlikely that some objection to fair use is forthcoming.

While this is a fair observation, it is a weak argument. While there has been no formal challenge to the exception, acquiescence should not be taken as unequivocal acceptance. Maintaining relationships between countries, particularly powerful countries such as the US, is highly political exercise with many interests being weighed and countered. The underlying reason for not contesting fair use may be more political in nature than this argument of “no objections” would suggest. Although, this is not to say that countries haven’t at least agitated copyright exceptions in the US.

In 1996, the WTO conducted a Review of Legislation on Copyright and Related Rights to ensure that Members’ local laws were consistent with their TRIPS obligations. As part of that review, Australia, the EC and New Zealand posed questions to the US regarding the application of its fair use exception by its courts. Yet, despite the opportunity to make a case for incompatibility, there was no direct challenge to fair use. At most, the US was asked to explain the practical effects of certain court decisions. For example, the EC took an interest in parody<sup>74</sup> while New Zealand took an interest in teaching, research and scholarship.<sup>75</sup> Further, and quite notably, there was no objection to fair use resulting from the responses of the US.

Further, in 2006, the EC objected to section 110(5) of the US Act (the *Homestyle* case). The EC submitted that the exception prescribed by this section of the US Act was incompatible with TRIPS, primarily because it caused prejudice to the legitimate interests of copyright owners.<sup>76</sup> While the EC actively disputed the section 110(5) exception, the EC refrained from disputing fair use. This must hold at least some weight when considering meaning behind the silence of WTO Members.

Irrespective of what might be implied by Members’ acquiescence, it is argued that fair use is in fact compliant with the three-step test. While the words of section 107 may allude to something which is boundless and uncertain, the exception must be considered more holistically. There is nothing in Article 13 of TRIPS which prescribes the method in which Members may go about confining their limitations and exceptions. Accordingly, compliance with the three-step test may be assessed by reference to both legislation and common law.<sup>77</sup>

Although there is an obvious fluidity in the US common law, that may not be detrimental to meeting the requirement for “certain special cases”. As already outlined, the uncertainty

which has been attributed to fair use is not unusual when compared with other areas of law. Further, the requirement for certainty is not absolute certainty. In *Homestyle*, the WTO Panel stated that

*there is no need to identify explicitly each and every possible situation to which the exception could apply, provided that the scope of the exception is known and particularised. This guarantees a sufficient degree of legal certainty.*<sup>78</sup>

Accordingly, the combination of legislation and common law need only set a reasonably identifiable scope.

Professor Pamela Samuelson<sup>79</sup> and Kathryn Hashimoto<sup>80</sup> argue that the scope of fair use is reasonably identifiable and has been fleshed out by approximately two centuries of case law.<sup>81</sup> This mass of case law has led to the formation of what Samuelson and Hashimoto refer to as “clusters”. These clusters represent fact patterns, or themes, which tend to either favour or disfavour a finding of fair use. For example, matters which promote the freedom of speech, freedom of expression and news reporting are more likely to be considered matters of fair use.<sup>82</sup> Conversely, consumptive uses are less likely to be considered matters of fair use.<sup>83</sup> By applying the teachings of these clusters, the outcome of any particular fair use dispute should be reasonably predictable. Similar clusters have also been recognised by Professor Beebe during his analysis of trends in the US courts.<sup>84</sup>

This reference to a facts-based teaching, as opposed to a use-based teaching, is substantial. The clusters effectively balance the requirement for a narrow scope, with the need for something which is adaptable.<sup>85</sup> Reverting back to the example, Professor Samuelson and Hashimoto identified that the promotion of free speech indicated fair use. The medium by which the copyrighted work is reproduced will not affect the fact that there is or is not an element of free speech to consider. This cluster will continue to apply and be relevant in the assessment of fair use, despite any advancements in technology. The clusters meet the criterion of clearly defined and narrow in scope as they are both confined by the scope of precedent and identifiable through the precedent.

While this cluster-theory supports an argument that fair use and TRIPS are compatible, this should be taken with a grain of salt. The compatibility of fair use will ultimately depend on whether the local caselaw is substantial enough to make up for any lack in the legislation. In the same paper promoting this cluster-theory, Professor Samuelson and Hashimoto recognised that clusters which had little supporting caselaw were less predictable and subject to “mixed results”.<sup>86</sup> This is recognition casts doubt as to whether Australia could adopt a US-style fair use exception. In comparison with the US, Australian caselaw on fair dealing is notably lacking.<sup>87</sup> Accordingly, should Australia move to a fair use exception, it may find that the exception conflicts with its WTO obligations.

## Conclusion

The US-style fair use exception is inarguably more flexible than fair dealing, allowing it to diverge and evolve as the interests of innovators and consumers too diverge and evolve. As we move further into a digital world, flexible intellectual property rights will become ever more important. Countries with an interest in fostering innovation would benefit from studying the US-style exception and seeking to adopt similarly flexible exceptions. However, countries will need to be cognisant of their international obligations. The validity of the US exception is largely dependent upon the US's rich history of common law fair use. A blind adaptation of fair use by other countries could conflict with international obligations.

While Australia has expressed a clear interest in becoming a leading digital economy, this goal should not be achieved to the detriment of innovators' and the consumers' interests. In fact, a disregard for the balance of these competing interests would be counterintuitive to digital innovation. This is not to say that Australia is not capable of moving towards fair use. However, Australia should look outwards of the US for inspiration.

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# European Unitary Patent Package: Introduction to the New System including Strategic Considerations

Dr Marco Stief<sup>1</sup>

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## Introduction

The creation of the unitary patent and the Unified Patent Court (“UPC”) heralds the beginning of a new era in patent law in Europe. The *Agreement on a Unified Patent Court* (“UPCA”) entered into force on 1 June 2023 when the new UPC finally began operations. The opening of the UPC also coincides with the introduction of a new “unitary patent”. From now on, innovative companies will no longer have to apply for, maintain and, in the event of a dispute, enforce patents in court individually for all European Union (“EU”) Member States in order to protect their technical inventions. The new system provides a uniform court procedure with direct effect of the decisions for all participating EU Member States.

The implementation of the reform is a particular example of successful European cooperation. The introduction of the unitary patent creates a new set of instruments from which innovative industry and especially small and medium-sized enterprises will benefit as they can save considerable effort and costs. All entities dealing with European patents, be they patent owners, licensees or technology research companies now need to take action. They need to weigh up the advantages and disadvantages of filing a request for unitary effect in respect of pending and future patent applications. In addition, the possibility of “opting-out” of the automatic jurisdiction of the UPC, especially for already granted European patents, needs to be considered in order to arrive at the most strategically sensible decisions. Also costs, enforcement and defence against alleged patent infringement are considerable aspects, to name just a few. In addition, existing patent-related contracts and standard licensing-related forms need to be reviewed to calculate the opportunities and risks of the new unitary patent system.

## Progress through standardisation? From the previous legal system to the new

### Previous system

As far back as the early 20<sup>th</sup> century, efforts had been made by some European countries to develop a common patent system. As early as 1975, the *Community Patent Convention* was signed by the EU Member States with this in mind, but it was never ratified in sufficient numbers.<sup>2</sup> After several more unsuccessful attempts,<sup>3</sup> the EU Commission submitted a *Proposal for a Council Regulation on the Community Patent* on 1 August 2000, which also included provisions for a corresponding court system.<sup>4</sup> This draft was revised several times in 2003 and 2004, and a separate *Proposal for the Establishment of a Community Patent Court* was presented.<sup>5</sup> However, both met with little approval. It

was not until December 2012 that two regulations<sup>6</sup> on the implementation of the *Enhanced Cooperation in the Area of the Creation of Unitary Patent Protection*<sup>7</sup> adopted in March 2011 brought renewed movement to the decades-long discussion. Twenty-five of the current 27 EU Member States participate in the *Enhanced Cooperation*; Spain and Croatia have so far declined to participate.<sup>8</sup> The UPCA, on which it is based, is conceived as an international treaty, i.e., the EU is not formally involved. However, only Member States of the EU may accede to the Agreement.<sup>9</sup>

The term “European patent”, which is used to refer to patents granted under the *European Patent Convention* (“EPC”) is to be distinguished from a “unitary patent”; it does not offer a uniform patent for the participating states. The EPC as an international treaty is therefore not part of EU law. The European patent according to the EPC is a so-called “bundle” of individual national patents which can be applied for at the European Patent Office (“EPO”) for all participating countries simultaneously, but after examination and grant of the patent this bundle “splits” into individual national patents and from this point on is handled by the national Patent Offices.<sup>10</sup> Rights may then only be enforced in the respective jurisdiction before the respective national courts. In questions of infringement and invalidity, therefore, the decision of the respective national court, and thus national law, has always been decisive.

The European patent system has hitherto been based on a strong territoriality principle. However, increasing cross-border competition as well as the often very inconsistent decisions of the national courts (regarding the same European patent) led to a renewed push to finally modernise and unify the existing patent system. The hope is that this new unitary patent system will fulfil these aims.

# European Unitary Patent Package: Introduction to the New System including Strategic Considerations

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## New system

The new system introduces two major changes.

### ***Introduction of a UPC***

The UPCA ushered into existence a new European court known as the UPC. The UPC has exclusive jurisdiction both to prosecute infringements and to examine the validity not only of a new unitary patent, but all future European patents as well as supplementary protection certificates (“SPCs”) based thereon. The UPCA thus now makes it possible to enforce a European patent simultaneously in litigation proceedings for the currently 17 participating EU Member States.

### ***Introduction of a unitary patent***

EU Regulations No. 1257/2012 (European Patent Regulation) and No. 1260/2012 (Language Regulation) establishing the unitary patent system entered into force on 20 January 2013, but have only applied since the date on which the UPCA entered into force, namely on 1 June 2023. Under the new system, once a European patent has been granted by the EPO, it can at the request of the patent proprietor be declared a patent with unitary effect for the (at that time) participating contracting Member States.<sup>11</sup> This means that the entire territory of the participating European states is covered by only one patent, without the need for individual national validations. Furthermore, renewal fees are only payable for this one patent, and decisions by the now exclusively responsible new UPC on both infringement and invalidity of the unitary patent cover all contracting Member States.

## **The Structure of the UPC**

The UPC is a supranational, common court of the EU contracting states and thus part of their respective legal systems. Its judgments are binding in all Member States that have ratified the UPCA. It comprises a complete *court system* consisting of a court of first instance, a court of appeal located in Luxembourg and a (court) registry. In addition, a centre for mediation and arbitration based in Ljubljana and Lisbon and a training centre in Budapest have been established.

## The new judiciary

The Court’s panels are multinational with a completely new judiciary to be appointed by the Administrative Committee. Since the UPC has to deal with both infringement and validity of a patent or SPC, the UPC comprises both legally and technically qualified Judges – which is not the case at German patent infringement courts, for example. So far, a total of 85 Judges (34 legally qualified Judges and 51 technically qualified Judges) have been appointed by the UPC.<sup>12</sup> All appointed Judges belong to a so-called “pool of Judges”, from which the panels of Judges are filled in addition to the local legally qualified Judges already assigned to the Local and Regional Divisions.

## The Court of First Instance

The UPC Court of First Instance comprises three different types of divisions – Central Division, Local Divisions and Regional Divisions – at different locations.

### ***The Central Division***

The Central Division has its seat in Paris and a division in Munich. Its panels are staffed multi-nationally with two legally qualified Judges from different contracting Member States and one technically qualified Judge from the pool of Judges. This makes it very difficult to predict the composition of the respective panels. Cases heard by the Central Division are assigned according to the main classes of the International Patent Classification (“IPC”) Classification Code (see UPCA, Annex II). The Paris division is responsible for sections B, D, E, G, H and thus, among others, for e-tech cases, while the Munich division is responsible for section F (mechanical engineering, lighting, heating, weapons, blasting). The originally planned London division was supposed to be responsible in particular for the field of life science and thus also for pharmaceutical products (sections A and C). However, after the United Kingdom withdrew its ratification of the UPCA on 20 July 2020, the presidium of the UPC decided that actions pending before the Central Division related to patents in IPC section A shall be assigned to the seat in Paris while actions related to patents in IPC section C shall be assigned to the section in Munich.<sup>13</sup>

### ***The Local and Regional Divisions***

The Local and Regional Divisions are generally composed of three legally qualified Judges. A technically qualified Judge *may* be called in at the request of one of the parties and *must* be called in if the division is also deciding on an annulment action. Although in principle also staffed on a multinational basis, the Local Divisions are nevertheless intended to enable and guarantee a local connection. Therefore, at least one, and possibly<sup>14</sup> also a second Judge from the country of the seat of the litigant(s) is assigned to them. The remaining Judges are drawn from the pool of Judges.

Each contracting Member State may apply for from one to a maximum of four<sup>15</sup> Local Divisions or, together with one or more other Contracting Member States, for a Regional Division. The establishment of the divisions as well as the respective number of legally qualified local Judges was decided by the Administrative Committee of the UPC as follows:<sup>16</sup>

Local divisions: Austria: Vienna (1); Belgium: Brussels (1); Denmark: Copenhagen (1); Finland: Helsinki (1); France: Paris (2); Germany: Düsseldorf (2), Hamburg (2), Mannheim (2), Munich (2); Italy: Milan (2); Portugal: Lisbon (1); Slovenia: Ljubljana (1); Netherlands: The Hague (2).

Regional Division for the Nordic-Baltic region (Sweden, Estonia, Latvia, Lithuania): Stockholm (2)

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The panels of the future Local Divisions of the most active patent litigation countries to date, namely France, Italy, the Netherlands and especially Germany, will each be staffed with two experienced local Judges. It is hoped that this will have a positive influence on the popularity and good reputation of these Local Divisions from whom litigants expect high-quality decisions.

## **Languages**

The language of proceedings before the Central Division is usually the language in which the European patent was granted, although special translation requirements may have to be taken into account (Arts. 49(6), 51(3) UPCA).

Regulations governing the language of proceedings before Local and Regional Divisions are quite extensive. It will be either an official language of the country in which the division has its seat, or, in the case of Regional Divisions, the official language agreed upon by the countries concerned, or one of the official languages of the EPO, or the language in which the European patent was granted (cf. Art. 49 UPCA). If several languages have been designated as possible procedural languages for a division, the plaintiff may, as a rule, choose which one is to be used for the respective proceedings (Rule 14(2)(a) UPCA). However, there are several exceptions to this latter rule, one of them being to protect locally operating small businesses on the defendant's side (Rule 14(2)(b) and (c) UPCA).

The respective admissible procedural languages are to be published in a list.

## **Jurisdiction**

The UPC has exclusive jurisdiction not only for future unitary patents but also for all "classic" European bundle patents, European patent applications and SPCs based thereon. Its jurisdiction does not extend to national IP rights. Art. 32 UPCA conclusively lists the types of actions and proceedings that are admissible before the UPC.<sup>17</sup>

The *local* jurisdiction of the Divisions of the Court of First Instance essentially depends on the type of action: infringement actions, summary proceedings, actions for damages or compensation or in connection with rights of prior use are to be brought before the respective Local/Regional Division depending on the place of the offence, i.e., the place of the actual or threatened infringement, or at the defendant's place of residence or place of business. If the defendant's place of residence is outside the contracting Member States, the Central Division is also available as an alternative to the place of infringement. In this respect, the plaintiff is to a certain extent able to engage in "forum shopping". If no Local or Regional Division is maintained in the country of the offence or seat, the above-mentioned actions must always be filed with the Central Division.

Actions for a declaration of non-infringement<sup>18</sup> as well as isolated nullity actions must always be filed with the Central Division. What is new and noteworthy is that the isolated nullity action, unlike the nullity action before the German Federal Patent Court, can be filed independently of an opposition before the EPO. Also, the UPC is not obliged to suspend this nullity action until the conclusion of the opposition proceedings ("overtaking nullity action").

If an infringement action is already pending before a Local or Regional Division, invalidity can only be asserted by way of a counterclaim. The UPCA permits (and requires) the raising of objections against the patent-in-suit in the context of an invalidity counterclaim in ongoing infringement proceedings; mere objections to the body of law are irrelevant. The Division before which the infringement action is pending is competent. If this is not the Central Division, but a Local or Regional Division, this Division, after hearing the parties, has three options for further proceedings.<sup>19</sup> It can (1) deal with the invalidity counterclaim itself with the mandatory assistance of a technically qualified Judge or (2) hand it over to the Central Division (with or without suspension of the infringement dispute) ("bifurcation") or (3) refer the entire legal dispute to the Central Division.

## **Procedure and duration of proceedings**

Proceedings before the UPC are essentially conducted according to the *Rules of Procedure of the United Patent Court* ("*Rules of Procedure*"). To ensure fast and efficient processing, the first instance proceedings are tightly structured and stick to a rigid time frame. Proceedings are divided into three parts (written proceedings, interlocutory proceedings, oral proceedings) to be completed within one year in the "basic case" (infringement/non-infringement proceedings without counterclaims). As far as possible, pleadings are to be submitted electronically.

For example, in infringement actions, the parties usually exchange two written pleadings each, in the following sequence:

- (i) the plaintiff/claimant files a *Statement of Claim*;
- (i) the defendant may then file a *Statement of Defence* (which may include a counterclaim for revocation of the patent-in-suit);
- (ii) the plaintiff/claimant may then file a *Reply to the Statement of Defence* (which will include its defence to the counterclaim, if any); and
- (iii) the defendant may lodge a *Rejoinder to the Reply to the Statement of Defence*.

This written procedure usually takes five to nine months.

The very short deadlines, which can only be extended in exceptional cases, will be a challenge for the parties and their representatives.<sup>20</sup> If a request for revocation has been

filed, the panel will decide on the further handling of the case (“bifurcation”) at the end of the written procedure. Both the written proceedings and the interim proceedings, which usually take three months, are conducted by the reporting Judge. In the interim proceedings, the reporting Judge prepares the oral proceedings, clarifies any existing ambiguities with the parties, if necessary in the context of an interim conference, and schedules the oral proceedings with at least two months’ notice. In the final stage, the presiding Judge takes over the management of the proceedings and, after the public oral hearing has (ideally) been completed within one day, the written judgment issues within six weeks.

### **Interim measures**

The UPC may also issue interim injunctions to prevent an imminent infringement or stop an existing infringement, Art. 62 UPCA. The order is issued after conducting a two-step (written and oral) summary procedure.<sup>21</sup> In justified cases, interim measures may also be issued *ex parte*. Unfortunately, neither the UPCA nor the *Rules of Procedure* make any specific statements on the duration of proceedings. Especially in the initial period of the new court, it seems likely that the national courts, which are already well tried and tested in this respect, will act comparatively faster in preliminary injunction proceedings. In any case, it seems questionable whether the UPC will immediately be able to keep up with the extremely fast processing by German patent infringement divisions, which, at least in simple cases, in the constellation of originator/generator but also on the basis of pharmaceutical patents, generally issue an *ex-parte* injunction within a few days.

Potential addressees of an urgent application can file a protective brief in the language of the patent. As already known from the German procedure, the protective brief will be kept in the court’s custody for six months and can be extended upon request.

Interim measures are to be revoked at the request of the defendant if the applicant does not initiate proceedings on the merits before the UPC within 31 calendar days or 20 working days.

### **The Court of Appeal**

The Court of Appeal is the sole appellate court; a further appeal on point of law is not possible. Only on questions of interpretation of applicable EU law can the Court of Justice of the European Union be called upon as a “further instance” in preliminary ruling proceedings. Appeals may be lodged against disputed final decisions (comparable to an appeal under German law) but also against procedural decisions (also comparable to an appeal under German law).

An appeal against a final decision may be lodged by any party who has been unsuccessful in whole or in part within two months of notification of the decision and must be

substantiated within four months. It has no suspensive effect, and the procedure is in principle comparable to the first instance procedure. The appeal must be filed within three months; the *Rules of Procedure* do not provide for any further deadlines.

The panels of the Court of Appeal are multinational with three legally qualified Judges from different contracting Member States and two technically qualified Judges from the pool of Judges. The language of the proceedings of the appellate instance is usually that of the first instance or, by agreement between the parties, the language of the grant of the patent; further exceptions are possible (Art. 50 UPCA).

### **Strategic considerations for existing European patents**

For disputes arising from already granted European patents (and SPCs based thereon), the UPC has, since the entry into force of the UPCA, automatically and after a transitional period, also exclusive jurisdiction. This creates new opportunities, but also risks, for presumed patent infringers wanting to contest a European patent as well as for patent owners who have to defend their patent before the courts.

#### **Effect on legal action**

Within a transitional phase<sup>22</sup> of seven (maximum 14) years *after* the entry into force of the UPCA, the national courts or authorities will continue to have jurisdiction in parallel with the UPC for infringement and nullity proceedings based on a European patent or SPC. In other words, during this transitional phase the plaintiff can choose which court – national or UPC – they wish to file their action in. However, this parallel jurisdiction only exists as long as no action is pending before one of the courts. So if, for example, an invalidity action has already been filed before the UPC, the patent proprietor may no longer file an action before the national courts. After the end of the transitional phase, the UPC will then completely replace the national courts in all of the above-mentioned disputes i.e. it will solely be responsible for decisions on unitary patents as well as European patents (without unitary effect).

For an alleged infringer who wants to bring down a European patent, filing an invalidity action with the UPC can have the strategic advantage of destroying the body of law of all national parts of a European bundle patent in all contracting Member States at a single blow in just one proceeding. Before the UPC came into force, this result would have required numerous individual nullity actions in all the countries where the patent had been validated. But as against this, a patent proprietor finding themselves a target of several infringing competitors from different contracting Member States will also be able to benefit from filing an infringement action with the Unified Patent Court based on the bundled patent and thus obtain a decision that is immediately applicable in all countries.

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For both scenarios, it is also true that obtaining a uniform decision by the UPC on a bundled European patent is not only more efficient than having to file separate lawsuits in each country, it can also be significantly less expensive.<sup>23</sup>

Conversely, the following also applies: if the validity of the patent is confirmed, the infringer loses the opportunity to obtain favourable decisions on validity, at least in individual countries. The same applies to the patent proprietor: if they lose the infringement case before the UPC, they will have succeeded in obtaining a decision that is detrimental to them *and* covers several countries at once.

The decision for or against the jurisdiction of the UPC therefore needs very careful consideration.

Strategic considerations for patent holders and licensees

## **Possible “opt-out” of automatic jurisdiction**

The current parallel jurisdiction of the UPC and the national courts still raises many questions.<sup>24</sup> It will probably take years until these questions are clarified by corresponding judicial decisions and until reliable forecasts can be made about the outcome of proceedings. These uncertainties can only be avoided by an owner or applicant of an IP right if they avail of the possibility provided in Art. 83(3) UPCA to permanently exclude the automatic jurisdiction of the UPC for European patents (so-called “opt-out”). An opt-out can only be made in respect of all states in which the European patent was granted;<sup>25</sup> a country selection is not permitted. Another prerequisite is that no action has yet been brought before the UPC with regard to the IP right in question. The opt-out itself is formally free of charge and can be withdrawn at any time (“opt-in”), but only as long as no action is pending before a national court.

## **Responsibility UPC pros and cons**

Now the crucial discussion about whether to go for an opt-out or not (possibly involving co-owners and licensees) should take place and a decision reached. A blanket approach for or against the jurisdiction of the UPC should therefore be avoided. Rather, it must be decided, taking into account the specific situation and patent strategy, whether the respective advantages or disadvantages resulting from the jurisdiction of the UPC in relation to the jurisdiction of national courts outweigh the disadvantages. The most important points worth considering are summarised below.

### *Enforceability of the patent*

Within the UPC system, it is now possible to destroy the patent in only one procedure with effect for all contracting Member States. The more uncertain the legal status of a patent appears, the more prudent it would appear to declare an opt-out in order to minimise the risk of a blanket nullification. In general, in the case of patents that are of particular economic importance, an opt-out would appear to be the prudent choice

in order to avoid the risk of forfeiting protection completely in a single nullity proceeding before the UPC, which will in any case probably be faster than national proceedings. The advantage of the uniform, and possibly also less expensive, enforcement of rights before the UPC must therefore be weighed against the disadvantage that it is also easier (and usually less expensive) for defendants or respondents to destroy the patent or SPC in one single attack.

### *Duration of proceedings*

The UPCA envisages tight timelines for proceedings before the UPC, which from the patent owner’s point of view should, at least at first glance, speak in favour of the UPC (i.e. against an opt-out). According to the *Rules of Procedure*, proceedings before the UPC are to be structured in such a way that they can be concluded within one year.<sup>26</sup> Whether this ambitious timetable can be met remains to be seen. Delays are conceivable, especially for cases involving nullity actions, or because of granting of time limit extensions, longer notice periods for a court hearing, taking of evidence or delayed adjudication. Because of these potential delays, an opt-out would appear to be worth considering, at any rate in the event of possible recourse to German courts because of the very short duration of proceedings, as is well known. For example, in Germany a provisionally enforceable ruling in preliminary injunction proceedings can be obtained *ex parte* within a few days.

### *Costs of proceedings*

The jurisdiction of the UPC may have a significant impact on the costs of proceedings. If a dispute arises in three or more contracting Member States, it can be assumed that at least the court costs of the UPC will be lower than the total court costs that would be incurred in separate proceedings in the individual jurisdictions.<sup>27</sup> How the legal and patent attorney fees incurred in the proceedings will fare seems difficult to predict at this point in time. Ultimately, however, a cost saving can be expected here as well.

### *Legal loopholes*

Also to be taken into account is the fact that the UPC system contains some regulatory gaps that extend to the transitional phase, which may create uncertainties. For example, it is still unclear how the applicability of substantive patent law to already existing European patents will be handled by the national courts during the (at least) seven-year transitional phase. The UPCA also lacks regulations on the suspension or interruption of limitation periods. Until the existing gaps are filled by judicial decisions and legal certainty is created, an opt-out seems to be the safer route.

Concerns for patentees of existing European patents

## **Opt-out – when and how?**

Once the decision to opt out has been made, this is done by means of a corresponding notification from the IP right

holder or an authorised representative to the UPC's office (not the EPO), provided that no action has yet been brought before the UPC. The application to opt out can only be made via the Case Management System of the Court.<sup>28</sup> Particular care should be taken with regard to proof of ownership, as entries in registers may be outdated and thus, references to them are unlikely to be sufficient. IP owners are therefore recommended to update their register status and to eliminate possible ambiguities in the legal succession.

The opt-out must meet the following criteria:<sup>29</sup>

- The opt-out can only be made in respect of all Member States for which the European patent has been granted or which have been designated in the application;
- an opt-out is only possible as long as no action has been brought before the UPC with respect to this application, patent or SPC; and
- the opt-out request can only be made through the Court's case management system, which implements all procedural requirements.
- If there are proportional property rights of third parties to the respective property right, declarations of consent to the opt-out must be obtained from these co-owners.

### ***Revision of patent-related contracts***

If licenses have been granted to the IP rights, the corresponding contracts may need to be revised in light of the changed legal situation and the new possibilities opened up. Particular attention should be paid to the provisions on the allocation of responsibility and costs with regard to the registration and administration of IP rights ("Prosecution and Maintenance Clauses"), and also to those on the enforcement of rights ("Enforcement Clause"), legal defence against attacks and choice of law clauses.

In particular, clear contractual provisions are required with respect to the relationship with the licensee as to whether the latter may initiate a lawsuit at all with regard to patent infringement claims and, if so, before which court. Otherwise, conflicts may arise, especially in the case of exclusive license agreements, since (at any rate according to German case law) the exclusive licensee has the right to file infringement suits and thus, in the case of filing a suit with the UPC, an opt-out is excluded. Even where an opt-out has already been validly declared and no action is pending, the licensee can deprive the patentee of the possibility to revoke the opt-out ("opt-in") by filing a national infringement action.

According to Art. 83(3) UPCA, the decision on the opt-out is the sole responsibility of the "proprietor or applicant of a European patent" and thus not also of the exclusive licensee. However, at least in the case of several owners or applicants of property rights, all co-owners or applicants must jointly

decide on the "whether" of an opt-out, so that incorporating contractual provisions on the decision-making process are also recommended here as a precautionary measure, on the one hand to prevent conflicts, and on the other hand also to avoid being exposed to an action before the UPC shortly before the registration of the opt-out declaration to be submitted as agreed, which would preclude an opt-out for good.

### **Strategic considerations for new patent applications**

Unitary patent or national validations?

Any European patent granted on or after the date of entry into force of the UPCA may be registered as a unitary patent at the request of the patent proprietor entered in the Register for the territory of the contracting Member States. The request shall be filed within one month from the date of publication of the mention of grant in the European Official Journal in the language of the granting procedure. It is a prerequisite that the European patent with the same claims has been granted for all 25<sup>30</sup> EU Member States participating in the *Enhanced Cooperation*, i.e., for none of these countries the designation is withdrawn – for whatever reason.<sup>31</sup> If one is missing, unitary patent protection is excluded, even if the UPCA is not even in force in that country on the date of registration. Furthermore, for a transitional period of at least six (up to a maximum of 12) years, a complete translation of the European patent specification must be attached to the application.<sup>32</sup>

To make unitary patent protection accessible and thus attractive as early as possible, the EPO launched two transitional measures, which were already available ahead of the entry into force of the Unitary Patent system, from 1 January to 31 May 2023. These are the early request for unitary effect<sup>33</sup> and the request for deferral of the decision on the grant of the European patent.<sup>34</sup> Both measures are provided for European patent applications which have reached the final phase of the grant procedure and for which a decision to grant has been issued under Rule 71(3) EPC. The second measure in particular enables the applicant to apply for a unitary patent by delaying the grant procedure, even though their European patent would under normal circumstances have been granted before the UPCA entered into force and would thus have been inaccessible to the new type of protection (unitary patent).

### ***Significance of the choice of law***

The unitary patent shall be governed by the law of the country in which the patent applicant, or in the case of several applicants the first-named applicant, is domiciled or has its seat. If neither the first nor the additional applicants are domiciled in the territory of the countries participating in the UPC system (e.g., Australia, United States, China, Korea or Japan) nor have their place of business in the UPC territory, German law shall apply.

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The order of the applicants is therefore of importance for the question of the applicable law and its significance should not be underestimated.

The applicable law established on the filing date will determine how certain matters are to be regulated, e.g. how the unitary patent can be transferred to other owners, what effect licenses have and what rights and obligations the co-owners have. It is final, i.e. it cannot be changed even if the applicant transfers the unitary patent or later moves its place of business. Careful consideration should therefore be given to these various aspects and, if necessary, should be regulated in a co-ownership agreement.

One example of this is the different national regulations on co-ownership. Unless otherwise contractually agreed, under German law<sup>35</sup> where there are several owners it is possible for a co-owner to assign their share of the rights in the patent to a third party.<sup>36</sup> The same rules apply in France, unless there is an agreement to the contrary, whereby the other co-owners have a right of pre-emption for a period of three months from notification of the assignment. In Italy, on the other hand, the consent of each co-owner is required for an effective assignment.<sup>37</sup> There are also disparities as to whether and under what conditions co-owners may grant sublicenses on the respective patent right.

## ***Unitary patent pros and cons***

In addition to the advantages and disadvantages attaching to the UPC, most of which have already been discussed above, the cost advantages weight heavily in favour of the unitary patent.

Initially, no additional costs are incurred with a view to the subsequent unitary patent until the grant of a European patent. Moreover, the request for unitary effect itself is free of charge. Except in an initial transition period, no post-grant translations will be required for the unitary patent. No additional validation costs are incurred, and even these are likely to be considerably lower compared to the validation of a classical European bundle patent in the present 17 contracting Member States.

However, the main cost advantage compared to the classical European patent is noticeable in the unitary renewal fees to be paid centrally to the EPO. The annual fee for the maintenance of a unitary patent is approximately equal to the sum of the annual fees for the four contracting Member States with the highest number of applications.<sup>38</sup> Starting at EU€35 in the second year, the annual fees for the unitary patent amount to a total of only EU€4,685 in the first 10 years, which corresponds to the average life of a European patent.

Prerequisites for patent applicants when deciding on a unitary patent

## ***Request for unitary effect***

The decision on whether to request unitary effect for a pending application or a future new application must in any case be made early, since the request must be filed no later than one month after publication of the mention of the grant of the European patent in the European Patent Bulletin; an extension of the time limit is not possible.<sup>39</sup> The EPO provides appropriate application forms for the request.<sup>40</sup>

## ***Contractual design***

Because of the tight deadline for requesting unitary effect, it is recommended that where there are several co-owners or co-owners and licensees, the parties should agree at an early stage on whether or under which conditions a unitary effect is to be requested and embody their wishes in a contract. Where not the owner/co-owners but rather a licensee is to have the possibility to decide on the “whether” of a unitary patent, this must be clearly formulated in the license agreement.

Where there are several applicants (domiciled or having their registered Patent Office) in different countries, the order in which the applicants are named must be agreed upon in advance because this will determine which law will apply to the unitary patent in the future.

## ***Double protection***

If there are more advantages for a unitary patent strategic consideration should be given to providing national double protection in the most important markets, if there is still time. This could cushion the consequences of a “central destruction” of the unitary patent. This is because when the UPCA came into force, some contracting Member States, including Germany, France and Portugal, changed their previous law on double patenting. It was previously not possible to hold a national patent effective in the same country in addition to a nationally validated European patent. Now, this prohibition of national double protection only exists for European patents for which an opt-out has been declared.<sup>41</sup>

## **Strategic considerations for the alleged infringer/respondent**

Pre-use/defensive publications

The right of prior use is one of the few provisions in the UPC system that will continue to be examined only at national level. A prior user right is the right of a third party to continue the use of an invention where that use began before a patent application was filed for the same invention. Patent infringers under attack who invoke a right of prior use are thus in a significantly worse position than patent

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plaintiffs, even if the claim is successful. This is because prior use is not extended to the other Member States and the right of prior use can thus only be asserted for those countries in which prior use has been proven. Whereas in the case of patent infringement, infringement in one member country is sufficient to acquire a court decision that is valid in all countries. Someone who has acquired a right of prior use is forever limited only to the country in which they exercised such prior use. Whether and how prior use rights also extend to further developments of the individual use remains to be seen.

It necessarily follows from this worse position that prior use – with all the other disadvantages such as the difficulty of providing proof – is not a good defence position and thus own applications or at least defensive publications are the better choice.<sup>42</sup>

## Protective letters

Protective letters, as used in German legal proceedings, served as a template for the proceedings before the UPC. A protective letter is typically filed by a party who is concerned that they might be accused of infringement, and who wants to avoid the risk of a preliminary injunction being granted without having an opportunity to argue their case. Since, due to the greater territoriality of the UPC, an injunction issued by it usually hits the opposing party even harder than a national one, protective letters are even more advisable.

This is particularly true because protective letters are codified and not just Judge-made law as was the case, for example, in Germany before the introduction of section 945a of the *German Code of Civil Procedure* in 2016. The legal position of the party threatened by an interim injunction is thus improved. It should also be noted that the fees for the deposit of protective writs are also extraordinarily low.

## Conclusion

The time has come for patent owners, licensees and business entities that regularly deal with patents to consider the risks and possibilities of the new system. For current or planned patent applications, the pros and cons of requesting a patent with unitary effect must be considered at an early stage and sensible strategies devised. In the case of licensees and/or co-owners, the parties' wishes and intentions should be set out in a contract.

Owners of European patents should consider the possibility of opting out and, if necessary, coordinate their wishes and intentions with co-owners and licensees in a timely manner. With the assistance of experienced legal counsel, all existing patent-related contracts and standard forms concerning matters of licensing should be reviewed to ensure that they take into account the opportunities and risks that come with the introduction of UPC and the unitary patent.

- 1 Dr Marco Stief has almost 25 years of experience in patent infringement cases. In addition, he advises companies on contractual matters in the field of technology transfer. He started his professional career at Clifford Chance and Freshfields before joining the legal department of Fresenius SE as Director Legal after about eight years. Since 2017, he has headed the legal department of the Maiwald law firm. The author would like to thank Sandra Spensberger for her assistance with this article.
- 2 Cf. Aloys Hüttermann, *Unitary Patent and Unified Patent Court* (Heymanns, 2nd ed 2023) chapter 1, marginal no. 2.
- 3 A second draft CPC with a new language regime was presented in 1989, OJ L 401, 30.12.1989, 1–27.
- 4 COM/2000/0412 final. Proposal for a Council Regulation on the Community Patent, OJ C 337E, 28.11.2000 278-290. The intention was for the EU to accede to the EPC. The draft *Agreement on the Establishment of a European Patent Litigation* presented by the European Patent Office in 2003 promised more success however, in 2006, the EU Commission denied its Member States the authority to sign this Agreement.
- 5 Cf. Council document 15086/03 of 21 November 2003 on the proposal for the establishment of a Community Patent Court at the Court of Justice as well as proposal for a Council Decision conferring jurisdiction on the Court of Justice in disputes relating to the Community patent, COM(2003)827 final, and proposal for a Council Decision establishing the Community Patent Court and concerning appeals before the Court of First Instance, COM(2003)828 final.
- 6 Regulation (EU) No. 1257/2012 of the European Parliament and of the Council of 17 December 2012 on the implementation of Enhanced Cooperation in the area of the creation of Unitary Patent Protection, OJ L 361 of 31 December 2012, 1-8 (European Patent Regulation); Regulation (EU) No. 1260/2012 of the Council of 17 December 2012 on the implementation of Enhanced Cooperation in the area of the Creation of Unitary Patent Protection as regards the translation arrangements to be applied, OJ L 361 of 31 December 2012, 89–92 (Language Regulation).
- 7 Council Decision 2011/167/EU of 10 March 2011 authorising Enhanced Cooperation in the area of the Creation of Unitary Patent Protection, OJ L 76 of 22 March 2011, 53.
- 8 However, you can decide to participate at any time. The United Kingdom is no longer a contracting Member State after its withdrawal from the EU on 31 January 2020.
- 9 Cf. Art. 2 UPCA.
- 10 With a few deviations regulated in the EPC, e.g. regarding the term of protection (Art. 63 EPC) and grounds for invalidity (Art. 138 EPC).
- 11 Belgium, Bulgaria, Denmark, Estonia, Finland, France, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Malta, Austria, Portugal, Slovenia, Sweden (United Kingdom ratification withdrawn after Brexit). For the current status, see 'Agreement on a Unified Patent Court (UPC)', *European Council* (Web Page, 1 June 2023) <<https://www.consilium.europa.eu/de/documents-publications/treaties-agreements/agreement/?id=2013001>>.
- 12 For the complete list, see 'Unified Patent Court judicial appointments and Presidium elections' (Web Page, 19 October 2022) <<https://www.unified-patent-court.org/en/news/unified-patent-court-judicial-appointments-and-presidium-elections>> .
- 13 Cf. <<https://www.unified-patent-court.org/en/news/decision-provisional-distribution-actions-related-patents-ipc-sections-and-pending-central>> [30 May 2023].
- 14 Depending on the average number of patent cases per calendar year initiated in the seat country in three consecutive years, two local Judges (> 50 cases) or one local Judge (< 50 cases) are appointed.
- 15 Depending on the number of patent proceedings initiated in the respective country per year: one additional Local Division per 100 proceedings, Art. 7(4) UPCA.
- 16 Decision of 8 July 2022, document AC/13/08072022\_D.
- 17 Note: Actions for vindication and actions based on a licence agreement, e.g., for payment of a licence fee, are not included and must still be brought before the national courts.
- 18 However, this is suspended if an infringement action is brought before a Local/Regional Division within three months of receipt of the negative declaratory action, Art. 33(6) UPCA.
- 19 Art. 33 par. 3 UPCA.

# European Unitary Patent Package: Introduction to the New System including Strategic Considerations

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- 20 Statement of defence: three months (including invalidity counterclaim), reply one month (plus one month for invalidity counterclaim, including auxiliary requests to the patent), duplicate (one month, two months for auxiliary requests to the patent).
- 21 See Rules 205 to 213 of the Constitution.
- 22 Not to be confused with the Sunrise Period, the preparatory phase *before* the UPCA takes effect.
- 23 When it is worthwhile in terms of costs to proceed before the UPC depends on the number of countries in which the European patent is validated and the respective national procedural costs. Cf. Unified Patent Court, *Administrative Committee: Table of Court Fees* (Web Page, 8 July 2022) <[https://www.unified-patent-court.org/sites/default/files/upc\\_documents/ac\\_05\\_08072022\\_table\\_of\\_court\\_fees\\_en\\_final\\_for\\_publication\\_clean.pdf](https://www.unified-patent-court.org/sites/default/files/upc_documents/ac_05_08072022_table_of_court_fees_en_final_for_publication_clean.pdf)>.
- 24 Such conflicts between UPC and national courts must then be resolved in application of Articles 71a to 71d and 29 et seq. of Regulation (EU) No. 1215/2012 of 12.12.2012, OJ EU L 351/01, 1 (Brussels Ia Regulation or EuGVVO).
- 25 Cf. Rule 5.1(b) *Rules of Procedure of the Unified Patent Court*.
- 26 Cf. preamble of the *Rules of Procedure of the Unified Patent Court*.
- 27 See also Unified Patent Court, *Administrative Committee: Table of Court Fees* (Web Page, 8 July 2022) <[https://www.unified-patent-court.org/sites/default/files/upc\\_documents/ac\\_05\\_08072022\\_table\\_of\\_court\\_fees\\_en\\_final\\_for\\_publication\\_clean.pdf](https://www.unified-patent-court.org/sites/default/files/upc_documents/ac_05_08072022_table_of_court_fees_en_final_for_publication_clean.pdf)>.
- 28 C.f. Unified Patent Court, 'Opt-Out' <<https://www.unified-patent-court.org/en/registry/opt-out>>.
- 29 See Rules 5 and 5A of the Rules of Procedure of the UPC.
- 30 All EU Member States except Spain and Croatia participate in the Enhanced Cooperation in the Field of the Creation of Unitary Patent Protection.
- 31 Cf. EPO Guide to the Unitary Patent, para. 44.
- 32 Cf. Art. 6 EuPatÜVO: If the language of the patent is English, a full translation of the description into any other official language of the EU is required. If the language of the patent is German or French, a full translation of the description into English must be filed.
- 33 Cf. for details OJ EPO 2022, A6.
- 34 See OJ EPO 2022, A4 and A5 for details.
- 35 The prevailing opinion is that a situation where there are several patent owners is generally regarded as being analogous to co-ownership by defined shares pursuant to sections 741 et seq. *German Civil Code*.
- 36 Christoph Ann, *Patentrecht* (C.H. Beck, 8th ed 2022) sec. 19, margin no. 83.
- 37 Cf. Michael Carter, 'Why the Unitary Patent is not uniform and how this will affect patent transactions' (Web Page, 31 August 2022) <[https://www.lexology.com/library/detail.aspx?g=1cfbf277-251b-45f4-9f75-2dace39129e0&utm\\_source=Lexology+Daily+Newsfeed&utm\\_medium=HTML+email+-+Body+-+General+section&utm\\_campaign=Lexology+subscriber+daily+feed&utm\\_content=Lexology+Daily+Newsfeed+2022-09-02&utm\\_term=>](https://www.lexology.com/library/detail.aspx?g=1cfbf277-251b-45f4-9f75-2dace39129e0&utm_source=Lexology+Daily+Newsfeed&utm_medium=HTML+email+-+Body+-+General+section&utm_campaign=Lexology+subscriber+daily+feed&utm_content=Lexology+Daily+Newsfeed+2022-09-02&utm_term=>)>.
- 38 These were originally Germany, France, the Netherlands and the United Kingdom. A recalculation after Brexit has not yet been carried out. An exemplary cost comparison can be illustrated e.g. with the Maiwald cost simulator, <<https://www.maiwald.eu/de/upc-update/>>.
- 39 See Article 9 (1) (g) Regulation (EU) No 1257/2012, Rule 6 (1) DOEPS, Article 97 (3) EPC.
- 40 Cf. 'Forms', *European Patent Office* <[https://www.epo.org/applying/forms\\_de.html](https://www.epo.org/applying/forms_de.html)>.
- 41 Cf. for Germany Art. II Sec. 8 (1) IntPatÜG n.F. and Sec. 18 IntPatÜG n.F.
- 42 Cf. Aloys Hüttermann, *Unitary Patent and Unified Patent Court* (Heymanns, 2nd ed 2023) chapter 6, marginal no. 644 f.

# UK Court of Appeal on Plausibility for Patents – Australians Beware?

Tom Cordiner KC, Melissa Marcus, Clare Cunliffe, Marcus Fleming and Amy Surkis

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*Sandoz Ltd v Bristol-Myers Squibb Holdings Ireland Unlimited Company*

[2023] EWCA Civ 472

Arnold, Nugee and Warby LLJ (4 May 2023)

*Patents – United Kingdom “plausibility” for sufficiency and inventive step – relevance to Australian patent validity*

## Introduction

Plausibility is a concept that finds no mention in the European Patent Convention (“EPC”) or the *Patents Act* 1977 (UK) (“UK Patents Act”). Nevertheless, as Lord Justice Arnold observed in *Sandoz Ltd v Bristol-Myers Squibb Holdings Ireland Unlimited Company* [2023] EWCA Civ 472 (“*Sandoz v BMS*”) (Nugee and Warby LLJ, agreeing), plausibility is a concept that has, over the past 30 years, “come increasingly to the fore in discussions of validity”: [1].

In Europe and the UK, a lack of plausibility arises when a patent specification asserts that the claimed product or process will solve a particular problem or produce a particular outcome, but there is not enough information in the specification to make it at least plausible to the skilled reader that the claimed invention will do so. A lack of plausibility means the claimed invention makes no “technical contribution” to the art (because no problem is solved) and is both lacking an inventive step and insufficiently disclosed. In *Sandoz v BMS*, Arnold LJ observed that “it makes no difference to the outcome whether the issue is viewed as one of inventive step or one of sufficiency”. It also does not appear to matter that the claim does not include, as an integer, the asserted outcome or advantage over the art.

Plausibility is also not mentioned in the *Patents Act* 1990 (Cth) (“AU Patents Act”) but has recently found its way into Australian jurisprudence at least with respect to the disclosure obligation in section 40(2)(a). Australian courts have accepted that UK and European jurisprudence with respect to “classical insufficiency” should guide the approach to section 40(2)(a) of the AU Patents Act since its amendment by the *Intellectual Property Laws Amendment (Raising the Bar) Act* 2012 (Cth) (“*Raising the Bar*”): *Merck Sharp & Dohme Corporation v Wyeth LLC (No 3)* [2020] FCA 1477 (“*Merck*”) at [544]; *Jusand Nominees Pty Ltd v Rattlejack Innovations Pty Ltd* [2022] FCA 540 (“*Jusand*”) at [360]; *ToolGen Incorporated v Fisher (No 2)* [2023] FCA 794 (“*ToolGen*”) at [168]. The same has been said for “*Biogen* insufficiency” in the UK and the support requirement in section 40(3) of the AU Patents Act: *Merck* at [544]; *Jusand* at [369]; *ToolGen* at [392]. Whether plausibility is relevant in Australia, will be explored below. For pre-*Raising the Bar* patents, the concept is irrelevant.

## Facts

Returning to *Sandoz v BMS*, the claims of the patent in suit (BMS’ patent) related to a compound called apixaban, marketed by BMS under the trade mark Eliquis, which is used to treat thromboembolic disorders. Apixaban’s use in therapy depends on its activity as a factor Xa inhibitor. However, the claim itself was to the compound per se, without limitation to its ability to treat those disorders or inhibit factor Xa.

At least insofar as the appeal was concerned, it was not in dispute that apixaban has proven to be a potent factor Xa inhibitor and a useful therapeutic for thromboembolic disorders, but Sandoz contended that the claim was invalid because the specification as filed did not make it plausible that apixaban would have any useful factor Xa inhibitory activity. That knowledge came later, after the patent application was filed, and was not disclosed in the application as filed.

The closest prior art disclosed embodiments which embraced apixaban, but there was no individual disclosure of that compound. Nor did the prior art make it obvious that apixaban would be likely to be efficacious as a factor Xa inhibitor.

It was common general knowledge that, for a factor Xa inhibitor to be potentially useful in treating thromboembolic disorders, it would need to have  $K_i/IC_{50}$  values in the nanomolar (nM) range and that 1-10  $\mu$ M (micromolar, much larger than nanomolar) was not a good enough level of potency (it was too high).

The application for the patent in suit asserted under the heading “utility” that the compounds of the invention were inhibitors of factor Xa and were useful as anticoagulants for the treatment or prevention of thromboembolic disorders.

It went on to say that the effectiveness of the disclosed class of compounds as factor Xa inhibitors “was determined” by means of the same chromogenic assay as disclosed in the closest prior art and that a  $K_i/IC_{50} < 10 \mu M$  was sufficient. The application did not identify apixaban in particular as having a  $K_i/IC_{50}$  of less than  $10 \mu M$ .

BMS did not assert that the skilled team reading the patent application with the benefit of their common general knowledge would interpret it as disclosing that apixaban had been tested and found to have nm  $K_i/IC_{50}$ . BMS argued that the reader of the patent application would see something of potential value by working from what was described in the specification that apixaban was the key compound and that it was the one likely tested and, encouraged by that but having no data, would test apixaban and find that it had nanomolar  $K_i$ s.

### UK inventive step, sufficiency and the role of “plausibility” in both

Article 52(1) of the EPC provides that European patents “shall be granted for any inventions” provided that (among other things) they “involve an inventive step”. Article 56 provides that an invention “shall be considered as involving an inventive step if, having regard to the state of the art, it is not obvious to a person skilled in the art”.

Article 83 of the EPC requires that an application for a European patent “disclose the invention in a manner sufficiently clear and complete for it to be carried out by a person skilled in the art”. This is known as the “sufficiency” requirement and finds its equivalent in section 40(2)(a) of the AU Patents Act. Article 84 of the EPC requires, among other things, that the claims shall be “supported by the description”. This is known as the “support” requirement and finds its equivalent in section 40(3) of the AU Patents Act.

Article 138(1) of the EPC provides that a European patent may be revoked with effect for a contracting State by the courts of that State on grounds that include lack of patentability under Article 56 and failure to comply with Article 83. There is no ground of invalidity for failure to comply with Article 84 (unlike section 40(3) of the AU Patents Act). Sections 1(1)(a), 3, 14(3) and 72(1) of the UK Patents Act give effect in the UK to Articles 52(1), 56, 83 and 138(1) of the EPC.

Lord Justice Arnold observed that the criterion of plausibility, while not mentioned in any of these provisions, has been developed through the case law, initially of the Boards of Appeal of the European Patent Office (“EPO”) (the “Boards”) and latterly of the courts of the contracting States, including the UK. The general principle is premised on the policy that the extent of the patent monopoly should correspond to and be justified by the technical contribution to the art. That principle has been “applied in relation to the extent of the patent protection that was justified by reference

to the requirements of Articles 83 and 84 EPC”: T939/92 *Agrevo/Triazoles* [1996] EPOR 171 (“*Agrevo*”) at [2.4.2]. Therefore, the support and sufficiency requirements in the EPC are said to justify the plausibility criterion (although, as noted above support is not a ground of invalidity in the EPO or UK).

In *Agrevo*, it was said that “the same legal principle also governs the decision that is required to be made under Article 56 EPC, for everything falling within a valid claim has to be inventive.” That is, in the UK and Europe, a claim will not be “inventive” if the claim does not correspond to the technical contribution to the art, a question which does not appear to arise under any presently formulated Australian test for inventive step.

In *Agrevo* it was observed at [2.5] that:

*if the claimed compounds were to be assumed not to have any technically useful property, then it could be postulated that the technical problem which is solved by the claimed compounds (or, in other words, the technical result achieved by them, on the basis of which the question of inventive step has to be decided), would be the minimalist one in such a situation, namely the mere provision of further (or alternative) chemical compounds as such, regardless of their likely useful properties.*

So, for example, if the claim is to specific compounds per se and the patentee does not assert the technical contribution is more than the provision of such compounds, then obviousness will be tested on that footing. In *Agrevo*, the patent applicant argued that, even on the basis of known starting compounds and known synthetic methods, the skilled person would have faced an unlimited number of possibilities for solving the problem of the “provision of further (or alternative) chemical compounds as such, regardless of their likely useful properties”. The applicant argued that a particular selection from that unlimited number was inventive, even if it was arbitrary, unless there was a direct pointer to the preparation of the claimed compounds in the prior art. The Board rejected that argument, observing that:

*2.5.3 ... The answer to the question as to what a person skilled in the art would have done depends on the result he wished to obtain, as explained in point 2.4.2 above. If this result is only to be seen in obtaining further chemical compounds, then all known chemical compounds are equally suitable as the starting point for structural modification, and no inventive skill needs to be exercised in selecting, for instance, the compound of formula XIV of [prior art citation] D3 for this purpose. Consequently, all structurally similar chemical compounds, irrespective of their number, that a skilled person would expect, in the light of the cited prior art, to be capable of being synthesised, are equally suitable candidates for solving such a hypothetical ‘technical problem’ to the skilled person, and would therefore all be equally ‘suggested’ to the skilled person. It follows from these*

*considerations that a mere arbitrary choice from this host of possible solutions of such a 'technical problem' cannot involve an inventive step ... In other words, the Board holds that, in view of the underlying general legal principle set out in point 2.4.2 above, the selection of such compounds, in order to be patentable, must not be arbitrary but must be justified by a hitherto unknown technical effect which is caused by those structural features which distinguish the claimed compounds from the numerous other compounds. ...*

*2.5.4 It follows directly from these considerations that a technical effect which justifies the selection of the claimed compounds must be one which can be fairly assumed to be produced by substantially all the selected compounds.*

The Board considered that the technical contribution to the art in that case was not the provision of a compounds per se as claimed but was to be discerned from the patent specification, which asserted the claimed compounds could achieve herbicidal activity. The Board said that, in deciding whether the claimed invention complied with Article 56 (inventive step), that technical problem could only be considered if “it would be credible that substantially all claimed compounds possessed this activity”. The application did not make it plausible to the skilled person that all the claimed compounds had that herbicidal activity. Therefore, the Board concluded that the claims did not have an inventive step.

A recurrent issue in the other cases considered by Arnold LJ was whether the patent applicant could rely upon “post-published” evidence (i.e., evidence of technical effect post-dating the filing of the application for the patent) as demonstrating or supporting a technical effect asserted in the application. Ultimately, those cases held that post-published evidence could be used, but in such a narrow way that, to the authors’ minds, it is practically irrelevant to the question of plausibility. For example, in *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [40], Lord Sumption observed:

*This does not mean that subsequent data is never admissible in a dispute about sufficiency, but the purpose for which it is admitted is strictly limited. Where the asserted therapeutic effect is plausible in the light of the disclosure in the patent, subsequent data may sometimes be admissible either to confirm that or else to refute a challenger’s contention that it does not actually work... But it cannot be a substitute for sufficient disclosure in the specification.*

In this regard, an important recent case considered by Arnold LJ was the Board’s decision in Case G 2/21 (not yet reported, 23 March 2023). In that case, the Board explained the limited way that “post-published evidence” could be used at [77]:

*In order to meet the requirement that the disclosure of the invention be sufficiently clear and complete for it to be carried*

*out by the person skilled in the art, the proof of a claimed therapeutic effect has to be provided in the application as filed, in particular if, in the absence of experimental data in the application as filed, it would not be credible to the skilled person that the therapeutic effect is achieved. A lack in this respect cannot be remedied by post-published evidence.*

The Board at [92] also observed that plausibility “does not amount to a distinctive legal concept or a specific patent law requirement under the EPC, in particular under Article 56 and 83 EPC. It rather describes a generic catchword seized in the jurisprudence of the boards of appeal, by some national courts and by users of the European patent system.”

The authorities reviewed by Arnold LJ also made clear that plausibility did not require *proof* that the claimed invention would provide the technical effect, only that sufficient information is given in the application, in light of the common general knowledge, to make it plausible or credible to the person skilled in the relevant art that the technical effect would be achieved. This means experimental data is not necessary (though it no doubt is useful) to establish plausibility, especially in the absence of any “formulated substantiated doubt”. All that is required to be disclosed is “reasonable scientific grounds ... for expecting that it might well work”: *Warner-Lambert Co LLC v Generics (UK) Ltd* [2018] UKSC 56 at [37] per Lord Sumption, but see also Lord Mance at [195].

### The appeal

The trial judge found that the claimed invention lacked an inventive step and was insufficiently described because the skilled person would not consider from reading the patent application that the particular drug claimed, apixaban, had been tested for its factor Xa inhibitory activity: “Since there is no plausibility of any meaningful factor Xa binding the Patent is invalid.”

BMS contended that the trial judge was wrong because the claim was to a single (limited) compound and so the question of plausibility did not arise. BMS asserted that plausibility was concerned with overly broad claims and a single compound claim was necessarily confined and not over-reaching. Arnold LJ disagreed, holding:

*Furthermore, the underlying principles are applicable as much to claims to single chemical compounds as to claims to classes of compounds and second medical use claims. The fundamental principle is that the scope of the patent monopoly must be justified by the patentee’s technical contribution to the art. This remains so whether the scope of the claim is broad or narrow. Thus when considering inventive step it is necessary to consider what technical problem the claimed invention solves. If it is not plausible that the invention solves any technical problem then the patentee has made no technical contribution and the invention does not involve an inventive step. Equally, when considering insufficiency it*

*is necessary to consider whether the specification sufficiently discloses the claimed invention. If it is not plausible that the invention solves any technical problem then the patentee has made no technical contribution and the specification does not disclose any invention. It follows that, in order for a claim to a single chemical compound to be patentable, the application must make it plausible, when read in the light of the skilled person's common general knowledge, that the compound has the utility asserted for it. Moreover, it makes no difference whether the claim incorporates the use of the compound as a technical feature or whether the claim is simply to the compound per se and the assertion of utility is only to be found in the specification. This is because, as explained above, there is no invention in merely identifying a new chemical compound; invention can only lie in identifying its utility.*

Arnold LJ concluded:

*it is not sufficient for the application to encourage the skilled person to carry out simple tests identified in the specification to confirm the efficacy of the claimed product even if carrying out such tests would indeed show that the product is likely to be efficacious. As Lord Sumption said [in Warner Lambert] at [40], subsequent data cannot be a substitute for sufficient disclosure in the specification.*

The UK Court of Appeal has therefore confirmed that plausibility arises even for narrow claims. The person skilled in the art must conclude that it is credible that the claimed invention will give the asserted benefit/technical contribution, even if that benefit or technical contribution is not a limitation in the claim.

### Plausibility in Australia

The authors consider it unlikely that the question of plausibility could arise on the question of inventive step in Australia on the present state of the law. While *Raising the Bar* made obviousness a lower hurdle than previously, the amendments changed how prior art can be taken into account, rather than expanding the pre-existing tests for obviousness in Australia. There is no strict requirement in Australia for a patent to identify a problem and its solution in order to provide an inventive step. Whether, for example, a claim to a chemical molecule per se involves an inventive step in Australia will likely depend on whether a person skilled in the relevant art would be motivated in light of the common general knowledge and any prior art to make that compound for *any reason*, not whether the compound achieves the asserted technical contribution to the art set out in the specification.

Nevertheless, Australian courts have, so far, followed UK and European judge made law in the application of the disclosure obligation in section 40(2)(a) and the support requirement in section 40(3) of the AU Patents Act: *Merck*, *Jusand* and *ToolGen* above. None of *Merck*, *Jusand* or

*ToolGen* dealt substantively with the question of plausibility. Nevertheless, Justice Rofe in *Jusand* at [377] referred to a delegate of the Commissioner's decision in *Evolva SA* [2017] APO 57 ("*Evolva*") at [45] without apparent criticism. That decision accepted plausibility was relevant to section 40(2) (a). Similarly, Burley J set out the plausibility requirement from *Evolva* without criticism in *Cytec Industries Inc v Nalco Company* [2021] FCA 970 at [144] (though his Honour did not otherwise address the issue of plausibility). Nicholas J in *ToolGen* at [402] considered the UK law as to plausibility but ultimately did not need to address it: *ToolGen* at [408].

### Plausibility and priority date

An interesting side note to plausibility in the UK and Europe is that Arnold LJ in *Sandoz v BMS* held that it should be tested by reference to the patent application as filed, rather than any later amended version of the patent. This was because, as Arnold LJ put it, "if plausibility arose from something that was only in the Patent and not in the Application, the Patent would be invalid for added matter": at [4] and [53]. It is not clear that the same could be said in Australia. While section 40 of the AU Patents Act has traditionally been tested as at the date of the filing of the complete specification, it appears that once an amendment is made to the complete specification, that can cure any section 40 invalidity. Then the question is whether, if the amendment was wrongly made, the priority date of the claim is shifted (AU Patents Act, section 114), not that the claims are invalid per se (although that may be the effect).

As a further aside, at least in the UK and Europe, it appears that plausibility is relevant to the question of priority date – a claimed invention which is not plausible in light of the information given in the priority document cannot enjoy the priority date of the priority document: see *Illumina Cambridge Ltd v Latvia MGI Tech SIA & Ors* [2021] EWCA Civ 1924 (Arnold LJ, Nugee and Warby LJJ agreeing).

Given the differences in the language of the law for priority date in Australia as compared to that in the UK and EPC, some doubt might exist as to whether the position would be the same in Australia. Nevertheless, it appears that Burley J in *TCT Group Pty Ltd v Polaris IP Pty Ltd* [2022] FCA 1493 was willing to apply the law of sufficiency in the UK to the question of priority date in Australia, which would mean plausibility should apply (though Burley J did not deal with that question). More recently, Nicholas J in *ToolGen* at [193] considered that, notwithstanding the differences in the statutory language, the position under Australian law for priority date is not "materially different" from the UK law. His Honour held that "[a]lthough neither s 43(2A) nor reg 3.13A(2) requires that the invention as claimed be 'in respect of the same invention' [the test in the UK statute], it does not follow that the priority document need not disclose the invention claimed".

# Claiming the World: the Validity of Broad Antibody Patent Claims in the US and Australia following the US Supreme Court decision *Amgen Inc v Sanofi* (2023)

Kate Donald, Odette Gourley, Grant Fisher and Eleni Carydis<sup>1</sup>

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## Introduction

**T**herapeutic antibodies are becoming increasingly significant in the development of treatments for a wide range of illnesses, including cancer, asthma, psoriasis and COVID-19. These treatments have revolutionised the way many view chronic and long-term diseases, with strong growth in the space predicted. The market for therapeutic antibodies has been valued at approximately US\$200 billion in 2022, with it now holding the largest market share of the global biologics market.<sup>2</sup>

Though many people globally now rely on these treatments, the patent legal landscape is not uniform and therefore, patent claims relating to similar, if not identical, molecules can be treated differently in different jurisdictions. The current worldwide litigation in relation to cholesterol lowering drug Repatha is a good example. In the United States, the Supreme Court recently handed down a much-anticipated decision finding Amgen's patents invalid for lack of enablement. To date, equivalent patents in Australia have been upheld by the Australian Patent Office ("APO"), and the correctness of the APO finding is currently being considered on appeal by the Federal Court of Australia. In this report, we will discuss the US Supreme Court decision in *Amgen Inc. v Sanofi* 143 S. Ct. 1243 (2023) and consider what impact that decision may have, if any, on related proceedings in Australia.

## *Amgen Inc v Sanofi*

The recent unanimous decision of the US Supreme Court, which found that Amgen's 2014 patents were not enabled, upheld both the earlier District and Federal Circuit Court decisions in the matter and, while expressed in clear language, leaves questions unanswered.

Following the judgment, some uncertainty has arisen as to two factors. First, the extent of experimentation permissible before it becomes undue and second, whether the requirement to formulate each and every embodiment within a claim is assessed by reference to a patentee's contribution to the art.

## *Background and submissions*

The case involved two patents registered by Amgen in 2014, covering therapeutic antibodies that have the effect of reducing levels of low-density lipoprotein ("LDL") cholesterol (also known as bad cholesterol) in the bloodstream. LDL cholesterol is naturally removed by the body through LDL receptors; however, these receptors can be bound to and degraded by a naturally occurring protein known as PCSK9. Therefore, by blocking PCSK9 more LDL receptors are able to function to extract LDL cholesterol

from the bloodstream, lowering the overall amount of LDL cholesterol in the body.

In 2011, each of Amgen and Sanofi obtained a patent for a specific therapeutic antibody that had the effect of binding to and blocking PCSK9 to treat patients with high cholesterol, with Amgen's product marketed under the brand Repatha, and Sanofi's branded Praluent. Each patent claimed a specific antibody defined by its relevant amino acid sequence, which allowed the patents to coexist with no issue of overlap. However, in 2014 Amgen applied for two new patents which claimed a monopoly over a much broader scope of antibodies, namely any antibody that binds to specific amino acid residues (or the "sweet spot" as coined by the US Supreme Court) on PCSK9 and blocks PCSK9 from binding to LDL receptors. With the claims, Amgen provided two methods to identify the relevant antibodies, the first being a "roadmap" approach to generating and testing generated antibodies, and the second a "conservative substitution" approach which required scientists to replace select amino acids in an antibody with other amino acids known to have similar properties before testing the resulting antibody to determine whether it too would be able to bind and block as required.

Upon grant of the 2014 patents Amgen sued Sanofi for infringement, to which Sanofi responded by alleging the patents were invalid at law. Sanofi submitted Amgen's patents were invalid as they did not enable a person skilled in the art to make and use all of the antibodies described by the claims. This was because while Amgen supplied the amino acid sequences of 26 example antibodies that both bind to the sweet spot and block the binding of PCSK9, there were potentially millions of antibodies fitting this description that Amgen had not identified. Additionally, Sanofi submitted that the two methods Amgen supplied to identify the antibodies were little more than "trial-and-error" processes.

## *Decision*

The Supreme Court unanimously agreed with Sanofi's position that Amgen's patents were not enabled, upholding

## Claiming the World: the Validity of Broad Antibody Patent Claims in the US and Australia following the US Supreme Court decision *Amgen Inc v Sanofi* (2023)

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the prior decisions of both the District and Federal Circuit courts. By citing authorities decided more than 100 years prior, the Court construed the enablement principle with such certainty as to maintain its relevance and application “whether the case involves telegraphs devised in the 19<sup>th</sup> century, glues invented in the 20<sup>th</sup>, or antibody treatments developed in the 21<sup>st</sup>.”<sup>3</sup> It confirmed that where parties attempt to claim a monopoly over an entire class of manufactures, the specification must enable a person skilled in the art to make and use the entire class: “the more one claims, the more one must enable.”<sup>4</sup>

The Court did not accept Amgen’s submissions that the two methods it provided allowed a person skilled in the art to identify all the relevant antibodies, and held the methods offered no more than a “hunting licence” as the skilled person needed to engage in “painstaking experimentation” to see what would work.<sup>5</sup> It noted that while “reasonable experimentation” may be required depending on the nature of the art or invention, Amgen’s methods went far beyond this. Importantly, the Court found that the provision within the specification of the amino acid sequences for 26 antibodies meant those antibodies were enabled, and accepted that, while not in the current case, in certain circumstances the provision of examples may suffice to fulfil enablement requirements where an invention had a “general quality ... running through” the class which gives it “a peculiar fitness for the particular purpose”.<sup>6</sup>

### The impact of the decision in the US

Having only been decided in May 2023, we have yet to see how the Supreme Court’s judgment will be applied in future US patent invalidity cases. Recent submissions to the US District Court in a case concerning the infringement and validity of claims to a formulated biological molecule,<sup>7</sup> heard both parties seek to use the decision to support their position on enablement, with disagreements as to when aspects of the principle should apply and the extent of experimentation required to practise the claim before becoming unreasonable or undue. In its opening submissions, the patentee said its claims were enabled because the patent in suit added technical knowledge to the prior art, saying “enablement is a problem where you have to do as much work without the patent as you do with the patent”. It also submitted that the requirement to formulate each and every embodiment within a claim is not applicable where the claim has limitations that direct the person skilled in the art to make selections, for instance where a specified pH range directs the selection of an appropriate buffer. In such circumstances, the person skilled in the art “wouldn’t need to make every formulation in order to practise this claim. [The skilled person would] be able to eliminate a lot of candidates and narrow ... down to acceptable candidates and then do some experimentation.”

The revoking party on the other hand emphasised the Supreme Court’s discussion of the requirement to enable all

compositions of an entire class, which it says is a requirement “without exception” and is consistent with the Supreme Court’s use of the phrase “full scope”. It submitted the patent in suit included claims that covered an entire class (despite the claims limiting the amount of the active molecule required and prescribing classes of inactive molecules) and interprets the Supreme Court decision as requiring the specification to provide enough information to allow the skilled person to make each formulation included in a claim, which it submits cannot be possible without undue experimentation where a skilled person must practise millions of formulations.

While closing statements have not yet been made, both parties rely on the decision in their opening submissions, suggesting the Court will likely consider it in the judgment and provide some clarification of its application.

### Turning to Australia

Australia’s patentability standards shifted in 2013 with the introduction of the *Intellectual Property Laws Amendment (Raising the Bar) Act 2012* (Cth) (“*Raising the Bar*”), which aimed to better align Australia’s position with that of overseas jurisdictions, including Europe and the US. The new provisions strengthened the standards required for a claim to be found valid. Two of those grounds include requirements that overlap with the US enablement ground. Prior to *Raising the Bar*, these grounds required the claims be “fairly based” on the matter described in the specification and “fully” or “sufficiently” described in the specification.<sup>8</sup> These requirements have now tightened from the claim being “fairly based” to a requirement that claims be “supported” by the matter disclosed.<sup>9</sup> Additionally, the requirement that the specification “fully” or “sufficiently” describe the invention can now only be satisfied if the disclosure is “clear enough and complete enough” for the invention to be performed by the relevantly skilled person<sup>10</sup> across the scope of the claim.<sup>11</sup> The transformation of these provisions mean specifications must disclose more than was previously necessary for a claim to be considered adequately “enabled”, reflecting a realignment in Australia towards the original “patent bargain” principle.<sup>12</sup> This realignment is consistent with the “support” requirement in the United Kingdom.<sup>13</sup>

The Federal Court’s decision of *MSD v Wyeth (No 3)* [2020] FCA 1477 considered both the pre- and post-*Raising the Bar* regimes as the decision related to two patents, one of which was covered by the earlier provisions and the other covered by the latter. The claims considered under the original “fair basis” ground were found to be adequately disclosed, while the claims covered by the new “support” requirement could not be satisfied. The claims of the pre- and post-*Raising the Bar* patents listed 13 specific polysaccharide-protein conjugates and included a large number of additional conjugates. Because the specification described the 13 specific conjugates, this was deemed to fairly base the claim, but the absence from the specification of the non-specified

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conjugates meant the claim extended beyond the patent's technical contribution to the art and, therefore, lacked support. This suggests much more must be disclosed to fulfill the new standard, as both patents were in the same patent family with almost identical specifications. Subsequent judgments have interpreted *MSD v Wyeth (No 3)* as requiring that the technical contribution to the art disclosed by the specification justify the breadth of the claim.<sup>14</sup>

A similar finding in relation to the support ground was made in *Cytec Industries Inc. v Nalco Company* [2021] FCA 970 ("*Cytec Industries*") where it was found that the full scope of the claims extended beyond the patent's technical contribution to the art. Justice Burley construed the phrase "at least one small molecule" to include a product made up of a single type of small molecule and a product containing a mixture of small molecules, and the technical contribution of the specification only provided guidance as to how the product mixture could be synthesised.<sup>15</sup> Therefore, insofar as the claim included a single type of small molecule, the claim lacked support. The decision also considered the post-*Raising the Bar* disclosure requirement and found that the full scope of the claim needs to be able to be performed without undue experimentation in order for a claim to be adequately disclosed. Justice Burley discussed the requirement that disclosure be "clear enough and complete enough", finding the disclosure of the specification, including the claims, did not allow the claims to be performed without undue experimentation insofar as the claims included a product made up of a single type of small molecule.<sup>16</sup> Additionally, Justice Burley made a point of saying it may be difficult to find adequate disclosure where the initial support obligation had not been met.<sup>17</sup> This is particularly interesting when considering both Justice Burley in *Cytec Industries*<sup>18</sup> and Justice Nicholas, in the recent *ToolGen Incorporated v Fisher (No 2)* [2023] FCA 794 ("*ToolGen*"),<sup>19</sup> used substantially the same facts and similar reasoning to support their findings in relation to the grounds of support under s.40(3) and disclosure under s.40(2)(a) of the *Patents Act* 1990 (Cth).

While these decisions signal an adoption in Australia of standards akin to those accepted in the US, it has also been suggested the decisions could point to a potential convergence of both support and disclosure grounds into in effect a single "enablement" requirement. In *ToolGen*<sup>20</sup> the respondents submitted that the support requirement in s.40(3) in combination with the requirement of disclosure in s.40(2)(a), operates to ensure that there is an enabling disclosure, and if the disclosure does not enable the invention to be performed to the full extent of the claim, the claim will lack the support required by s.40(3). The Court accepted it is difficult to see how a claim to an invention for which there was no enabling disclosure could meet the support requirement, acknowledging the two requirements are closely interrelated and not wholly distinct in their fields of operation.

### Australia's own – *Sanofi v Amgen Inc.*

The difference between the Australian pre-*Raising the Bar* provisions and the US position in relation to the requisite disclosure of claims can be clearly seen when comparing the US Supreme Court decision with the earlier decision of the APO in *Sanofi v Amgen Inc* [2022] APO 67. In this decision, the patent applications were subject to the Patents Act pre-*Raising the Bar* amendments, and as such the patent specification was assessed on the lower "fair basis" and "sufficiency" standards. The claims in suit were separated into three classes:<sup>21</sup>

1. **epitope claims**, which relates to isolated monoclonal antibodies binding or recognising an epitope on PCSK9, comprising various amounts of amino acid residues, and reducing the binding between PCSK9 and LDL receptors;
2. **residue claims**, which relates to isolated monoclonal antibodies binding to various amino acid residues found in PCSK9 and blocks or reduces the binding between PCSK9 and LDL receptors; and
3. **competition claims**, which relates to isolated monoclonal antibodies which compete for binding to PCSK9 with an antibody defined by various heavy and light chain variable regions and reduces the binding of PCSK9 to LDL receptors.

Sanofi submitted similar arguments as in the US Supreme Court case, namely that the epitope and residue claims were not fairly based on the matter described in the specification, because the specification only disclosed two antibodies as having been made, tested and shown to block the binding of PCSK9 to LDL receptors, and thereby lower plasma LDL levels. It was those two antibodies, Sanofi submitted, that constituted the "invention" in substance disclosed in the specification.<sup>22</sup> This is interesting to note considering in the US Sanofi conceded 26 antibodies were disclosed (and "enabled") in the specification. Additionally, in Australia Sanofi submitted that there was no proof in the specification that any of the antibodies bound to one or more of the identified residues,<sup>23</sup> and the claims do not enable a person skilled in the art to produce something within each claim, but rather the skilled person would have to undertake "research projects" to identify the relevant antibodies described in the specification.<sup>24</sup>

The APO Delegate did not accept Sanofi's submissions, considering "proof" unnecessary for the purpose of fair basis, which relates to the actual information disclosed, and that the Office could reasonably infer from the evidence that the binding interaction occurred in the relevant region.<sup>25</sup> The Delegate also rejected the submission that the methods disclosed by Amgen amounted to "research projects", with it finding that the state of antibody arts at the priority date was well advanced and mature, and thus no more was required of the skilled person than what could be considered routine

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in the art.<sup>26</sup> This finding was helped in part by Sanofi's failure to prove the antibodies could not bind to the relevant residues or that the exemplified antibodies themselves did not fall within the scope of the claim.<sup>27</sup> The Delegate was also quick to note that the ability for a relevantly skilled person to practise the claim without undue experimentation is regardless as to whether the work or experimentation required may be complex, time consuming or expensive.<sup>28</sup>

Therefore, the Delegate found Amgen's patents to be valid, taking a position almost entirely opposite from that of the US Supreme Court.

## Will the US decision impact Australia?

Sanofi has appealed the APO's decision to the Federal Court of Australia, with hearing dates listed for November 2023. As the US Supreme Court judgment was decided following the Delegate's decision, the question arises whether the US decision will impact any future judgment of the Federal Court, or whether Sanofi will amend any of its submissions in light of the US decision. Interestingly, while the substantive appeal has not yet been heard, the Federal Court has already ruled on leave to rely on overseas experiments and discovery.<sup>29</sup> In this decision Justice Nicholas summarised the submissions of Sanofi as alleging that the claims have been drafted "far more widely than is legally permissible" and that the claims in effect, claim "a monopoly over any antibody that happens to interact with PCSK9, regardless of the antibody's amino acid sequence ... and irrespective of whether the claimed antibody has the desired biological outcome of lowering plasma LDL levels".<sup>30</sup>

It is unlikely, however, that the US Supreme Court decision will have any direct influence on the Australian case as it will be considered under the pre-*Raising the Bar* provisions, which as discussed, is more remote from the position in the US than the provisions post-*Raising the Bar*. However, some elements of the judgment could be considered by the Federal Court, such as the "patent bargain" principle and other public policy concerns relevant to patent law. Ultimately, Australian patent lawyers will need to wait for clarification by the courts as to how therapeutic antibody claims, especially "genus" claims, will be assessed in respect of support and disclosure requirements. Given that the post-*Raising the Bar* more closely aligns the Australian patent law position with that of Europe and the US, we will be following with interest how US courts apply the Supreme Court decision, especially where claims include limitations that direct the person skilled in the art to make selections that, in practice, narrow the scope of the claims.

- 1 Kate Donald, Odette Gourley and Grant Fisher are Partners at Corrs Chambers Westgarth. Eleni Carydis is a Law Graduate at Corrs Chambers Westgarth.
- 2 As reported by various market research firms, including The Business Research Company and DelveInsight.
- 3 143 S. Ct. 1243 (2023), 16.
- 4 143 S. Ct. 1243 (2023), 13.
- 5 143 S. Ct. 1243 (2023), 17.
- 6 143 S. Ct. 1243 (2023), 13.
- 7 US District Court, 1:22-cv-61 (N.D.W. Va).
- 8 *Patents Act 1990* (Cth) (pre-*Raising the Bar* amendments) s 40(2)(a), (3).
- 9 *Patents Act 1990* (Cth) (post-*Raising the Bar* amendments) s 40(3).
- 10 *Patents Act 1990* (Cth) (post-*Raising the Bar* amendments) s 40(2)(a).
- 11 *ToolGen Incorporated v Fisher (No 2)* [2023] FCA 794, [383].
- 12 The "patent bargain" refers to the bargain struck between inventors and the public, incentivising inventors to disclose new technologies into the public domain with the promise of benefitting from a monopoly period. The post-*Raising the Bar* provisions shift the position of patent law to require inventors to disclose more to obtain the protection justified by the principle, as has occurred in jurisdictions such as Europe and the US. This may be to keep pace with technology, as inventions continue to evolve in complex manners.
- 13 *Warner-Lambert LLC v Generics (UK) Ltd t/a Mylan* [2018] UKSC 56, 17, *Cytec Industries Inc. v Nalco Company* [2021] FCA 970, [132].
- 14 *Cytec Industries Inc. v Nalco Company* [2021] FCA 970, [132]; *ToolGen Incorporated v Fisher (No 2)* [2023] FCA 794, 394.
- 15 *Cytec Industries Inc. v Nalco Company* [2021] FCA 970, [138]
- 16 *Cytec Industries Inc. v Nalco Company* [2021] FCA 970, [131]–[133], [149].
- 17 *Cytec Industries Inc. v Nalco Company* [2021] FCA 970, [149].
- 18 *Cytec Industries Inc. v Nalco Company* [2021] FCA 970, [149].
- 19 *ToolGen Incorporated v Fisher (No 2)* [2023] FCA 794, [409]–[411].
- 20 *ToolGen Incorporated v Fisher (No 2)* [2023] FCA 794, [409]–[411].
- 21 *Sanofi v Amgen Inc.* [2022] APO 67, [51].
- 22 *Sanofi v Amgen Inc.* [2022] APO 67, [132].
- 23 *Sanofi v Amgen Inc.* [2022] APO 67, [149]–[155].
- 24 *Sanofi v Amgen Inc.* [2022] APO 67, [166]–[169].
- 25 *Sanofi v Amgen Inc.* [2022] APO 67, [139].
- 26 *Sanofi v Amgen Inc.* [2022] APO 67, [174].
- 27 *Sanofi v Amgen Inc.* [2022] APO 67, [163]–[165].
- 28 *Sanofi v Amgen Inc.* [2022] APO 67, [163]–[165].
- 29 *Sanofi v Amgen Inc* [2023] FCA 264.
- 30 *Sanofi v Amgen Inc* [2023] FCA 264, [14].

# Australian Attorney-General's Department *Copyright enforcement review 2022–23*

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Barrister<sup>1</sup>

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## Background to the review

On 9 December 2022, the Commonwealth Attorney-General's Department, as the Government department responsible to administer the *Copyright Act 1968* (Cth), released an Issues Paper titled *Copyright enforcement review*, and invited interested parties to make submissions on matters specifically raised in the Issues Paper.<sup>2</sup>

The purpose of the review, titled *Copyright enforcement review 2022–23*, is to:

- *understand current and emerging enforcement priorities and challenges;*
- *gather views from all parts of the copyright system – including owners, users, institutions and service providers – on whether Australia's copyright enforcement regime remains relevant, effective and proportionate; and*
- *seek feedback on whether there is any need to supplement or strengthen existing enforcement mechanisms, and if so, how this could be done without imposing unreasonable administrative or economic burdens.*<sup>3</sup>

The majority of more than 80 submissions indicated that improvements were needed to ensure Australia had an effective copyright system. Reform options are to focus firstly on reducing barriers for Australians to use the legal system to enforce copyright, including examining simple options to resolve “small value” copyright infringements. Secondly, the reforms will seek to improve an understanding and awareness about copyright.

## The Federal Circuit and Family Court of Australia (Division 2)

The Federal Circuit and Family Court of Australia (Division 2) is part of the review in the context of the use of the Australian legal system in relation to copyright infringement. Question 14 of the Issues Paper asks, “Are there any ways in which the current system could be improved? How would such changes affect you or your sector?”.

The Court has jurisdiction to hear and determine civil disputes concerning copyright, designs, trade marks and plant breeder's rights.

From its initial jurisdiction in relation to civil copyright matters, the jurisdiction of the Federal Circuit Court (“FCC”) was progressively expanded to include registered designs, trade marks, plant breeder's rights, circuit layouts and other IP and associated proceedings. This follows the Productivity Commission's recommendations in *Intellectual*

*Property Arrangements* (2016) that the jurisdiction of the FCC be expanded to include all IP matters.<sup>4</sup>

In February 2018 Judge Julia Baird, a Sydney Senior Counsel with extensive experience in IP law, was appointed to the FCC as the National Intellectual Property Practice list Judge and the Judge in charge of the FCC's Intellectual Property National Practice Area.

On 21 August 2018, the Chief Judge of the FCC issued *Intellectual Property Practice Direction No. 1 of 2018* which sets out guiding principles for the management of IP matters in the FCC. On 1 September 2021, the FCC merged with the Family Court of Australia to form the Federal Circuit and Family Court of Australia. Judge Baird is now Judge of the Federal Circuit and Family Court of Australia (Division 2). Her Honour continues to allocate proceedings filed in the different registries under the Court's general federal law jurisdiction (which includes IP and privacy).

It is the expectation of the Federal Circuit and Family Court of Australia (Division 2) that the majority of IP trials will not take more than two days. To achieve this goal, the Court takes an active part in controlling the trial. Leading up to trial, the Court ordinarily makes directions that involve the parties preparing, filing and serving:

- a chronology of relevant events;
- an outline of the case limited to three A4 double-spaced pages;
- contentions of fact and law; and
- a form of proposed orders.

Cross-examination in cases is controlled by the Judge. The Court does not devote significant time to the resolution of objections to evidence apart from in exceptional circumstances and expects the parties' legal representatives to confer with a view to resolving evidentiary objections. The parties are encouraged to reduce opening and closing addresses to written form and, where the parties agree, the trial may take place entirely on the papers. After the end of the hearing, the Judge endeavours to give a decision within one month and, in urgent matters, within a week.

Mediations ordered by the docket judge pursuant to s.169 of the *Federal Circuit and Family Court of Australia Act 2021* (Cth) are normally conducted, in the cases where the matter is referred to a Judicial Registrar of the Court, in the capital city in which the proceeding was commenced.

From the perspective of an IP rights holder, the Court offers an appealing forum for lower-level IP disputes, with lower fees and limitations on processes such as evidentiary objections, and reduced oral openings and closings (with an expectation that trials will be conducted in two days).

### Groundless or unjustified threats

There appears to be a “gap” in the armory of the Federal Circuit and Family Court (Division 2), but not for the IP rights holder. There is a gap in the rights of the potential respondent, that is for a person threatened with legal proceedings for copyright infringement, to commence an action for groundless or unjustified threats in the Court.

The Copyright Act s.131D – Jurisdiction of Federal Circuit and Family Court of Australia (Division 2) – relevantly provides:

*Jurisdiction is conferred on the Federal Circuit and Family Court of Australia (Division 2) with respect to civil actions under this Part [Part V – Remedies and Offences] (other than section 115A).*

The *Designs Act 2003* (Cth) s.83 gives exclusive jurisdiction to the Federal Court of Australia “with respect to matters arising under this Act”, except for the Federal Circuit and Family Court (Division 2) and the High Court of Australia. This is followed by the insertion of s.83A which gives exclusive jurisdiction to the Federal Circuit and Family Court (Division 2) “with respect to matters arising under this Act”, except for the Federal Court and the High Court. The jurisdiction thus broadly conferred on the Federal Circuit and Family Court (Division 2) incorporates under the *Designs Act*, Chapter 6, Part 3 “Relief from Unjustified Threats” s.77.

Similarly, there is a broad jurisdiction in the *Trade Marks Act 1995* (Cth) s.191A, which gives the Federal Circuit and Family Court (Division 2) “jurisdiction with respect to matters arising under this Act”. There is therefore no need to select parts of the *Trade Marks Act* for its application. It follows that the unjustified threats provision, s.129, is captured by the general power conferred on the Court.

Due to the nature of plant breeder’s rights and the similarities with patent law, the *Plant Breeder’s Rights Act 1994* (Cth) s.56A extends the jurisdiction of the Federal Circuit and Family Court (Division 2) to the enforcement of rights under Part V of the Copyright Act. This, however, does include under s.57A of the *Plant Breeder’s Rights Act* – the power to hear and determine an aggrieved person’s

application for relief from unjustified threats.

The Copyright Act presents a different situation. Unlike the *Designs Act* and the *Trade Marks Act*, the powers of the Federal Circuit and Family Court (Division 2) are discretely granted as follows:

- Part V Remedies and Offences jurisdiction, which is the main enforcement engine, is given by s.131D.
- Part VAA Unauthorised Access to Encoded Broadcasts, s.135AS gives the Court jurisdiction with respect to actions under that Part.
- Part IX Moral Rights, s.195AZGH(5) gives the Court jurisdiction under that Part.
- Part XIA Performers’ Protection, s.248MA gives the Court jurisdiction with respect to actions under that Part.

The Federal Circuit and Family Court (Division 2) has therefore, jurisdiction to hear and determine civil copyright matters arising under Parts V (except section 115A), VAA (unauthorised access to encoded broadcasts) and IX (moral rights) and section 248J (performers’ protection) of the *Copyright Act*.

There is, however, no jurisdiction in the Court under the Copyright Act to deal with unjustified or groundless threats on the part of a person threatened with legal proceedings for copyright infringement.

The Federal Circuit and Family Court (Division 2) has, it follows, jurisdiction in respect of specific parts of the Copyright Act to address specific issues. A broad grant of jurisdiction, as in the *Designs Act* and the *Trade Marks Act*, is not appropriate because there are matters in the Copyright Act which have been determined should not extend to the Court. In this regard, Part VI of the Act stipulates that the Copyright Tribunal of Australia may refer questions of law arising in proceedings before it for determination by the Federal Court (s.161(1)). Under s.133A certain copyright offences may only be prosecuted in the Federal Court.

If the communication/s from the IP rights holder did constitute groundless or unjustified threats before a proceeding was commenced, the recipient may be able to claim the threats amounted to contraventions under the *Australian Consumer Law* found in Schedule 2 of the *Competition and Consumer Act 2010* (Cth) s.18 as misleading and deceptive, or likely to mislead or deceive on a number of grounds. For example, the party threatening copyright infringement was not the owner of the copyright, or the claim was in relation to an insubstantial part of the copyright works or subject matter other than works.

A recipient of a threat of copyright infringement cannot commence an action in the Federal Circuit and Family Court (Division 2) but can cross-claim under s.202 of the Copyright Act for “Groundless threats of legal proceedings

in relation to copyright infringement” in a proceeding commenced against that respondent. Section 202 of the Copyright Act is found in Part X “Miscellaneous”.

This means if the copyright owner (or exclusive licensee) commenced an action for copyright infringement in the Federal Circuit and Family Court (Division 2), the respondent may be able to cross-claim for groundless threats under s.202 of the Copyright Act. The cross-claim is on the basis that the Court has jurisdiction conferred in respect of matters not otherwise within its jurisdiction that are associated with matters in which the jurisdiction of the Court is invoked.<sup>5</sup>

In the author's respectful opinion, there appears to be no reason for the inherent complexity in this area, which prevents a party who receives an unjustified or groundless threat of legal proceedings in relation to copyright infringement from initiating proceedings in the Court.

### Conclusion

The result is that the recipient of a threat of a copyright infringement action cannot take the initiative and commence proceedings in the Federal Circuit and Family Court (Division 2) purely on the basis that it believes the threats are groundless or unjustified. With the addition of the discretionary power in the Designs Act s.77(1A), the Plant Breeder's Rights Act s.57A and the Trade Marks Act s.129(2A) to award an additional amount in the assessment of damages sustained because of the defendant's conduct, introduced by the *Intellectual Property Laws Amendment (Productivity Commission Response Part 1 And Other Measures) Act 2018* (Cth), the addition of this power to the Court would seem most appropriate.

1 Barrister, Queensland.

2 Australian Government, Attorney-General's Department, 'Copyright enforcement review 2022–23' (Web Page) <<https://www.ag.gov.au/rights-and-protections/copyright/copyright-enforcement-review-2022-23>>.

3 Australian Government, Attorney-General's Department, *Copyright enforcement review: Issues paper*, 3 <[https://consultations.ag.gov.au/rights-and-protections/copyright-enforcement-review/user\\_uploads/copyright-enforcement-review-issues-paper.pdf](https://consultations.ag.gov.au/rights-and-protections/copyright-enforcement-review/user_uploads/copyright-enforcement-review-issues-paper.pdf)>.

4 Australian Government, Productivity Commission, *Intellectual Property Arrangements: Productivity Commission Inquiry Report*, Report No 78, 23 September 2016, Recommendation 19.2, 579 <<https://www.pc.gov.au/inquiries/completed/intellectual-property/report>>.

5 *Federal Circuit and Family Court of Australia Act 2021* (Cth) s 134.

# Book Review: *Chokepoint Capitalism*

Dr Kylie Pappalardo<sup>1</sup>

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[Scribe 2022 pp 312. Available in ebook, audiobook and physical formats. For more information, see the book's website <<https://chokepointcapitalism.com/>>]

*Chokepoint Capitalism: How big tech and big content captured creative labor markets and how we'll win them back* ("Chokepoint Capitalism") by Professor Rebecca Giblin and Cory Doctorow tells the story of how corporations have used copyright law and contracts to systematically whittle away at competition and the rights of creators. The book is written for a mainstream audience, and its endorsements from the likes of Margaret Atwood, David Sirota and Seth Godin are a testament to its widespread appeal. It is enormously innovative to have a copyright scholar and a long-time activist and author team up to produce accessible, expert commentary. The result is a book that is both fascinating and enriching.

Deeply researched and engagingly written, *Chokepoint Capitalism* explores how "big tech" and "big content" structure their businesses and platforms to "lock in users, lock in suppliers, make markets hostile to new entrants and, ultimately, use the lack of choice to force workers and suppliers to accept unsustainably low prices."<sup>2</sup> Big business's tool of choice for eroding competition in creative markets? Copyright, of course.

The book is split into two parts. The first part, titled "Culture Has Been Captured", outlines how "businesses fortify themselves against competition by aggregating copyrights on an industrial scale and by taking advantage of network effects, licensing mazes, regulatory capture, horizontal and vertical integration, and self-preferencing".<sup>3</sup> The second part, called "Braking Anticompetitive Flywheels", offers what Giblin and Doctorow see as some potential responses to these problems.

Chapter 1 is the most substantial and compelling chapter in the first part. It sets out the argument that creative culture has been captured by big corporations that focus their energies on creating "chokepoints" to separate producers from consumers and to keep consumers locked into their ecosystem. Meta does this when it encourages users to channel their news consumption and interaction through Facebook, for example.<sup>4</sup> The visual used by Giblin and Doctorow is that of an hourglass, with big tech and big content at the middle point, controlling how much sand flows through from producers to consumers and the conditions under which it may flow. Chokepoints create monopsony power, the lesser-known and seldom studied cousin of monopoly power, where buyers exercise power over sellers.<sup>5</sup> It is monopsony power that dairy farmers complain about, for example, when supermarket giants force down the price of milk.<sup>6</sup> When there are only a small handful of potential buyers for your

product, it becomes difficult to hold out for a better price. Or, as William Deresiewicz writes in *The Death of the Artist*, "If you can only sell your product to a single entity, [that's] not your consumer; it's your boss".<sup>7</sup>

Amazon is the poster child of monopsony power in the internet age: the Amazon Marketplace is a massive online superstore that easily dominates the online retail space. Amazon achieved this dominance by sacrificing short-term profits for long-term gain, through strategies that included aggressively cutting prices (even if this meant initial losses for Amazon) and prioritising delivery speed for members of its loyalty program, Amazon Prime.<sup>8</sup> These strategies helped Amazon achieve scale and, in turn, its sheer size means that Amazon can squeeze producers to supply goods cheaper and can push its employees to work harder and faster.<sup>9</sup> There is, after all, almost nowhere else to go.<sup>10</sup>

Giblin and Doctorow lay a big share of the blame for chokepoint capitalism at the door of Chicago School economists, and they are scathing in their critique of the Chicago School's impact on competition.<sup>11</sup> The theory developed from the Chicago School, explain the authors, is that antitrust (competition) regulation should be concerned only with consumer welfare. Previously, the goal of antitrust law was to increase competition as an end in itself, and so the limitation of monopolies (and monopsonies) was viewed as a universally good thing. The Chicago School convinced regulators that restrictions on commerce should be implemented only so far as is necessary to protect consumers. Where consumers are not being harmed, regulation is not required, no matter how large and powerful companies become. This is how we end up with behemoth corporations like Amazon. Sure, workers and suppliers are hurting, but consumers aren't complaining about the cheap prices and fast delivery! Monopsonies like Amazon are bad for workers, but Giblin and Doctorow argue that they are especially bad for creative workers because, in general, "people are willing to supply creative labour for a lower price than they'd charge for other types of work".<sup>12</sup>

Chapters 2 to 11 are devoted to detailing the chokepoints in a range of creative industries. The chapters are short, easy-to-read vignettes that nevertheless provide substantial food for thought. Giblin and Doctorow play to their strengths in focusing primarily on books and music in these case studies, though other artforms do get a look-in in the later chapters, such as Chapter 10, which considers video games and the "walled garden" of Apple's App Store, and Chapter 11, which

examines the monetisation of videos on Google's YouTube.

I found Chapter 4 ("Why Prince Changed His Name") and Chapter 5 ("Why Streaming Doesn't Pay") particularly intriguing for how they draw back the curtain on the inner workings of recording companies. Chapter 4 describes the recording industry system of recoupment, where artists must repay – out of their often-meagre royalties – any advance that was paid to them by the record label *and* the record label's expenses in making the album. Frequently, recording contracts bundle *all* of the label's recording expenses under "recoupment", including production costs, tour costs, and marketing costs. Recoupment can take decades and, even then, the record label will own the artist's master recordings. Giblin and Doctorow quote American guitarist Nile Rodgers who said, "The music business is the only business where after you pay off the mortgage on the house, they still own the house."<sup>13</sup>

Chapter 4 uses a series of stark examples to adeptly show that creators struggle to make a living not because copyright is too weak but because it has been effectively captured by industry intermediaries. My musical coming-of-age was in the 1990s, and two examples from that era illuminate the problem: TLC took home just 2 per cent of the US\$175 million generated by their music,<sup>14</sup> and Toni Braxton "sold \$170 million worth of records on her first contract and received a royalty check for just \$1,972."<sup>15</sup> Industry associations consistently argue that copyright law must be strengthened, and copyright grants increased, to "protect creators".<sup>16</sup> But in my favourite metaphor from this book, Giblin and Doctorow cogently note that:

*giving more copyright to creators who are struggling against powerful buyers is like giving more lunch money to your bullied kid. The bullies who were taking his money every day will just take that too.*<sup>17</sup>

Chapter 5 details how the unequal position between artists and recording studios is exacerbated by streaming. Giblin and Doctorow explain that most recording contracts set out different royalty rates for sales and licences. Sales have a lower royalty rate – between 5 per cent and 25 per cent – which is supposed to account for the additional costs and risks involved in manufacturing and selling physical records. By contrast, licensing royalties are typically 50 per cent of revenues. On streaming platforms like Spotify or Apple Music, record labels have managed to negotiate terms that benefit them on both fronts:

*Outrageously, digital music sales get called 'licenses' for consumers, which is how consumers can be bound to terms including prohibitions on resale, but called 'sales' to musicians, which ensures they get paid at the lower rate.*<sup>18</sup>

I don't quite know how record labels get away with this trick, but it is, as Giblin and Doctorow say, outrageous.

Spotify has faced heavy criticism for the paltry amounts that musicians and performers earn from the streaming platform.<sup>19</sup> Yet Spotify pays record labels handsomely. A leaked agreement between Spotify and Sony in 2015 revealed that Spotify had committed to pay Sony up to US\$42.5 million in advances.<sup>20</sup> As *Chokepoint Capitalism* makes clear, Sony's signed artists are unlikely to have seen much of this amount. Additionally, contracts between labels and streamers like Spotify often include "free or heavily discounted equity" in the platform as a condition of the label licensing their catalogues.<sup>21</sup> This creates a clear conflict of interest:

*The major [labels] wanted Spotify to go public with the highest possible valuation so as to maximize the value of their stock, but also had an interest in negotiating the highest possible royalties for their musicians, which would drive that value down. "How can they negotiate with themselves, theoretically?" one industry insider asked. "What's a fair royalty, what's a fair advance, when they are both sides?"*<sup>22</sup>

Chapter 5 ends, however, on a positive note – with an account of how Taylor Swift went into bat for her fellow artists. When Swift signed a new contract with Universal Music Group ("UMG") in 2018, she negotiated not only to own her master recordings, but that UMG would share Spotify sale proceeds with *all* of its artists on a non-recoupable basis.<sup>23</sup> In other words, Spotify royalties would go straight into artists' pockets without having to first be used to pay off their "debt" to UMG. This story demonstrates how the negotiating power of one superstar can, and perhaps should, be used to even the playing field for all creators. It connects nicely with later chapters on collective action (Chapter 14) and collective ownership (Chapter 18).

Of the chapters in part one, Chapter 6 ("Why Spotify Wants You to Rely on Playlists") might be the least developed. This chapter posits that Spotify has an interest in nudging subscribers towards playlists that feature artists for which Spotify pays lower royalties. Chapter 6 raises some interesting and topical questions about how licensing decisions are made in the modern streaming environment. But without better empirical data on subscribers' listening habits and on the algorithms that underpin the creation of playlists and the recommendation of music to listeners, these questions remain simply that – open questions.

The second half of the book is dedicated to solutions. Giblin and Doctorow argue forcefully that these solutions cannot be individual, but must instead be structural, social, and political. They advocate, in short, for a united movement against chokepoint capitalism.

In Chapter 12, Giblin and Doctorow argue for a rejection of the consumer welfare framework for competition law, and an adoption of a more interventionist form of antitrust enforcement that considers not only harm to consumers but also to workers, suppliers and creators. At its most impactful,

this interventionist approach is likely to lead to the structural separation of different arms of the tech and content giants. Google would be required to make YouTube a completely separate entity to Google Search, for example, or Live Nation would be required to separate out its event and ticketing businesses. While structural remedies are powerful, Giblin and Doctorow acknowledge that they are costly, difficult, and time-consuming.<sup>24</sup> What, then, are some other, perhaps more creative, ideas?

Chapter 13 advocates for radical transparency around licensing fees and terms, revenue, pay and working conditions. Giblin and Doctorow argue that both platforms and rights holders “should have new, auditable obligations to publicly report basic information that affects creator outcomes.”<sup>25</sup> Better data enables creators to know whether and how they are being exploited, and to negotiate better contract terms. It also facilitates collective action so that creators can join together to demand better outcomes as a sector. Rights to collectively audit rights management organisations would also prevent any one creator being targeted or blacklisted for pushing back or demanding more. Giblin and Doctorow note, correctly, that transparency rights will only make a difference if they are enforceable. They submit that this should include prohibitions on NDAs or contract terms that prevent creators from talking about accounting or auditing errors made by labels or other rights holders.<sup>26</sup>

Chapter 15 (“Time Limits on Copyright Contracts”) is dedicated to reversion rights, a concept that has been a focus of Giblin’s academic work for several years. The idea presented in this chapter is that 25 years after copyright rights have been transferred (usually to an intermediary) they should return to the creator, who would then have another opportunity to exploit them.<sup>27</sup> Giblin and Doctorow stress that for this idea to work, reversion must be *automatic*. They also suggest that copyright transfers and exclusive licences be registered to make clear who owns the content at any given time and when a transfer ends.<sup>28</sup> A register of copyright assignments and exclusive licences is an excellent idea to promote information sharing, reduce the transaction costs associated with seeking licences, and hopefully prevent works from becoming orphaned. Linking registration to assignment rather than subsistence also circumvents the Berne Convention prohibition against copyright protection being dependent on registration.<sup>29</sup>

My concern with this chapter, however, is that Giblin and Doctorow never explain how to prevent a second exploitation period being co-opted, again, by large corporations. Given that the authors have just spent close to 200 pages telling a thoroughly persuasive account of the power imbalances between creators and chokepoint capitalists, and how pernicious and skilful the latter are at overriding legal rights with contracts, this is a rather serious omission. Why wouldn’t corporations use something like a right of first

refusal clause, for example, to keep creators fettered to them even after rights reversion?

A final proposal in Chapter 17 (“Minimum Wages for Creative Work”) is to imagine a world in which statutory licences are employed effectively. Giblin and Doctorow write:

*Reconceptualized, [statutory licences] have real potential to safeguard creators and producers with minimum wages and protections that would apply no matter how much downward pressure comes from predatory players along the distribution chain.*<sup>30</sup>

I agree, though I also agree that such a vision requires comprehensive reform of collecting societies, including how unattributable royalties are managed.<sup>31</sup> Giblin and Doctorow suggest that a constructive model would involve a “global, multi-language database with high quality metadata”<sup>32</sup> that would minimise incorrect data across jurisdictions, facilitate data matching and payments across the globe, and potentially act as a direct licensing mechanism between rights holders and platforms or users too.<sup>33</sup>

*Chokepoint Capitalism* is an enormous achievement – a tour de force that brings together two magnificent thinkers and writers in a fascinating discussion of the perpetual tug-of-war between copyright and competition and the ways that technology and capitalism have combined to hurt creators. Written in a seamless voice and bursting with compelling arguments and provocative ideas, *Chokepoint Capitalism* is well worth a read.

## Book Review: *Chokepoint Capitalism*

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- 1 ARC DECRA Fellow and Senior Lecturer, QUT Law School.
- 2 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism: How big tech and big content captured creative labor markets, and how we'll win them back* ("Chokepoint Capitalism") (Scribe, 2022), 142.
- 3 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 142.
- 4 See Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), Chapter 3.
- 5 Giblin and Doctorow credit University of Cambridge economist Joan Robinson for first naming this phenomenon in her book, *The Economics of Imperfect Competition* (Macmillan, 1<sup>st</sup> ed., 1933; 2<sup>nd</sup> ed., 1969).
- 6 E.g., Ryan Sheales, 'Milk price cut 'un-Australian': farmers' *ABC News* (Web Page, 26 January 2011) <<https://www.abc.net.au/news/2011-01-26/milk-price-cut-un-australian-farmers/1918818>>; Emma Field and Warwick Long, 'Coles and Woolworths increase price of milk and happy farmers say they brought it upon themselves', *ABC News* (Web Page, 15 July 2022) <<https://www.abc.net.au/news/2022-07-15/why-have-coles-and-woolworths-increased-milk-prices/101241886>>.
- 7 William Deresiewicz, *The Death of the Artist: How Creators Are Struggling to Survive in the Age of Billionaires and Big Tech* (Henry Holt, 2020), 168, quoted in Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 10.
- 8 See further, Lina M Khan, 'Amazon's Antitrust Paradox' (2017) 126 *The Yale Law Journal* 710.
- 9 Amazon is notorious for the poor working conditions in its warehouses, including monitoring how long employees take to perform each of their tasks. See e.g., US Department of Labor, 'News Release: US Department of Labor Finds Amazon Exposed Workers to Unsafe Conditions, Ergonomic Hazards at Three More Warehouses in Colorado, Idaho, New York' (Web Page, 1 February 2023) <<https://dol.gov/newsroom/releases/osha/osha20230201-0>>; Margaret Burin, 'They resent the fact I'm not a robot', *ABC News* (Web Page, 27 February 2017) <<https://www.abc.net.au/news/2019-02-27/amazon-australia-warehouse-working-conditions/10807308>>; Jack Kelly, 'A Hard-Hitting Investigative Report Into Amazon Shows That Workers' Needs Were Neglected in Favor of Getting Goods Delivered Quickly', *Forbes* (Web Page, 25 October 2021) <<https://www.forbes.com/sites/jackkelly/2021/10/25/a-hard-hitting-investigative-report-into-amazon-shows-that-workers-needs-were-neglected-in-favor-of-getting-goods-delivered-quickly/?sh=724df8c951f5>>.
- 10 In 2017, Lina Khan wrote that "Amazon now controls 46% of all e-commerce in the United States" and that "it is also growing faster than e-commerce as a whole": Lina M Khan, 'Amazon's Antitrust Paradox' (2017) 126 *The Yale Law Journal* 710, 755.
- 11 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 3–6, 12.
- 12 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 6.
- 13 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 54.
- 14 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 55.
- 15 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 53.
- 16 See, for example, the website of the Motion Picture Association: <<https://www.motionpictures.org/what-we-do/safeguarding-creativity>>.
- 17 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 17 and 63.
- 18 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 75.
- 19 See e.g., Jared Richards, "Enough is Enough": Here's Why Artists Are Taking Serious Action Against Spotify', *Junkee* (Web Page, 30 October 2020) <<https://junkee.com/justice-spotify-stream-demands-artist-petition/276139>>; Travis M Andrews, 'Spotify backlash offers rare insight into reeling music industry – and struggles of working musicians', *The Washington Post* (online, 14 February 2022) <<https://www.washingtonpost.com/arts-entertainment/2022/02/14/spotify-yung-rogan-music-industry/>>.
- 20 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 70.
- 21 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 72.
- 22 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 73.
- 23 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 76.
- 24 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 149.
- 25 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 162.
- 26 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 165.
- 27 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 190.
- 28 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 192.
- 29 *Berne Convention for the Protection of Literary and Artistic Works*, opened for signature 9 September 1886, 828 UNTS 221 (entered into force 4 May 1896), Article 5 (which provides that authors shall enjoy rights in countries other than their work's country of origin, and that the enjoyment and exercise of those rights shall not be subject to any formality).
- 30 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 217.
- 31 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 223–6.
- 32 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 225.
- 33 Rebecca Giblin and Cory Doctorow, *Chokepoint Capitalism* (Scribe, 2022), 225–8.

# Book Review: *Reforming Intellectual Property*

Benjamin Hopper<sup>1</sup>

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Edited by Gustavo Ghidini and Valeria Falce

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*Reforming Intellectual Property*<sup>2</sup> is a thought-provoking and worthwhile collection of 19 chapters by IP scholars, invited to address “what reform proposal of IP regime (at a national legislative, conventional or interpretive level) each of them deems a priority vis-à-vis the public good”.<sup>3</sup> The editors – Professor Emeritus Gustavo Ghidini and Professor Valeria Falce – suggested to contributors that they “present more a personal narrative than a standard law journal article”, which should be “‘hitting’ and essential”.<sup>4</sup>

Most contributions respond well to this remit, with one criticism being that, in some chapters, the reform urged is unclear. Further, it would have been beneficial if the chapters in the collection were organised by theme. Nonetheless, the book is strongly recommended for its insights and provocations, especially concerning European copyright law and the issues posed by patents for access to medicines and vaccines. The chapters are reviewed in turn followed by an overall assessment of the book.

In the provocative Chapter 1, “Non-traditional Trademarks [“NTTMs”] as Barriers to Competition, and Creativity”, Professor Irene Calboli argues that NTTMs should not be registrable. Calboli’s focus on shape and colour trade marks is understandable, given her identification of the problem of overlap between trade mark and design regimes. However, it would have been illuminating for Calboli also to consider the concerns raised by other NTTMs, like sound and scent marks.

Calboli reasons that NTTMs (shape marks) provide undue protection for product design. Apart from being properly protectable under design law (with limited terms unlike the potentially unlimited term of a trade mark), registration of shapes as trade marks has negative effects, including stifling market competition.

Calboli’s solution is a “channelling rule”, under which an NTTM is not registrable as a trade mark if it is separately registrable as a design. Alternatively, Calboli suggests stricter enforcement of current rules on registrability. A key issue left unresolved by the chapter is how to deal with other legal protections for NTTMs outside the trade mark registration system, namely, actions like passing off or misleading conduct. The reader is left to draw the tacit implication, perhaps, that denying NTTMs registrability as trade marks would sufficiently balance the various competing interests.

In Chapter 2, “Towards a General Research Exemption”, Professor Vincenzo Di Cataldo argues for a broad research

exemption in patent law, exempting *all* experimental uses of a patented invention, regardless of any industrial or commercial purposes of said use.

After a somewhat unconvincing section on the history of the research exemption, the chapter makes good arguments. A key argument, and one reflecting a leitmotif in the collection on the negative impacts of overly broad IP rights, is that excessive patent rights disincentivise patent holders from experimenting on their own patented inventions because it is more profitable to extract as much value as possible from the granted patent during its term than to invest in new R&D; so, there should be allowance for others to experiment where the patentee may not.

A counter-argument that could have been addressed to strengthen the chapter is: introducing a broad research exemption could lower the perceived or actual value of the patent reward (e.g., by reducing licensing opportunities) such that the innovation incentive would be unacceptably reduced.

Departing somewhat from the book’s remit of proposing an IP reform, in Chapter 3, “Public Lies and Public Goods”, Professor Peter Drahos gleans 10 lessons from three case studies of patents and (actual or threatened) pandemics: the H5N1 bird flu scare of 2004; the HIV/AIDS pandemic; and the COVID-19 pandemic.

Lessons include: (i) pharmaceutical companies are not to be trusted when it comes to claims about their products; (ii) the patent system enables rich countries to secure treatment for themselves first before others; and (iii) because it permits stockpiling of medicines, the patent system has become a source of pandemic risk.

Drahos’s key message is that what is needed are networks of open science and collaboration, between and among developing countries. Drahos’s chapter is at least implicitly more radical than other chapters. Appearing resigned to a position that the patent system is beyond hope/repair, Drahos’s conclusion is to turn the focus away from the patent system altogether to find alternative ways of building the necessary manufacturing capability (including know-how or what Drahos nicely terms “craft knowledge”) to develop and distribute pandemic- and disease-beating medical technologies.

In Chapter 4, “From Parallel Play to Constructive Engagement”, Professor Rochelle Dreyfuss tackles how “placing control over technologies in geographic silos” causes

catastrophe “when confronting social problems of worldwide scope”.<sup>5</sup> Arguing that the international IP regime remains in its “toddler stage”, Dreyfuss calls for the construction of alternative regimes of “constructive engagement”. She calls these alternative regimes “Plans B”, and illustrates by drawing on COVID-19 to outline a Plan B for global health crises.

This Plan B would: (i) better distribute medical technologies; (ii) facilitate research and production, including production in low-income countries; (iii) preserve creative incentives; (iv) ensure not only patented information could be accessed, but also trade secrets; and (v) ensure access to technology to improve upon it; and (vi) have adequate “buy-in” from rich and low-income countries alike.

Unlike Drahos, who suggests a move away from the *Agreement on Trade-Related Aspects of Intellectual Property Rights* (“TRIPS”),<sup>6</sup> Dreyfuss uses TRIPS as a quasi-yardstick to determine that the contours of Plan B do not unacceptably harm creative incentives.

Building on previous work, including her chapter in *Kritika Volume 4* (reviewed in a previous issue of *Intellectual Property Forum*),<sup>7</sup> in Chapter 5, “Unlimiting Limitations in Intellectual Property”, Professor Séverine Dusollier calls for a reconceptualisation of copyright as an “allocative and distributive system”,<sup>8</sup> rather than an absolute dominion of copyright property, in which “exceptions” and “limitations” play minor, subsidiary roles. In Dusollier’s envisaged recalibration, copyright not only supports the autonomy of the author, but also (echoing William Fisher’s writings on cultural theory) fosters “the participation of the public in cultural life”.<sup>9</sup>

Within this model, “exceptions and limitations would be *unlimited*, not as without limits, but as rules that are not defined as mere limitations of dominant principles”.<sup>10</sup> In the proposed recalibrated regime, the circulation of, and access to, works would be promoted. Authors would retain their central place, but the focus would be on their remuneration, rather than their exclusive control over nearly all aspects of uses of works. Dusollier’s proposal comes very close to advocating for statutory or compulsory copyright licences, without explicitly saying so.

In Chapter 6, “Building an Ethical Framework for Intellectual Property in the EU”, Professor Christophe Geiger posits that European IP law has undergone significant “constitutionalisation” over the past 20 years – a reference to the interplay between fundamental, “constitutional” rights in instruments like the *European Convention on Human Rights*<sup>11</sup> and the EU *Charter of Fundamental Rights* (the “Charter”)<sup>12</sup> (which enshrines important rights of EU citizens in one legally binding document).

Geiger notes the ambiguous position of “constitutional” IP protection in Europe. The Charter provides (too) simply in Art 17(2) that “Intellectual property shall be protected”. Geiger points out that the meaning of this short article is

uncertain, and that it should be drafted to lessen the risk of abusive interpretation in future.

Geiger proposes three models, being amendments to the Charter, each drawing upon the language of the *Universal Declaration of Human Rights*,<sup>13</sup> Art 27(2) (“Everyone has the right to the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he is the author”). Geiger does not advocate any one model, but does call for a “constitutional” amendment that better aligns the interests of makers of intellectual things and the public. He notes that any of the models should lead to something like statutory/compulsory copyright licences to ensure fair remuneration of authors (echoing other chapters).

In the long Chapter 7, “All Words and No Performance”, Professor Johanna Gibson sets out “an understanding of potential reform” in the area of film performers’ rights,<sup>14</sup> who currently have weak rights under copyright law. In copyright law, so Gibson argues, performances occupy a secondary status below authors (including film directors) – a phenomenon called “auteurism”. The art/craft of performers (as visual and voice actors) in film is “adjectival” – supplementing the “main game” of the film made by the film’s authors (the script writers and directors).

Gibson contends that there is no a priori reason to distinguish between the creativity/originality of the performer (especially qua improviser) and the auteur. Gibson suggests the film recording industry has perpetuated the secondary role of performance through, e.g., the Hollywood star system under which actors and their voices become assets controlled by studios. Gibson notes that the recent emergence of artificial intelligence (“AI”) technologies has deep implications for this “asset-like” nature of performers and performers’ rights. The issue raised by Gibson has been front and centre in the recent American actors union’s strike over an ongoing labour dispute with the Alliance of Motion Picture and Television Producers – a key cause of the strike is the union’s apprehension that producers will take digital recordings (or scans) of actors performances and use AI to generate performances digitally without consent from, or compensation to, actors.<sup>15</sup> In conclusion, Gibson joins with IP scholar Associate Professor Mathilde Pavis in calling for a “performer’s copyright” (beyond moral rights).

The chapter leaves important questions unanswered. For example, if the performer is granted an expanded and strengthened “performer’s copyright” (beyond moral rights), the public domain will be lessened. The freedom of others to use performances in their own art will be restricted by the “performer’s copyright”.

In the lucid Chapter 8, “Authors’ Remuneration: Reforms to Wish For”, Professor Jane Ginsburg tackles the problem of authors’ remuneration, especially in respect of multi-country exploitation of assigned or licensed copyright in a work. Noting authors’ precarious position when negotiating

with publishers and distributors, she intones the desiderata of remuneration and reversion rights for authors.

Inspired by the 2019 EU Digital Single Market Directive (“DSM”),<sup>16</sup> Ginsburg explains her idealised regime to promote fairness in authors’ contracts:

1. authors receive appropriate and proportional remuneration, with proportionality measured with respect to each mode of exploitation, revisions are allowed at any time if the initial remuneration becomes disproportionate compared to the revenues generated for the licensee/assignee exploiter, and new modes of exploitation are reserved to the author; and
2. authors have a right to revoke an assignment/exclusive licence where the assignee/exclusive licensee fails to exploit, which explicitly applies to multiple-author works and which applies to each right covered by the contract.

Ginsburg notes a problem of international private law. Even if the author’s country adopts her author-friendly law, an exploiter could avoid this law through the contract’s forum clause. This means that the law specified by the forum clause will apply, rather than the law of the country where the author claims protection. To remedy this issue, Ginsburg proposes a clever remedy – a uniform set of private international law rules under which issues of mode and scope of exploitation are treated as matters of substantive law and therefore the law of the country where the author claims protection would apply.

In Chapter 9, “What Single Reform”, Sir Robin Jacob canvasses options for reform. His topmost reforms are: people should understand patents and why they are a force for good, and an international IP treaty requiring members to have only IP laws that will benefit humanity of the present and future. Recognising that these may be overly ambitious, Jacob focuses on reforms of narrower scope, considering potential copyright and trade mark reforms, before landing on reform of the patent term.

Jacob posits potential reforms of the patent term, including one based on ensuring patentees receive adequate remuneration (if inadequate remuneration has been received during the patent term, the patentee may obtain an extension of term). Jacob does not resolve the issue, proposing that the World Intellectual Property Organization should hold an international conference to determine the issue. The proposal to allow patent term extensions would be more convincing if the chapter included evidence that the absence of patent term extensions is harming innovation.

In Chapter 10, “A COVID-19 Pandemic Response”, Professor Duncan Matthews argues that a human rights approach can resolve the incentive versus access debate (strong IP rights are essential for innovation versus strong IP rights impede access to medicines). For Matthews, the key issue is where to strike the right balance between the competing interests of makers and the public in a manner which facilitates universal enjoyment of human rights.

Matthews discusses the key “balancing mechanism” in international IP treaties, namely, the three-step test permitting unauthorised use of another’s IP where it is (i) a special case; (ii) does not interfere with normal commercial exploitation; and (iii) does not unreasonably prejudice the legitimate interests of rights holders. He notes that the COVID-19 pandemic has reopened debate on the suitability of TRIPS flexibilities like the three-step test to respond to the demands of global health crises.

Matthews criticises the dearth of human rights analysis in the TRIPS waiver debate – waiving IP rights over COVID-19 health technology for a limited term. Matthews contends that a human rights approach would help achieve the right policy approach to resolve this debate. Ultimately, Matthews does not describe how a human rights approach would actually achieve the right balance between IP rights and the right to health (which could be done through a case study or example).

In Chapter 11, “Infrastructure, no Waivers”, Professor Jerome Reichman argues that building infrastructure is a preferable way to promote access to medicines in developing countries than TRIPS waivers. Reichman introduces the TRIPS waiver debate – apparently writing at a time before the waiver was confirmed in the *Ministerial Decision on the TRIPS Agreement* of 17 June 2022. Reichman dismisses the arguments for a waiver – the TRIPS flexibilities are not as complicated as detractors make out and waivers will not produce much-needed pharmaceuticals.

Reichman’s preferred approach is for developing countries to utilise existing TRIPS flexibilities to the fullest extent possible. To this end, Reichman recommends a pooled procurement strategy under which developing countries form Regional Pharmaceutical Supply Centres (“RPSCs”). RPSCs would develop expertise in exploiting TRIPS flexibilities, give the represented countries a stronger bargaining position vis-à-vis Big Pharma and represent a market rewarding the inventive efforts of pharmaceutical companies that develop and distribute medicines through the RPSCs.

One argument Reichman does not address is the challenge, even for a highly sophisticated RPSC, posed by patent thickets over COVID-19 vaccines – a matter raised in the *Academic Open Letter in Support of the TRIPS Intellectual Property Waiver Proposal* of July 2021.<sup>17</sup>

In Chapter 12, “Regulating de facto Powers”, Professor Marco Ricolfi shifts the focus from de jure IP regulation to regulation of de facto powers of Big Tech derived from their control of vast tracts of Big Data, algorithms and AI tools.

Ricolfi emphasises a distinction between de jure (IP) exclusivity and de facto (data, algorithms, etc.) exclusivity. In the former case, the legal system balances the various competing interests (rights-holders, competitors, and users) ex ante. By contrast, in the latter case, the holder (of data, algorithms, etc.) has de facto control and is at liberty to make their preferred private

ordering arrangements. Accordingly, Ricolfi argues the regulatory focus should shift to these *de facto* powers.

The chapter ends by considering challenges to establishing and maintaining the kind of regulation called for, e.g., in which fora should the new laws be made? It would have enriched the chapter to consider more seriously the uses that might be made of existing trade secret and contract laws to better regulate Big Tech's *de facto* powers.

In Chapter 13, "EU Copyright 20 Years after the Infosoc Directive", Professor Martin Senftleben bemoans the parlous state of EU copyright law on limitations and exceptions ("L&Es"). He points out that the three-step test in international copyright law not only has an *enabling function* – it enables national legislators to devise L&Es that suit local cultural, social, and economic needs – but also a *constraining function* – L&Es must meet the abstract criteria of the test.

Senftleben is highly critical of the EU's copyright acquis, which, through the Information Society Directive ("ISD"),<sup>18</sup> Art 5(5) and its judicial interpretation, has cultivated the constraining function. Article 5(5) provides that specifically enumerated L&Es provided for in paragraphs 1, 2, 3 and 4 of Art 5 shall only be applied in cases meeting the three-step test.

To remedy the ISD's use of the three-step test to straitjacket L&Es, Senftleben calls for a reconfiguration of the EU's L&E infrastructure, under which judges may apply the three-step test to devise *new* L&Es on a case-by-case basis. In this way, the three-step test would serve its much-needed *enabling function* in EU copyright law.

In Chapter 14, "Making Sure Copyright Works", Professor Jens Schovsbo proposes the reform "to use legislation proactively to (try to) make sure that "IPR works", i.e. that it produces the societal benefits it was meant to",<sup>19</sup> focusing on copyright law. He highlights unfair contract terms imposed on authors by more powerful market players (publishers), echoing a common concern in the collection with authors' interests.

Schovsbo canvasses protection of authors against unfair contracts in the EU, beginning with the ISD and manifesting most recently in the DSM, Arts 18–22. He uses DSM, Art 18(1) to illustrate the regime, which requires appropriate and proportionate remuneration where authors license or transfer their exclusive rights. In Schovsbo's view, Art 18(1) exemplifies a desirable shift from freedom of *contract*, whereby authors' contracts reflect authors' relative weaker bargaining positions, to status, whereby authors' status is legally valued.

Turning to what he terms "users' rights", Schovsbo finds the DSM less than satisfactory. DSM, Art 17(7), in making stipulated L&Es mandatory (i.e., non-excludable by contract), is a step forward. However, for Schovsbo, tools are also required for users to enforce their "users' rights". One criticism which may be made here is that, strictly, L&Es are not "rights", but rather, to use Hohfeldian language, users' privileges corresponding to copyright owners' no-rights.

In a chapter replete with detailed and helpful references, Chapter 15, "Harmonisation of Employee Invention Laws", Professor Hanns Ullrich discusses employee inventions in the EU, the law on which suffers from a lack of harmonisation across EU member states. For example, most jurisdictions distinguish employee inventions as (i) "mission-inventions" made in the fulfilment of the employee's duties; (ii) "employment-dependent inventions" made incidentally to employment; and (iii) "free inventions" made independently of employment. However, *how* employee inventions are classified into these categories differs between jurisdictions.

These differences matter, including because they can distort trade between member states, e.g., having different laws in member states may cause corporate inventive activity to concentrate in locations with employer-favourable laws. Ullrich stresses the need for harmonisation to have a common framework and rationale. Ultimately, Ullrich does not set out a model regime, his purpose being to point to a major lacuna in EU law harmonisation.

In this context, Australian readers will be interested in the more detailed laws in EU countries to allocate entitlements to employee inventions. By contrast, Australia's rather binary approach relying on whether or not an invention was made in the course of employment appears crude and unsatisfactory.

In Chapter 16, "Reversing Logic...", Professor Emeritus Michel Vivant argues for the adoption of a functionalist approach to interpreting IP law. For Vivant, the function should be determined by what the legislator has said. At this point, one may query (a) the soundness of relying, at least solely, on the legislator's stated intent, especially, as Vivant says, "whether true or untrue, relevant or irrelevant";<sup>20</sup> and (b) if reliance on legislative intent to determine IP law's function is the chapter's key point, is not legislative intent already included in most canons of statutory interpretation?

In Vivant's approach, rather than interpreting IP rights in absolutist fashion, the extent of the right should be conditioned by its function. Thus, for example, mere incidental uses of works (e.g., the appearance of a dress worn by a woman in a film) should be permitted. In the end, Vivant calls for a reversal of the common logic: "It is not because a right exists that prohibition is possible. It is possible to prohibit if a given act falls within the scope of the considered right".<sup>21</sup> One may query just how radical this argument actually is.

In the at times abstruse Chapter 17, "Licensability as Property?", Professor Guido Westkamp criticises the "licensability as property" perspective. Under this perspective, every potentially licensable aspect of IP, because licensable, must be protected against unauthorised use, however *de minimis*. Westkamp argues, not only does this perspective rely on circular reasoning, but also it is harmful to incentivising creativity and access to culture, impeding, e.g., the use of music samples to generate new music.

Westkamp argues that EU copyright law favours producers. However, arguments in favour of strong producers' rights do not withstand close scrutiny. For example, producers' rights have little basis in the modern world where there is no actual market threat of the kind posed, e.g., 50 years ago by the mass copying of sound recordings. In contrast to Geiger (Chapter 6), Westkamp contends that using fundamental rights to counter-balance producers' rights misses the point that copyright law itself is woeful, and needs fixing from within.

A model of the kind of reform Westkamp would see enacted is a statutory licence model – *de minimis* uses are excluded from the law's scope, subject to the payment of remuneration to authors. Sceptical that such a reform will be enacted, Westkamp concludes that the onus is on the judiciary.

In Chapter 18, "Copyright on Digital Platforms", Professor Hong Xue canvasses changes in business practices since the 1998 introduction of the influential notice-and-takedown regime in the US *Digital Millennium Copyright Act*.<sup>22</sup> A key change is that online service providers have taken more active roles in assessing the sufficiency and veracity of rights holders' notices.

Xue identifies three clusters of reforms in response to these changes: (i) legal recognition of online service providers' more active role, stipulating obligations of *transparency* (providing more information on their decisions) and *adjudication* (determining whether or not to act on a notice); (ii) integration of the notice-and-takedown method with platform governance; and (iii) increased legal recognition of platform-mediated dispute resolution.

While insightful, the chapter feels a tad out-of-place in a collection on priority IP reforms.

In the succinct Chapter 19, "Increased Copyright Flexibilities for User-generated Activity", Professor Peter Yu proposes two complementary ways in which copyright law should be reformed to increase flexibilities for user-generated activity.

First, there should be an exception for predominantly non-commercial user-generated content ("UGC"). Second, statutory damages for non-commercial uses should be strictly capped at low quanta.

Yu claims that the benefits of these proposals include facilitating the creation of new works by users making "remixes". Yu counters potential criticisms. For example, the criticism that UGC is difficult to define is dismissed as a red herring – a UGC exception can be well legislated without defining the term "UGC".

Yu concludes by suggesting that increased copyright flexibilities for user-generated creativity will help to fully realise the benefits of the Internet and new communication technologies.

Overall, *Rethinking Intellectual Property* is a valuable collection. It will be of significant interest to IP and

technology academics, lawyers and policy-makers. However, prospective readers should bear the following in mind. The collection is Euro-centric, and perhaps might have been more aptly entitled: "Reforming Intellectual Property in Europe". It is focused on copyright and, to a lesser extent, patent law. A notable absence is substantive discussion of the challenges posed by AI – what IP reforms are a priority to deal with this? Lastly, given the collection's focus on reform, it would have benefitted from the inclusion of some more radical proposals.

- 1 Lecturer, Director of Studies (IP), Deputy Director (Intellectual Property Research Institute of Australia), University of Melbourne.
- 2 Gustavo Ghidini and Valeria Falce (eds), *Reforming Intellectual Property* (Edward Elgar Publishing, 2022) ("*Reforming Intellectual Property*").
- 3 *Reforming Intellectual Property*, ix.
- 4 *Reforming Intellectual Property*, ix.
- 5 *Reforming Intellectual Property*, 63.
- 6 *Marrakesh Agreement Establishing the World Trade Organization*, opened for signature 15 April 1994, 1867 UNTS 3 (entered into force 1 January 1995) annex 1C ("*Agreement on Trade-Related Aspects of Intellectual Property*").
- 7 See Benjamin Hopper, 'Book Review: *Kritika: Essays on Intellectual Property, Volume 4*' 125 (September 2021) *Intellectual Property Forum* 72.
- 8 *Reforming Intellectual Property*, 75.
- 9 *Reforming Intellectual Property*, 72.
- 10 *Reforming Intellectual Property*, 71.
- 11 *Convention for the Protection of Human Rights and Fundamental Freedoms*, opened for signature 4 November 1950, 213 UNTS 221 (entered into force 3 September 1953).
- 12 *Charter of Fundamental Rights of the European Union* [2000] OJ C 364 (entered into force 1 December 2009).
- 13 *Universal Declaration of Human Rights*, GA Res 217A (III), UN GAOR, 3<sup>rd</sup> sess, 183<sup>rd</sup> plen mtg, UN Doc A/810 (10 December 1948).
- 14 *Reforming Intellectual Property*, 93.
- 15 See, e.g., Gene Maddaus, 'SAG-AFTRA Strike: AI Fears Mount for Background Actors' (Web Page, 25 July 2023) *Variety* <<https://variety.com/2023/biz/news/sag-aftra-background-actors-artificial-intelligence-1235673432/>>.
- 16 *Directive (EU) 2019/790 of the European Parliament and of the Council of 17 April 2019 on Copyright and related Rights in the Digital Single Market and Amending Directives 96/9/EC and 2001/29/EC* [2019] OJ L 130/92.
- 17 Hyo Yoon Kang, Aisling McMahon, Graham Dutfield, Luke McDonagh and Siva Thambisetty, 'Academic Open Letter in Support of the TRIPS Intellectual Property Waiver Proposal' (13 July 2021) *LSE Law - Policy Briefing Paper No. 46* <[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3885568](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3885568)>.
- 18 *Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the Harmonisation of Certain Aspects of Copyright and related Rights in the Information Society* [2001] OJ L 167/10.
- 19 *Reforming Intellectual Property*, 209.
- 20 *Reforming Intellectual Property*, 258.
- 21 *Reforming Intellectual Property*, 265.
- 22 *Digital Millennium Copyright Act of 1998*, Pub L No 105–304, 112 Stat 2860.

# Current Developments — Australia

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## IP AUSTRALIA

Diana Bogunovic, Michelle Catto, Sarah Dixon, Esther Lestrell and Andrea Ruhmann  
FB Rice

### Generative AI and the IP system

The emergence of sophisticated generative artificial intelligence (“AI”) models has raised many questions around the potential implications of generative AI for the IP rights system. Based on interviews and research, the ventures team at IP Australia has produced a set of preliminary observations that underpin core implications identified for the IP rights system. To explore the issue further, IP Australia has developed a series of thought-provoking scenarios. These scenarios are intended to challenge assumptions and illustrate how prompt-based AI generation of novel content might intersect with and potentially affect the IP rights system. For additional information, visit the IP Australia website.

### The *Patents Manual of Practice and Procedure* beta test

The *Patents Manual of Practice and Procedure* is about to undergo an upgrade and IP Australia has provided an opportunity to try out the beta Manual. Although the period for feedback ended on 19 July 2023, the beta Manual is still accessible via the IP Australia website.

### Call for input on the design rights system

Consultation on improvements to the Australian design rights system is underway, as part of a two-stage program of designs system reform to ensure that the designs system remains modern and accessible, drives innovation and benefits the economy. The current consultation covers virtual designs, partial designs and incremental designs. To have your say, visit the consultation hub on the IP Australia website and provide input by 8 August 2023.

### WIPO Standard ST.26 version 1.6

All new Australian national patent applications and international *Patent Cooperation Treaty* applications that include nucleotide and/or amino acid sequence listings are required, as of 1 July 2022, to be filed in World Intellectual Property Organization (“WIPO”) Standard ST.26 format, superseding the previous ST.25 file format. The 10<sup>th</sup> session of the Committee of WIPO Standards has agreed to a revised version of WIPO Standard ST.26, version 1.6, to take effect from 1 July 2023. Version 1.6 is published on the WIPO website and can also be accessed from the IP Australia news website. There are no substantive changes, and sequence listings filed in accordance with either version will meet current formalities requirements.

### New-look Plant Breeders’ Right search platform

The Plant Breeders’ Right (“PBR”) search platform has been modernised, making it easier to search for plant varieties, check the plant variety status and ownership details, see what different plant varieties look like, and download detailed descriptions. IP Australia is keen to obtain user feedback regarding the new platform, including if there are any bugs or technical issues. The original PBR database search continues to operate in parallel to the new platform, but will be decommissioned in coming months.

### IP Australia fee review for the 2023–24 financial year

IP Australia reviews its fees every four years, the last review being in the 2019–20 financial year. The purpose of the fee review is to ensure IP Australia’s fees appropriately recover the costs incurred in administering IP rights in Australia, and that costs are transparent, in accordance with the Australian Government Charging Framework. The public consultation period for proposals and submissions in respect of current fees has now closed (24 May–2 July 2023), and a draft Cost Recovery Implementation Statement outlining proposed fee changes will be available soon on the IP Australia website. The public is invited to further comment on the proposed fee structure prior to Government approval. Any changes are expected to take effect from October 2024, and all updates can be found under the IP Australia official notice on the IP Australia website.

### Intellectual Property Laws Amendment (Regulator Performance) Bill 2023

The Intellectual Property Laws Amendment (Regulator Performance) Bill 2023 (“the Bill”) was introduced into the House of Representatives on 22 June 2023 and is currently before the Parliament for consideration. The Bill proposes some minor amendments to the *Olympic Insignia Protection Act 1987* (Cth), the *Trade Marks Act 1995* (Cth), and the *Patents Act 1990* (Cth).

#### *Trade marks*

The Bill clarifies that only the Australian Olympic Committee (“AOC”) and International Olympic Committee (“IOC”) are permitted to register Olympic insignia as trade marks in Australia.

The Bill also proposes amendments which will:

- harmonise inconsistencies in the renewal grace period provisions;
- provide for revocation where grounds in an opposition matter have been overlooked by IP Australia;

- provide, in situations where an owner files an extension of time to file a Notice of Intention to Oppose a removal application and the extension is granted, that the Registrar of Trade Marks must restore the trade mark to the register and the trade mark is taken not to have been removed; and
- remove references to the *Official Journal of Trade Marks*.

### Patents

- reference to the “1989 Amending Act” will be deleted from the list of definitions;
- Sections 231, 236 and 238 will be repealed; and
- The definition of 1989 Amending Act will be repealed from Schedule 1.

### Changes to signs newly notified under Article 6ter of the Paris Convention

Article 6ter of the *Paris Convention for the Protection of Industrial Property* deals with the protection of State Emblems, official hallmarks and the abbreviation and emblems of intergovernmental organisations. Article 6ter also outlines the procedure for members and intergovernmental organisations to inform other members about emblems they wish to register or prevent other parties from registering as a trade mark.

Currently, newly notified signs are published by WIPO every six months (at the end of March and September) and can be accessed by a link on the Article 6ter Database Page. However, as of September 2023, the most recently published signs will no longer be available via that link and it will be necessary to conduct a structured search and select a publishing date of 31 March 2023.

Trade mark owners who are of the view that any newly notified signs would adversely affect prior rights in a trade mark may lodge an objection to the Registrar of Trade Marks. Established prior use can also be relied on as the basis of an objection. Objections must be lodged by 29 February 2024.

## CASES

### Tom Cordiner KC, Melissa Marcus, Clare Cunliffe, Marcus Fleming and Amy Surkis<sup>1</sup>

Barristers

Correspondents for Victoria, Queensland, Western Australia, South Australia, Tasmania and Northern Territory

In this edition, among other things: we extend a heartfelt thanks to a five-member Full Court which brought us back from the brink on expert evidence (*New Aim*); we wonder at a patent claim to a software program being patentable subject matter (*UbiPark*); we note *ToolGen* was burnt to a crisp on the priority date in its post-*Raising The Bar* patent application (and exhort patent attorneys and clients to beware how strict the new priority date regime appears to be); we see *CSIRO* sorting the chaff from the wheat when obtaining preliminary discovery of samples of an allegedly infringing product; we would like to park the *Vehicle Monitoring Systems v SARB* dispute, but it just keeps on giving, including additional damages; we are surprised it took this long for the Seven Network and 7-Eleven to find a trade mark to fight about (and see when a domain name isn't used as a trade mark); we report on how commencing a case against a director of an alleged infringing company can be an abuse (*Chapcon*); we see Justice Jackman breathing life back into *Norwich Pharmacal* order (*Austin*); and we add some spice to “closely related goods” in *Ragopika*. Again, we have played outside our sand box and reported on some NSW cases, but we figured you won't mind.

### *New Aim Pty Ltd v Leung*

[2023] FCAFC 67

10 May 2023 – Kenny, Moshinsky, Banks-Smith, Thawley and Cheeseman JJ

*Evidence – expert evidence preparation – fact evidence preparation*

A five-member bench of the Full Court has overturned the first instance decision of Justice McElwaine in which his Honour rejected the entirety of New Aim's expert witness' evidence on the basis that he was not satisfied that the opinions expressed in the report truly represented the expert's honest and independent opinions.

A key feature of the first instance decision was Justice McElwaine's marked disapproval of the extent of solicitor involvement in the drafting of the expert report and the fact that that involvement was not disclosed in the report.

<sup>1</sup> Where any of the authors was involved in a case reported and the matter is still running, or potentially so, the other correspondents have taken the role of reporting that case and any comments by the authors are therefore attributable to them, except if they are defamatory, in which case none of us wrote what was said.

In addition to overturning the first instance decision and ordering a retrial on the substantive issues (breach of confidence and related claims), the Full Court has provided legal practitioners with some useful guidance on expert evidence preparation.

The core message from the Full Court’s judgment is that practitioner involvement in the drafting of expert evidence is not problematic per se, although disclosure of such involvement is desirable. What must be guarded against is a practitioner influencing that witness’ evidence.

We also consider some helpful recent authority from single judges which is relevant to the drafting of fact evidence.

### **Background**

The substantive dispute, so far as relevant to this appeal, relates to New Aim’s claims against its previous employee (Mr Leung) for breach of confidence, breach of contract and contravention of section 183 of the *Corporations Act 2001* (Cth).

New Aim, a large online retail business in Australia who sources its products from a range of Chinese suppliers, alleged that Mr Leung disclosed the identity and contact details of New Aim’s product suppliers to New Aim’s competitor Broers Group Pty Ltd (“Broers”) and used that information to benefit both Broers and another of New Aim’s competitor’s, Sun Yee International Pty Ltd (“Sun Yee”). New Aim also claimed that Broers and Sun Yee had each received confidential information in circumstances that bound them to an equitable obligation not to use it.

### **First instance decision**

Justice McElwaine dismissed New Aim’s breach of confidence, breach of contract and section 183 claims largely on the basis that he did not consider the identified information to be confidential. In reaching that conclusion, Justice McElwaine rejected the entirety of the written and oral evidence of New Aim’s expert witness, Ms Chen. Our analysis focuses on the Full Court’s finding on that evidentiary issue.

### **Full Court’s decision**

New Aim appealed the first instance decision in relation to each of the substantive issues as well as the exclusion of Ms Chen’s evidence. Presumably due to the significance of the evidentiary issue for practitioners, an enlarged bench of the Full Court heard the appeal. Justices Kenny, Moshinsky, Banks-Smith, Thawley and Cheeseman delivered a unanimous judgment allowing the appeal on all grounds and remitting the matter for retrial.

The Full Court’s reasons provide guidance on the following three issues:

- (a) the proper preparation of fact evidence;
- (b) the proper preparation of expert evidence; and
- (c) the timing and content of letters of instruction.

### *Proper preparation of fact evidence*

Ms Chen’s expert report was comprised of 60 paragraphs. Paragraphs 1 to 55 were fact evidence and paragraphs 56 to 60 were opinion evidence. Justice McElwaine rejected the entirety of Ms Chen’s report. The Full Court found that the primary judge’s reasoning for rejecting Ms Chen’s evidence focused on the opinion evidence paragraphs, and that no separate explanation was given for why the factual material was rejected.

The Full Court observed at [112] that the “drafting of written evidence of a factual nature by a solicitor from a statement or other material provided by a witness is far from unusual.” The Court confirmed that it is appropriate for practitioners to draft factual evidence from a statement or source material provided by the witness, even where that witness is engaged as an expert witness.

### *Proper preparation of expert evidence*

In some practice areas it is virtually unheard of for legal practitioners to draft any portion of an expert report. However, in other practice areas, particularly intellectual property, this is a standard approach. In many intellectual property cases involving the use of experts, a similar approach to drafting fact evidence is adopted, whereby the expert conveys his or her opinion to the lawyer and the lawyer then drafts the text reflecting that opinion for the expert’s approval.

Justice McElwaine disapproved of this approach, although he accepted that in limited circumstances it might be appropriate for an expert report to be “settled” in an admissible form by a lawyer. His Honour said at [71]:

*[i]t may be perfectly appropriate, such as in cases where an expert is unfamiliar with the form and content requirements for an expert opinion report, for that document to be settled in an admissible form by someone else, but then in my opinion, only if that fact is disclosed in the report.*

The Full Court clarified that there are circumstances where it may be appropriate for a practitioner to have a more active role in the drafting of expert evidence, provided that one paramount rule is adhered to – the practitioner must not influence the witness’ evidence. At [119]–[120] the Full Court said (emphasis added):

*There are various ethical requirements on legal practitioners involved in the process of gathering or putting evidence into an appropriate form for hearing. At the core of these is a requirement not to influence a witness’s evidence. This applies both to witnesses of fact and expert witnesses providing opinion evidence. Legal practitioners commonly take proofs of evidence from, or draft affidavits of, witnesses of fact. These are commonly drafted from oral communications which occur in conference or written material provided by the witness or which are otherwise available. It is less common*

*for this to occur in the preparation of expert evidence, but there are reasons why it might occur.*

The Full Court observed that there is not one rule or practice covering all situations involving expert witnesses, but provided the following useful examples:

- (a) For medical opinion experts, expert valuers preparing a valuation and accountants preparing a report on economic loss, typically the expert would draft the report rather than the legal practitioner (although there may be discussion in relation to drafts of the report).
- (b) Where there are physical, language or resource difficulties, it may be appropriate for legal practitioners to be involved in the process of recording the evidence, including by drafting the report.

Where the situations referred to in (b) arise, care must be taken to ensure that the legal practitioner does not suggest what the expert's evidence should be. However, the Full Court observed at [120] that it is "difficult to conceive of a situation in which a legal practitioner, acting appropriately and ethically, could draft an expert's report otherwise than on the basis of what the expert had communicated to the legal practitioner to be his or her evidence."

At first instance, Justice McElwaine considered that practitioner involvement and all correspondence relating to the preparation of the report must be disclosed in the report. At [121]–[122] of their reasons, the Full Court made clear that this might be desirable, but there is no legal obligation for this to occur. Whether or not there is an ethical obligation depends on the particular circumstances.

### *Timing and content of letters of instruction*

Justice McElwaine was particularly troubled by the timing and content of the letter of instruction provided to Ms Chen. His Honour commented that he found it "remarkable" that Ms Chen was sent a letter of instruction requesting her to provide detailed information, all of which was able to be answered by Ms Chen in her expert report the following day in 16 pages and 60 paragraphs (not including attachments).

The Full Court did not take any issue with the timing and content of the letter of instruction and made the following useful observations at [87]–[89]:

- *It is not unusual for a final letter of instructions, containing the final form of the questions to be answered by an expert, to be prepared shortly before an expert report is finalised.*
- *It would be expected, for example, that a solicitor would engage with an expert in a specialised field of scientific knowledge about how to frame a question so as not to give rise to a nonsensical question or one which misses*

*the real issues or one which fails to engage with all of the issues.*

- [Federal Court] *Rule 23 does not require every single question asked of the expert during the course of the expert's retainer to be identified. It requires the report to identify the question the expert was asked to address in his or her report. That question may or may not be formulated at the time the expert was first retained. In the present case, the question was not finally reduced to writing until a day before the report was filed, a fact which was made clear by the material filed with the report.*

### **Conclusions**

The following five guidelines can be discerned from the Full Court's judgment:

- (1) There is no blanket prohibition on practitioners drafting expert evidence based on the material and comments provided by an expert.
- (2) For all evidence (fact and expert), the paramount concern is to ensure that the practitioner does not influence the witness' evidence.
- (3) While there is no rule or practice covering all situations, it may be appropriate for the practitioner to do the drafting where there are physical, language or resource difficulties.
- (4) There is no legal obligation to disclose the nature of any practitioner involvement in preparing expert evidence. However, these authors consider that including a description of the process adopted in preparing the evidence is a prudent course to adopt.
- (5) The expert evidence must identify the question or questions the expert was asked to address in their evidence, but that question or those questions need not be formulated at the time the expert was retained, and can be reduced to writing just prior to the filing of the evidence, or in the report itself.

### ***Post-script – while we're on the topic of evidence ...***

Shortly before delivering judgment in *New Aim*, one of the members of the Full Court (Justice Thawley) dealt with another issue of evidence preparation, this time in the context of evidence of fact in a case involving alleged contraventions of the Australian Consumer Law. That case (*Girchow Enterprises Pty Ltd v Ultimate Franchising Group Pty Ltd (Final Hearing)* [2023] FCA 420 ("Girchow Enterprises") at [51]–[67]) and *Kane's Hire Pty Ltd v Anderson Aviation Australia Pty Ltd* [2023] FCA 381 ("Kane's Hire") at [123]–[129]) warrants mention.

In *Girchow Enterprises*, Justice Thawley raised concerns about striking similarities between passages of evidence contained in affidavits given by different deponents, relating to the question of reliance. Given the similarities, his Honour

inferred the passages “were ‘cut’ and ‘pasted’ between affidavits, before being altered in minor ways”. Justice Thawley observed that several consequences flowed from this, including that “the affidavit evidence about reliance [was] called into question”, that it “exposed [the witnesses] to an attack on credibility” and that the practice “[made] it more difficult, and sometimes impossible, to give serious weight to the evidence”.

At [65]–[66], Justice Thawley issued the following reminder – to the extent one was necessary:

*... an affidavit must reflect a witness’s evidence, not the evidence which the legal practitioner would prefer to see in light of the case which the legal practitioner has pleaded or wishes to run. A legal practitioner must not suggest to a witness what the witness’s evidence should be. The placing of material in an affidavit which is not based on what the witness has instructed and is taken from a different witness’s affidavit – such as an account of events or a statement about what a person relied upon – amounts, in substance, to a suggestion about what the witness should say.*

*Where it appears that parts of affidavits have been copied from other affidavits, doubt is cast on the integrity of the whole process by which the affidavits have been prepared. This inevitably affects the assessment of the reliability of the whole affidavit. The problem is particularly acute where evidence of conversations appears to have been drafted in this way. It suggests a lack of attention on the part of the drafter of the affidavit to accurately recording the deponent’s actual recollection of what was said, or the gist of what was said, and risks causing a deponent to swear or affirm the truth of something outside his or her knowledge.*

In *Kane’s Hire*, Justice Jackman discussed (at [123]–[129]) when it is appropriate for evidence to be given in direct speech – and, perhaps more importantly, when it is **not** appropriate to do so. Observing that there is “ample authority for the proposition that there is no rule in the law of evidence in Australia that evidence of conversations must be given in direct speech”, Justice Jackman gave the following pithy (and helpful) summary of general principles applying to the form of evidence of conversations (citations omitted):

- (1) *“The form of the evidence should correspond to the nature of the actual memory the witness has of the conversation.... There is no reason in the abstract to think that evidence in direct speech is more reliable or credible than evidence in indirect speech, or vice versa.*
- (2) *If the witness remembers only the gist or substance of what was said, and not the precise words, then the evidence should be given in indirect speech (also known as reported speech), in terms which reflect the witness’s actual memory....*
- (3) *If the witness claims to remember particular words or phrases being used, then those words or phrases should be put in quotation marks to indicate that they are*

*verbatim quotations, even if the evidence is otherwise given in indirect speech....*

- (4) *If the witness genuinely claims to recall the actual words used in a conversation, then the evidence should be given in direct speech; that is, quoting the words as actually spoken.... Apart from rare cases of photographic memory, this may well be the case where the witness has made a detailed contemporaneous note of the conversation, and has refreshed his or her memory from the note (in which case this should be expressly stated along with the tender of the note).*
- (5) *Evidence given in direct speech should not be prefaced by the phrase that the conversation occurred “in words to the following effect”. That expression blurs the important distinction between verbatim memory and gist memory, and leaves the Court unable to ascertain which kind of recollection is being claimed by the witness. ...*
- (6) *Evidence of a witness who claims to remember the exact words of a conversation, but who is found after cross-examination to have exaggerated the nature and quality of his or her memory, may well suffer an adverse effect on his or her credibility (the weight of which will depend on all the circumstances). However, the inability to cross-examine in that manner a witness who gives evidence in indirect speech is not unfairly prejudicial within the meaning of s 135 of the Evidence Act 1995 (Cth)....”*

The authors consider that both of these cases provide useful guidance for practitioners. Fact evidence must be based on the witnesses’ own evidence, not a general structure which has been developed by solicitors to support their case theory. Given the fallibility of memory, if witnesses do not recall conversational exchanges precisely, evidence of speech should be given in indirect speech. Failure to comply with either of these general principles is likely to affect the witness’ credibility (and the strength of your client’s case).

### ***UbiPark Pty Ltd v TMA Capital Australia Pty Ltd (No 2)*** **[2023] FCA 885**

**2 August 2023 – Moshinsky J**

*Patents – unjustified threats – patent for a system, method and computer program for controlling access to a car park – manner of manufacture*

TMA Capital owns a patent titled “system, method and computer program for an access control system”. It asserted UbiPark infringed the patent by providing a system to allow access to a car park using an app on a smartphone. UbiPark was having none of that, and sued TMA Capital for groundless threats of patent infringement over letters of demand sent to four customers of UbiPark (and to UbiPark itself). TMA Capital doubled down and cross-claimed for infringement. UbiPark rounded out the fight by amending its claim to assert the patent was invalid.

Justice Moshinsky found that UbiPark had not infringed the patent and, consequentially, that TMA Capital had made groundless threats of patent infringement. But UbiPark failed to convince the Judge that the patent was invalid or that TMA Capital's related entities were joint tortfeasors in the groundless threats.

So, what is in this case for patent lawyers? Well, those who have been watching the slow and painful demise of computer implemented inventions as patentable subject matter and observed the title of the patent in this case, will no doubt be intrigued to learn how a claim to software survived a manner of manufacture challenge. Other than that tasty morsel, this case is a prime example of the Court's prerogative to set out upon its own patent claim construction journey, not following the path set by experts from either side. Finally, this case gives another example where the "ordinary meaning" of words in a claim drive a construction which renders a dependent claim otiose, rather than the dependent claim giving those words a broader meaning.

### **Construction**

Infringement of TMA Capital's patent by UbiPark came down to, as it often does, a series of claim construction issues that were debated by the two opposing experts and the parties. Without descending into the detail, we make two observations.

First, Justice Moshinsky repeated the long-standing principle of claim construction that "an expert witness cannot assist the court with the meaning of an ordinary English word (or phrase) unless it has a special or unusual meaning within an area of technology". While it is a principle which appears to be more honoured in its breach than not, his Honour adopted it with apparent gusto.

In this case, the experts, both of whom were eminently qualified in the relevant field and accepted by his Honour as doing their best to assist the Court, gave detailed evidence regarding claim construction where the language under debate comprised words having their ordinary meaning. On one particular construction issue, his Honour observed that, while "the construction that I have adopted does not correspond with the views of either expert, it is not necessary that I accept the opinions of one or other expert, or even both experts". It also appears that UbiPark put forward the construction adopted by his Honour, and if that is right, it took a position contrary to its own expert (or at least one expressed by its expert during cross-examination).

Secondly, his Honour felt compelled to construe an integer of claim 1 in a particular way because of what he considered to be the ordinary meaning of the phrase in that integer, notwithstanding the "strong contra-indicators" arising from the body of the specification, and the fact that a dependent claim appeared to drive a contrary meaning.

The integer in question required a mobile communication device (a smartphone), in response to certain (car park) entry criteria being satisfied, to generate and transfer, to a communication system, a request to allow entry into a restricted area (car park). TMA Capital asserted that this integer is satisfied both where the entry request is transferred automatically (that is, without any user interaction with a smartphone) and in circumstances where there is user interaction with a smartphone (for example, a user tapping on a button on the smartphone's screen).

Justice Moshinsky considered that the ordinary meaning of "in response to" in the integer in question dictated that there be a "direct relationship between: (a) satisfaction of the one or more entry criteria referred to ... ; and (b) the generation and transfer of the entry request", and did not contemplate a user engaging in an intervening step. As noted above, his Honour accepted that the body of the specification had numerous examples of the invention including human intervention, but those examples did not sway him.

Perhaps of even more interest was the fact that a dependent claim adds a requirement that the smartphone of claim 1 is configured "to automatically transfer at least one of the entry request and the exit request without user interaction". As his Honour accepted, the "clear implication is that claims 1 to 9 are not limited to the automatic transfer of an entry request and exit request; otherwise, claim 10 would add nothing. This strongly suggests that some form of user interaction is within the scope of claims 1 to 9." That is, his Honour accepted that the construction he preferred would also render a dependent claim otiose:

*I acknowledge that this construction appears to produce redundancy in respect of claim 10 (in relation to redundancy, see *Davies v Lazer Safe Pty Ltd* [2019] FCAFC 65 at [65]–[66] per Greenwood, White and Burley JJ). However, in my opinion, the matters referred to in the preceding paragraph are so strong that they outweigh that consideration. Further, I acknowledge that this construction is inconsistent with the views of the experts as set out above. While I have had regard to their views, ultimately the issue of construction is for the Court to determine.*

The authors note that another approach could have been to conclude that the words "in response to" did not have their ordinary meaning but had a broader meaning, by reason of the dependent claim and the context given by the body of the specification. It will be interesting to see what a Full Court makes of this question should the matter go on appeal.

Ultimately, his Honour's construction of the claims meant that UbiPark did not infringe any claim of TMA Capital's patent.

### **Groundless threats and joint tortfeasorship**

Given that TMA Capital had accepted that it had made threats of patent infringement against UbiPark by sending

various letters of demand to UbiPark and customers, the non-infringement finding meant that UbiPark had established that TMA Capital had made *unjustifiable* threats of patent infringement proceedings within the meaning of sections 128 and 129 of the *Patents Act* 1990 (Cth). His Honour was inclined to grant declaratory and injunctive relief against TMA Capital and hear any trial on damages arising from the threats should the matter not resolve.

UbiPark also claimed that two related parties of TMA Capital, TMA Technology and Zipby, were joint tortfeasors with TMA Capital in the making of groundless threats of patent infringement. The letter of demand to UbiPark was expressed to be written on behalf of all three companies. The letters of demand to customers were expressed in terms that they were sent on behalf of TMA Capital alone, but they did refer, in the subject line, to TMA Capital, “TMA Tech” and Zipby.

As to the letters of demand to customers, Justice Moshinsky considered the reference in the subject-line to TMA Tech and Zipby to be insufficient to indicate that the letters were being sent on behalf of TMA Technology and Zipby. His Honour held that the relevant conduct (the sending of the letters) was not carried out by TMA Technology and Zipby. His Honour specifically noted that the “fact that the companies were part of the same corporate group, and stood to benefit from the letters, is insufficient to link TMA Technology and Zipby with the sending of the letters.”

The authors note that a party may be sufficiently involved in the sending of a letter of demand to be considered a joint tortfeasor in any wrong arising from that sending, without being named on the letter. Accordingly, the authors assume that the *only* evidence supporting the involvement of TMA Technology and Zipby in the sending of the letters was their mention in the subject line of the letters of demand and their corporate relationship to TMA Capital. Having said that, given that relationship and the apparent benefit TMA Technology and Zipby stood to gain from the letter, it is not clear what more would have been required to establish joint tortfeasorship. That is especially so given TMA Technology and Zipby were parties to the proceeding, suing UbiPark for misleading and deceptive conduct which was predicated on UbiPark’s system infringing the patent.

As to the letter of demand to UbiPark, the letter made clear that TMA Capital was threatening patent infringement, but TMA Technology and Zipby were threatening a claim based on contravention of the Australian Consumer Law. Accordingly, the latter two companies were held not to be involved in the threat of patent infringement proceedings.

### ***Manner of manufacture for a software claim***

With all the excitement over recent times regarding the (un)patentability of computer implemented inventions, it is unsurprising that UbiPark contended that the claimed

invention failed to involve a manner of manufacture as required by section 18 of the Patents Act.

His Honour addressed the recent High Court split decision on computer implemented inventions in *Aristocrat Technologies Australia Pty Ltd v Commissioner of Patents* [2022] HCA 29; 274 CLR 115 (“*Aristocrat*”) at [21] per Kiefel CJ, Gageler and Keane JJ, and separately per Gordon, Edelman and Steward JJ. Justice Moshinsky dealt with the split by identifying that all six Judges affirmed the correctness of the series of Full Court decisions dealing with computer implemented inventions including *Research Affiliates LLC v Commissioner of Patents* [2014] FCAFC 150; 227 FCR 378 (“*Research Affiliates*”); *Commissioner of Patents v RPL Central Pty Ltd* [2015] FCAFC 177; 238 FCR 27 (“*RPL*”); and *Encompass Corporation Pty Ltd v Infotrack Pty Ltd* [2019] FCAFC 161; 372 ALR 646 (“*Encompass*”).

His Honour discerned three matters that all six Judges in *Aristocrat* appeared to agree on as principles for assessing whether a claimed invention involves a manner of manufacture:

- (a) *in considering whether there is patentable subject matter, the court should focus on the substance of what is claimed, and not the form, and accordingly there is a need to first characterise the invention (at [73], [101]–[103]);*
- (b) *schemes and plans that are not inherently patentable and which are merely implemented on a generic computer do not become patentable as a result (at [22], [24], [75]–[77], [121]–[122]); and*
- (c) *patentable subject matter may result where there is something more than mere implementation, which may include an improvement in the operation of the computer (at [25], [27], [77], [122]).*

His Honour considered it of note that Kiefel CJ, Gageler and Keane JJ in *Aristocrat* had held that:

*In relation to computers and computer-related technology, it has been held in decisions of the Federal Court that a claimed invention will be a proper subject of letters patent if it has some ‘concrete, tangible, physical, or observable effect’, as distinct from ‘an abstract, intangible situation’ or ‘a mere scheme, an abstract idea [or] mere intellectual information’.*

His Honour focused on the following from Gordon, Edelman and Steward JJ in *Aristocrat* (emphasis by Moshinsky J):

*Numerous examples can be given where the proper characterisation of the claim is one that merely involves the use of a machine to manipulate an abstract idea rather than involving the implementation of the idea on a machine to produce an artificial state of affairs and a useful result ...*

*... A better way of expressing the point in such cases, consistent with the ultimate single question of whether there is a manner of manufacture within s 6 of the Statute of Monopolies, would be to ask whether, properly characterised,*

*the subject matter that is alleged to be patentable is: (i) an abstract idea which is manipulated on a computer; or (ii) an abstract idea which is implemented on a computer to produce an artificial state of affairs and a useful result. The artificial state of affairs and useful result may be a physical change in something, but it need not be. The artificial state of affairs may be an improvement in computer technology, but it need not be. It is enough that the artificial state of affairs and useful result are created by “the way in which the method is carried out in the computer.*

Claim 1 of TMA Capital’s patent is to a “system” which comprises a “communication system” and a “computer program executable by a mobile communication device associated with an entity” where the “mobile communication device is configured to” conduct a series of tasks which a typical smartphone appeared perfectly capable of performing. If that were not sufficiently stark, claim 11 of the patent is to a computer program per se.

Justice Moshinsky’s conclusion on the manner of manufacture ground was concise. His Honour found that:

*While at one level the claims comprise a series of instructions to be executed by a computer, the invention as claimed does have some ‘concrete, tangible, physical, or observable effect’ (Aristocrat at [25]), namely the opening of the entry barrier and the exit barrier. While this is not explicitly stated in claims 1, 11 and 16, it flows from the references to generating and transferring an entry request and exit request, read in the context of the specification as a whole. Similarly, and for the same reasons, the invention as claimed constitutes an abstract idea that is ‘implemented on a computer to produce an artificial state of affairs and a useful result’ (Aristocrat at [122]). The artificial state of affairs is the opening of the entry barrier and exit barrier. The useful result is that the user associated with a vehicle is granted entry into, and exit from, a restricted area.*

The authors note that the resolution of this question appeared to be driven by the level of abstraction the Court takes to determining what in substance is claimed. His Honour accepted that the claims did not in fact require any physical effect, but considered the claims in substance were directed to the opening of an entry and exit barrier to a restricted area. Even so, if the “invention” lies in a computer program simply operating standard computer equipment, in the manner it is suited to be used, to implement a series of instructions that result in the opening of a gate, one might see how Kiefel CJ, Gageler and Keane JJ could have come to a different view to his Honour. If this matter goes on appeal it will be interesting to see whether this manner of manufacture question is pursued.

### ***ToolGen Incorporated v Fisher (No 2)***

[2023] FCA 794

14 July 2023 – Nicholas J

*Appeal of patent opposition decision – disclosure and enablement in priority document and patent specification – support requirement – priority date*

#### **Summary**

ToolGen is a Korean company involved in the development of genome-editing products and services. This case is centred on ToolGen’s patent application for CRISPR gene editing technology. ToolGen’s patent was successfully opposed at the Australian Patent Office by a “straw man”, with the Delegate rejecting the patent on various grounds. This case concerns ToolGen’s appeal of that decision (and the respondents’ cross-appeal in relation to grounds rejected by the Delegate).

After a comprehensive consideration of the relevant technical background and expert evidence, in this decision Justice Nicholas ultimately found:

- That the asserted priority document (“P1”) did not disclose and enable the claims of the patent application in suit and so none of the claims were entitled to the earliest priority date (being 23 October 2013) (section 43(2A)).
- The claims of the patent application would be invalid (if granted) because:
  - the specification of the patent application did not provide an enabling disclosure of the invention defined by the claims (section 40(2)(a));
  - they were not supported by matter disclosed in the specification (section 40(3)); and
  - claim 19 lacked clarity (section 40(3)).
- Given the shift in the priority date, all of the claims lacked novelty or were obvious (section 18(1)(b)).

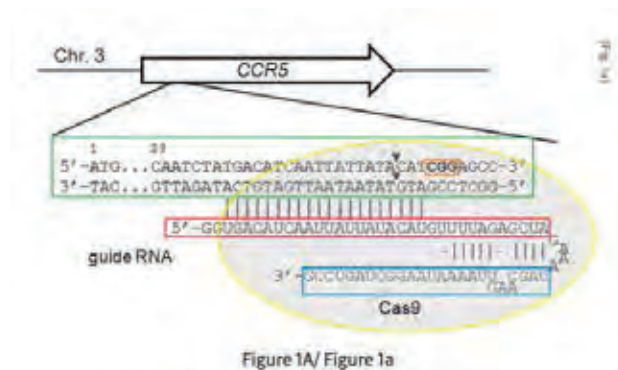
ToolGen has until 11 August 2023 to put on an application for amendment to the patent application (which the respondents have already indicated they will oppose). Notably, ToolGen had proposed that the matter be remitted to the Patent Office for consideration of any amendment application, but his Honour’s view was that, given the complexity of the matter, that would not be “desirable”.

#### ***The technology***

CRISPR technology is revolutionary. Without delving too deeply into the molecular biology, this technology enables DNA to be cut and edited with unprecedented precision. The potential therapeutic implications of such technology have created great excitement throughout the scientific and wider community.

The patent application concerns a particular type of CRISPR technology termed the “Type II Clustered Regularly Interspaced Short Palindromic Repeats/Cas system” or

“CRISPR/Cas system”. This system is best understood through the following image which is extracted in the judgment (and appears in P1 and the patent application itself):



The yellow circle represents the protein “Cas9”, which is an endonuclease that, in the context of the specification, was derived from the bacterial species *S. pyogenes*. When Cas9 forms a complex with a guide RNA (made up of crRNA (red box) fused to tracrRNA (blue box)) Cas9 cleaves (cuts) the target DNA (green box) at a specific site. In this image, the specific site is indicated by the two black arrows within the green box. Cas9 is “told” where to make this cut by recognising the sequence of nucleotides shown in the orange box (known as the “protospacer adjacent motif” (“PAM”)).

The specification of the patent application explains that the system can utilise the Cas9 protein itself or a nucleic acid encoding the Cas9 protein (e.g., DNA which would later be transcribed in the cell using the cell’s internal machinery to create the Cas9 protein). Likewise, and relevant to a key issue in dispute, the specification explains that the invention can utilise “naked” guide RNA (which had been transcribed outside the cell (*in vitro*) or a nucleic acid sequence which would be transcribed inside the cell (*in vivo*) into guide RNA. The specification explains that the use of naked guide RNA is preferable.

### **The person skilled in the art (“PSA”)**

There was a dispute between the parties as to whether the PSA included (as part of the team) a microbiologist.

ToolGen put on evidence from a molecular biologist (Associate Professor Firestein) and a microbiologist (Professor Giffard) and asserted that the PSA was a team including both a molecular biologist and a microbiologist. The respondents put on evidence from two molecular biologists (Professor Thomas and Associate Professor Herold) and argued that the PSA did not include a microbiologist. Justice Nicholas looked at the disclosures in P1 and the patent application and found that, because P1 did not refer to using Cas9 from different bacterial species (and the patent application did) the

PSA for P1 excluded a microbiologist whereas for the patent application, the skilled team included a microbiologist.

In reaching this view, Justice Nicholas considered a question which often arises in patent cases – whether a reference to another document constitutes incorporation by reference. ToolGen argued that the article by Jinek and others (“Jinek”), referred to in P1, was relevant to the question of identifying Cas9 from other bacterial species and this was one of the reasons why the PSA team included a microbiologist.

In finding that Jinek was not incorporated by reference into P1 or the patent application, his Honour referred to Justice Lockhart in *Nicaro Holdings Pty Ltd v Martin Engineering Co* [1990] FCA 40 in which his Honour said (at 549) that it is permissible to rely on a document incorporated by reference “provided that it is plain that the incorporation by reference unequivocally and plainly demonstrates that the draftsman has adopted the cross-referencing system solely as a shorthand means of incorporating a writing disclosing the invention”. Justice Nicholas considered that the reference to Jinek in P1 fell well short of meeting that test.

### **Construction**

Two key issues of claim construction drove Justice Nicholas’ subsequent findings.

First, there was a dispute as to whether the phrase “a nucleic acid encoding a guide RNA”:

- was limited to DNA (or viral RNA) which was transcribed into guide RNA *in vivo* (the respondents’ argument); or
- referred to a nucleic acid sequence which enabled the guide RNA to perform its function (i.e., the guide RNA itself) (ToolGen’s argument).

This distinction was key to determining whether claim 19 lacked clarity. Independent claim 10 claimed “a nucleic acid encoding a guide RNA” and claim 19, which was dependent on claim 10, added the requirement “wherein the nucleic acid encoding the guide RNA is *in vitro* transcribed RNA”. If claim 10 was limited to circumstances where the guide RNA was transcribed *in vivo* then claim 19 lacked clarity because it was known that *in vitro* transcribed RNA (i.e., naked RNA) introduced into the cell could not be transcribed to guide RNA *in vivo*. ToolGen said that the respondents’ construction would result in: (1) excluding a construction of claim 10 which would enable claim 19 and claim 10 to coexist; and (2) a surprising scenario where the preferred form of the invention (i.e., the use of naked RNA) was not encompassed within the claims.

Justice Nicholas rejected ToolGen’s arguments and found that the respondents’ construction was consistent with how molecular biologists understood the word “encoding” (i.e., a code for transcription). His Honour also noted at [130]

that “a patentee may have a good reason for introducing a seemingly inexplicable limitation”. Thus, his Honour concluded that claim 19 was unclear.

Secondly, the parties disagreed on whether “paired Cas9 nickases” fell within the scope of the claims. Nickases are enzymes that operate in pairs such that there are two separate Cas9 proteins, each with its own guide RNA. Each Cas9 complex cuts a single strand of DNA in a different location remote from one another (resulting in which is called “sticky ends” of DNA). The respondents sought to argue that the claims included nickases as another basis for arguing that the claims were not entitled to their priority date (since P1 did not disclose nickases).

ToolGen argued that the claims did not include nickases because all claims required a “double stranded break at a target nucleic acid sequence” and two breaks at remote locations resulting in sticky ends did not meet that definition. Justice Nicholas agreed with ToolGen that the claims did not include nickases but not for all the reasons argued by ToolGen. His Honour considered that the use of singular terms in the claims excluded a Cas9 pair. His Honour was not persuaded by the respondents’ reference to the inclusive definition of “comprising” and “comprises” in the specification, because his Honour considered that this was a circumstance where “the context requires otherwise”.

### **The disclosure requirement**

#### *The law*

This decision adds to the growing body of Australian case law aligning Australia’s section 40 requirements to the position in the UK and Europe. Relevantly, Justice Nicholas stated:

- At [166] and [175]: The test under section 40(2)(a) and section 43(2A)(b) is essentially the same. Both require the invention to be disclosed in a manner that is clear enough and complete enough for the invention to be performed by a person skilled in the relevant art. Nothing turns on the fact that section 40(2)(a) does not express the obligation by reference to the invention “in the claims”, the obligation imposed by this section relates to the invention as claimed.
- At [168]: *It is apparent that the amendments to s 40(2)(a) of the Act were made with the intention of aligning the Australian law of sufficiency with UK and European law. In particular, the old law, which had generally been held to require the enablement of only a single embodiment of the invention within each claim, was done away with.*
- At [193]: Notwithstanding the differences between statutory language in the UK and EPC provisions and section 40(2)(a), the position under Australia law “is not materially different from UK law as explained in the English authorities to which I have referred”.

- At [183]: Contrary to ToolGen’s submission, the absence of the words “in respect of the same invention” (which appear in Art 87(1) of the EPC) in section 43(2A)(b) does not mean that section 43(2A)(b) imposes no requirement that the priority document and the patent application be in respect of the same invention:

*[T]he invention of the claim must be disclosed in the prior application and must be also disclosed in a manner that is clear enough and complete enough for the invention in the claim to be performed by the person skilled in the art.*

- ToolGen had argued that an important distinction between Australian and UK/EPO law is that Australian law does not require strict disclosure of the “same invention” in the priority document, it only requires enablement. His Honour’s rejection of this submission might come as a surprise (and concern) to Australian patent attorneys as it appears to significantly elevate the requirements for priority documents.
- At [192]: Justice Perram’s statements in *Encompass Corporation Pty Ltd v InfoTrack Pty Ltd* [2018] FCA 421 regarding section 40(2)(a) are authority for the proposition that section 40(2)(a) does not require that the complete specification to make the nature of the invention plain, but that finding should not be taken as suggesting that there is no requirement under section 40(2)(a) that the invention be disclosed.

#### *Priority date – does P1 provide an enabling disclosure?*

The respondents identified five areas in which they argued that the claims of the patent application were not enabled across their breadth by the disclosure in P1. In this portion of the judgment his Honour went into considerable detail setting out the expert evidence relevant to each area, analysing whether the matter identified was disclosed in P1 and if not, considering whether the PSA could perform the invention without undue burden. The extent of the expert evidence and analysis required in this portion of the reasons for judgment signals that, in addition to inventive step, the disclosure requirement under Australian law is fast becoming another area which will generate significant legal expense. To illustrate his Honour’s approach to this aspect of the case we have outlined his Honour’s findings on two of the five issues.

#### *A system from a bacterial species other than *S. pyogenes**

The independent claims of the patent application are not limited by bacterial species from which the system was derived. Therefore, the Court had to determine whether P1 disclosed a system for cleaving DNA using Cas9 derived from a bacterial species other than *S. pyogenes* (which was plainly disclosed in P1). ToolGen argued that P1 disclosed any Cas9 from a Type II CRISPR system capable of forming an active endonuclease when complexed with guide RNA. Justice Nicholas rejected that argument because he did not

consider P1 to identify any principle of general application which would permit the skilled addressee to determine whether any particular Type II Cas9 might work.

Despite concluding that P1 did not make the relevant disclosure (the relevant disclosure being, on his Honour's view of the law as set out at [183] of his reasons, the "same invention" as claimed in the patent application), his Honour went on to consider, in the event he was wrong on that point, whether the disclosure in P1 was clear enough and complete enough for the invention to be performed by the PSA. After setting out the steps each expert said would be required in order to identify an alternative bacterial species, including in the event that he was wrong about a microbiologist not being part of the skilled team, his Honour ultimately concluded that it would have been apparent to the skilled team that there was considerable uncertainty as to whether or not a system derived from any other bacterial species would work in eukaryotic cells. Further, his Honour found that this would involve a significant, multi-step research project that would not be straightforward or routine. Accordingly, his Honour found that there was no enabling disclosure by P1 in this respect.

### *Nuclear localisation sequences ("NLS") and their location*

A NLS is a "tag" that when added to a protein enables it to be imported into the cell nucleus. ToolGen argued (in a similar vein to its argument on an alternative bacterial system) that P1 implicitly discloses the use of any NLS capable of mediating the entry of the Cas9 protein into the nucleus and is not limited to the tag expressly disclosed. In contrast to his Honour's finding on bacterial species, Justice Nicholas found that the work associated with the use of a different NLS would be routine and straightforward and would not create undue burden. In this regard his Honour considered the disclosure in P1 analogous to a description of an embodiment of a mechanical device in which a screw is used to fasten two components. His Honour remarked that, to the PSA, this could be understood as a disclosure of not only a screw but other forms of suitable fasteners such as a bolt or rivet.

### *Does the patent application provide an enabling disclosure?*

In contrast to his analysis of P1, his Honour's analysis of this ground was very brief. Ultimately, his Honour found that the patent application did not provide an enabling disclosure for effectively the same reasons as articulated with respect to P1 (save for in relation to arguments not pressed by the respondents in relation to the patent application).

### **The support requirement**

#### *The law*

Consistent with his approach on the disclosure requirement, Justice Nicholas adopted Justice Burley's view in *Merck Sharp & Dohme Corporation v Wyeth LLC (No 3)* [2020] FCA 1477

that the approach by Justice Aldous in *Schering Biotech Corp's Application* [1993] RPC 249 at 252–3 broadly encapsulates the support obligation under section 40(3).

His Honour made the following observations about the operation of the support requirement (emphasis added):

- At [396]: *The monopoly, according to UK and European authorities, must be justified by the technical contribution to the art that arises from the disclosure of the specification.*
- At [397]: *The practice of claiming inventions that are not shown to have a sufficiently plausible or credible justification or support is sometimes referred to as speculative claiming.*
- At [400]: *It can be seen that the concept of plausibility has been developed in the UK authorities as a check on speculative claiming and to ensure that the patentee's monopoly is no more extensive than the contribution to the art made by the relevant disclosure.*

These statements implicitly suggest that the UK concept of "plausibility" might soon find itself part of Australian law by way of section 40(3). While interesting, unfortunately the issue of plausibility did not arise in this case because his Honour found that the respondents did not assert lack of plausibility on the face of the patent application. Instead, the respondents argued that the patent application did not disclose any principle of general application.

Justice Nicholas' finding that the patent application lacked support followed his finding on lack of enabling disclosure. His Honour concluded that while a claim can meet the requirements of section 40(2)(a) by providing an enabling disclosure but not meet the support requirement in section 40(3), it is difficult to see how a claim to an invention for which there is no enabling disclosure could meet the support requirements. His Honour concluded at [410] that "[i]n such circumstances, the scope of the monopoly defined by the claim could not be justified by the technical contribution to the art. The two requirements are closely interrelated and not wholly distinct in their fields of operation."

### **Novelty**

ToolGen accepted that if claims 1–8 and 10–18 were not entitled to priority from P1, then those claims lacked novelty. With regard to claims 9, 19 and 20, his Honour found that if, contrary to his findings, those claims included the use of *in vitro* transcribed guide RNA (and claim 19 did not lack clarity), those claims would lack novelty in light of the publication "Wang 2013".

### **Inventive step**

As with novelty, ToolGen accepted that if claims 1–8 and 10–18 were not entitled to priority from P1, then those claims were obvious.

As to claims 9, 19 and 20, if, contrary to his findings, those claims included the use of *in vitro* transcribed guide RNA (and claim 19 was clear), his Honour found that the evidence showed that those claims would have been obvious in light of the common general knowledge and three separate prior art documents (considered separately). Further, on his Honour's construction of claims 9 and 20 (i.e., that the claims are limited to the use of a nucleic acid such as plasmid DNA encoding guide RNA) he found that those claims lacked inventive step in light of the common general knowledge and two prior art documents (considered separately), each of which described experiments where the guide RNA is encoded by plasmid DNA.

Finally, Justice Nicholas also found the last remaining claim, claim 21, obvious. Claim 21 introduces the additional step where the nucleic acid encoding the Cas 9 protein is introduced to the cell *before* introducing the nucleic acid encoding the guide RNA. His Honour found that the patent application did not provide any indication that claim 21 added anything that would render claim 21 inventive, and that it would have been obvious to the PSA that the method in claim 10 could be performed in a stepwise fashion, as described in claim 21.

### ***Commonwealth Scientific and Industrial Research Organisation v Urrbrae Foods Pty Ltd***

[2023] FCA 504

15 May 2023 – Moshinsky J

*Patents – preliminary discovery – Pre-action production of samples*

Commonwealth Scientific and Industrial Research Organisation (“CSIRO”) sought pre-action production of samples from Urrbrae Foods (“Urrbrae”) for testing for the purpose of deciding whether to commence a proceeding for patent infringement against Urrbrae. Justice Moshinsky concluded that he had power to order the production of samples, and ordered that production.

#### ***Background***

The prospective applicant (CSIRO) is the registered co-owner of two patents, Australian Patent No. 2005321754 (“754 Patent”); and Australian Patent No. 2004252186 (“186 Patent”), both of which claim grain from a wheat plant with a reduced level of a particular starch branching enzyme, that enzyme's activity, or both.

CSIRO sought preliminary discovery of documents and production of samples of wheat products from the prospective respondent (Urrbrae) for testing for the purpose of deciding whether to commence a proceeding for patent infringement against Urrbrae.

On 9 December 2022, CSIRO had obtained preliminary discovery of certain documents from Urrbrae, and its

application for a production of samples was adjourned by consent. CSIRO reviewed the documents produced by Urrbrae and formed the view that it did not have sufficient information to decide whether to commence a proceeding. The balance of CSIRO's application, namely the application for production of samples, was listed for hearing.

CSIRO sought production of a randomly selected and representative 50g sample of viable seeds of the Urrbrae wheat products from the most recent harvest that was intended to be commercialised in Australia, together with details of the date and place of harvest, for use by CSIRO to perform the testing to decide whether to start a proceeding in the Court in relation to the Urrbrae wheat products; and in the conduct of any such proceeding, any related proceedings or any appeals.

The main issue was whether the Court had power to make an order for the production of samples for testing for the purpose of assisting CSIRO to decide whether to commence a proceeding for patent infringement against Urrbrae.

#### ***The issue of power***

CSIRO contended that the Court has power to make the order sought for production of samples under section 23 of the *Federal Court of Australia Act 1976* (Cth) and rule 14.01 of the *Federal Court Rules 2011* (Cth) (the “current Rules”). Section 23 provides:

*The Court has power, in relation to matters in which it has jurisdiction, to make orders of such kinds, including interlocutory orders, and to issue, or direct the issue of, writs of such kinds, as the Court thinks appropriate.*

Rule 14.01 sets out orders for the inspection of property (defined as land, a document or any other thing in the possession, custody or power of a party to the proceeding) and provides (inter alia) that a party may apply for an order for taking a sample of property. A “party” is defined as a party to the proceeding. A “proceeding” is defined in section 4 of the *Federal Court of Australia Act* as a proceeding in a court, whether between parties or not, which includes incidental proceedings in the course of or in connexion with a proceeding and also includes an appeal.

Urrbrae's position was that the practical effect of the orders made on 9 December 2022 was that CSIRO's application for preliminary discovery was already at an end because: preliminary discovery had been given; CSIRO no longer sought relief in the nature of preliminary discovery; and the relief sought by CSIRO was not in aid of resolving the issues arising in the preliminary discovery proceeding. Urrbrae emphasised that the text of rule 7.23 (which provides for preliminary discovery) is limited to the production of documents.

Urrbrae accepted that the Court has power to make orders under rule 14.01 in a preliminary discovery proceeding, but

only for the purpose of resolving issues in that proceeding. It submitted that CSIRO could not rely on rule 14.01 to seek orders for the production of documents to assist it to decide whether to commence a proceeding. Urrbrae submitted that an order for production of samples would not contribute to resolving the issues in the proceeding, in particular whether the requirements of rule 7.23(1) have been met such that an order for preliminary discovery of documents ought be made. The authors understand that Urrbrae's contention was that there is only power to make an order under rule 14.01 for a sample of property in aid of the inquiry under rule 7.23(1) (for example, the Court has the power to order a party to allow inspection of a computer where an order is made under r 7.23 to ensure the preliminary discovery orders are complied with, but not the power to order inspection of the computer to obtain the necessary information the subject of the preliminary discovery orders).

### *The 1979 Rules and the current Rules*

In the *Federal Court Rules 1979* (Cth) (the "1979 Rules"), preliminary discovery and discovery from a non-party was dealt with in Order 15A. Rule 12 provided that the Court may make an order for the taking of samples which related to the subject matter of the proceedings or as to which any question arises in the proceedings. Order 17 of the 1979 Rules dealt with inspection of property and provided that the Court may, for the purpose of enabling the proper determination of any matter in question in any proceeding, make orders for the taking of samples of any property.

Under the current Rules, Division 7.3 of Part 7 deals with the topic of preliminary discovery. Division 7.3 does not contain a corresponding provision to former O 15A r 12. Division 14.1 of Part 14 of the current Rules deals with inspection of property. Rule 14.01 corresponds to former O 17 r 1, but the wording is different, in that the words "for the purpose of enabling the proper determination of any matter in question in any proceeding" do not appear.

The explanatory memorandum issued by the authority of the Judges of the Court in connection with the introduction of the Rules stated that the provisions in Division 7.3 and Part 14 adopt, simplify, and streamline the process and procedures which operated under the former Rules and do not substantially alter existing practice.

### *The parties' contentions*

CSIRO's position was that an order of the kind that it sought could have been made under old O 15A r 12 and, since the relevant provisions of the current Rules were intended to simplify and streamline procedures, not to effect substantial change to the old rules, it can be inferred that it was intended that rule 14.01 would be available in the circumstances previously covered by O 15A r 12.

Urrbrae's position was that under both the 1979 Rules and the Rules, an order for production was only available for the

purpose of assisting to resolve issues arising in the preliminary discovery proceeding. To that end, Urrbrae relied on the judgment of the Full Court in *Tyco Australia Pty Limited v Leighton Contractors Pty Limited* [2005] FCAFC 115; 142 FCR 428 (Hill, Hely and Conti JJ) ("*Tyco*").

### *The Court's conclusion*

Justice Moshinsky concluded that there was power both under the 1979 Rules (under O 15A r 12) and under the current Rules (under rule 14.01) to make an order of the kind sought by CSIRO, although his Honour did not set out the basis on which he concluded that there was power.

His Honour noted that orders for the production of samples for testing to assist a prospective applicant to decide whether to commence a proceeding had been made in *SmithKline Beecham plc v Alphapharm Pty Ltd* [2001] FCA 271 under O 15A r 12 of the 1979 Rules; and in *GlaxoSmithKline Australia Pty Ltd v Pharmacor Pty Ltd* [2014] FCA 1202 under the current Rules. However, since the contention advanced by Urrbrae was not raised in those cases, they did not stand as precedents on the issue before Justice Moshinsky.

Justice Moshinsky reasoned that the text of former O 15A r 12 suggested it was possible to make an order for production of samples to assist a prospective applicant to determine whether to commence proceedings, and that this was supported by Justice Heerey's judgment in *Pacific Dunlop Ltd v Australian Rubber Gloves Pty Ltd* (1992) 23 IPR 456.

His Honour did not consider *Tyco* (which related to whether provisions of the Rules for the issuing of a notice to produce could be utilised in the course of a proceeding for preliminary discovery under O 15A of the 1979 Rules) to be authority for a contrary position, because *Tyco* did not need to determine any issue as to whether O 15A r 12 could be utilised only for the purpose of resolving issues arising in the preliminary discovery proceeding. Although there are some observations in *Tyco* about O 15A r 12 that are consistent with the submissions put by Urrbrae in the present case, there was no holding to the effect of the proposition advanced by Urrbrae.

Justice Moshinsky observed that if an order of the kind sought by CSIRO could have been made under O 15A r 12 of the 1979 Rules, it would be very surprising if such an order could not be made under the current Rules. He inferred that the fact that O 15A r 12 was not replicated in the current Rules was because rule 14.01 was considered sufficient (having regard to the non-replication of the words of limitation that previously appeared in O 17 r 1).

Justice Moshinsky considered that this conclusion was supported by the text of rule 14.01. CSIRO is a "party" to a "proceeding" (as defined by the current Rules), and the order sought by CSIRO fell within the terms of the

rule. Justice Moshinsky did not consider there to be any disharmony in interpreting rule 14.01 as available where a prospective applicant seeks production of samples for testing to enable it to decide whether to commence a proceeding against the prospective respondent. Whether such an order is appropriate will be informed by considerations of the kind set out in rule 7.23 and by general principles relating to rule 14.01.

Justice Moshinsky observed that in the context of potential patent proceedings, it may be the case that the provision of documents under rule 7.23 will not be sufficient to enable a prospective applicant to decide whether to commence a proceeding and that testing of samples may be required, supporting the view that it was intended that rule 14.01 would cover the circumstances previously covered by O15A r 12. Justice Moshinsky concluded that there was power to make an order of the kind sought by CSIRO and made orders substantially in the terms sought by CSIRO.

### **Implications**

This decision confirms the power of the Federal Court to order production of samples prior to proceedings being commenced (consistently with earlier decisions, in which such orders have been made). However, the decision is under appeal, and there is a possibility that the Full Court will conclude that there is no such power.

### ***Vehicle Monitoring Systems Pty Limited v SARB Management Group Pty Ltd trading as Database Consultants Australia (No 8)***

[2023] FCA 182

8 March 2023 – judgment published 22 June – Besanko J

*Patent infringement – patent validity – additional damages*

Justice Besanko has found Vehicle Monitoring Systems' ("VMS") two standard patents over parking infringement technology valid and infringed by both SARB Management Group ("SARB") and the City of Melbourne ("CoM"). This judgment traverses a litany of infringement and validity issues, some more interesting (and perhaps controversial) than others. The infringement case consisted of four discrete issues whereas the validity case involved arguments on best method, sufficiency, entitlement, fair basis (internal), obviousness, false suggestion, lack of clarity and failure to define the invention.

In the opinion of the authors, the following aspects of this decision are of particular interest:

- Justice Besanko's opinion that the provision of customer support by SARB within the limitation period (imposed by the statute of limitations) in relation to products supplied outside that limitation period does not constitute infringement.

- On the lack of entitlement case, the individual who SARB asserted should have been listed as a co-inventor was deposed by SARB's counsel before his Honour some months prior to trial after that individual refused to provide affidavit evidence due to his confidentiality obligations to VMS.
- Justice Besanko's decision to award additional damages against SARB (but not CoM) in relation to two of its three products after SARB continued to sell its products despite Justice Yates' finding in 2013 that those products infringed VMS' related innovation patent.

The parties have already been back before the Court in a substantive dispute on the form of orders to give effect to the judgment. The orders, as made, providing for injunctions, payment of costs and damages or account of profits have been stayed pending the determination of SARB's appeal, which was filed on 23 June 2023.

### **Background**

The parties in this dispute first met in the Federal Court over this technology around a decade ago. In that initial battle, VMS instituted patent infringement proceedings against SARB in relation to VMS' innovation patent. SARB cross-claimed for revocation. Justice Yates found the innovation patent valid and infringed in *Vehicle Monitoring Systems Pty Limited v Sarb Management Group Pty Ltd (trading as Database Consultants Australia) (No 2)* [2013] FCA 395 ("VMS 2013"). SARB appealed to the Full Court but the parties resolved the proceeding, entering into a settlement deed before judgment was delivered. For the reasons explained below, both VMS 2013 and the settlement deed have a material impact on Justice Besanko's reasoning in this decision.

In the current dispute, VMS initiated infringement proceedings in relation to two of its standard patents (both related to the innovation patent) and sought, amongst other things, additional damages. On this occasion, in addition to suing SARB, VMS brought proceedings against the CoM for its use of SARB's technology. It appears that CoM was not a respondent in VMS 2013 because, at that time, VMS was still hopeful that it could win work from CoM (instituting federal litigation against a potential customer is typically not the best way to win work). SARB cross-claimed, seeking revocation of the patents on a host of section 40 grounds (being the version of section 40 of the Patents Act in force prior to the *Intellectual Property Laws Amendment (Raising the Bar) Act 2012* (Cth)), lack of entitlement, lack of inventive step and false suggestion. CoM adopted SARB's submissions on all grounds except additional damages, where it advanced its own submissions.

### **Infringement**

The following technical matters are relevant to the four

infringement issues in dispute:

- SARB's product is known as PinForce and has three versions.
- The invention involves a detection apparatus ("DA") which sits underground where the vehicle is parked, detects the presence of a vehicle, stores data and wirelessly transmits that data to a data collection apparatus ("DCA").
- The DCA indicates to an operator if the vehicle has overstayed.

*What does "wake-up signal" mean, and do SARB's products have it?*

This argument applied only to a sub-set of SARB's products. The parties' experts agreed that the wake-up signal acts as a keep awake signal to alert the DA to the presence of the DCA within radio communications range so that the DA and DCA can engage in a communications session. However, the experts disagreed as to the signal which acts as the wake-up signal, which device was sending that signal and therefore, whether SARB's products possessed the relevant claim integer.

This issue was addressed in *VMS 2013* where Justice Yates found that SARB's products possessed the relevant wake-up signal. VMS originally asserted issue estoppel in relation to those findings, but later discarded that argument in favour of submitting that the findings in *VMS 2013* were highly persuasive. SARB argued that the *VMS 2013* findings should not be followed because the Court in that case did not have the benefit of fresh evidence which demonstrated that the relevant product did not use a wake-up signal as claimed.

Justice Besanko rejected SARB's arguments and said at [76] that "[i]n my opinion, the essence of the Court's reasoning in *VMS 2013* applies having regard to the evidence advanced in this case and, with respect, that reasoning is correct." Ultimately, his Honour did not consider that the fresh evidence altered the position. On that basis, his Honour found that the relevant products satisfied the wake-up signal integer. Justice Besanko's finding on this issue serves as an example of how difficult it can be to successfully run new arguments where adverse prior findings have been made on related patents.

*Do the claims include a method or system where the determination of vehicle overstay is made by the DCA instead of the DA?*

VMS' argument was that, on the correct construction of the claims, either the DA or the DCA can make the determination that the vehicle has overstayed. SARB disagreed, and said that, properly construed, the claims only applied where the DA makes the determination. If SARB's construction was correct, their products in which the determination was made solely in the DCA (Pinforce version 3) would not infringe.

After contemplating the expert evidence on construction and considering the claims on their face, Justice Besanko formed the view that those claims were ambiguous and, therefore, it was necessary to have recourse to the body of the specification to resolve the ambiguity. The following integer of claim 21 was the focus of this finding:

*said processing unit [of the DCA] programmed to process said data received via said radio receiver and to indicate instances of over stay to an operator;*

*said data relates to identified instances of vehicle overstay in a respective parking space.*

In essence, his Honour said that it was ambiguous as to whether the words "said data relates to identified instances of vehicle overstay" is limited to overstay determination data (which is not transmitted in Pinforce version 3 as determination does not occur in the DA) or whether this included data which may lead to determination of instances of vehicle overstay (which is transmitted in Pinforce version 3 as this data is fed to the DCA so that a determination can be made).

After turning to the specification, Justice Besanko concluded that the relevant claims included a system where the determination was made by the DCA (i.e., the determination could be made in either the DA or DCA). His Honour also considered the omnibus claims (which were relied on by VMS in the alternative) and found that his construction of those claims had to follow his construction of the earlier claims.

*Is SARB liable for authorising infringing acts (and as a joint tortfeasor) for products sold: (i) outside the statute of limitations period ("Limitation issue"); and/or (ii) in the period permitted by the settlement deed ("Authorisation issue")?*

### Limitation issue

The parties agreed that, by virtue of section 120(4)(b) of the Patents Act, VMS was precluded from recovering damages or loss of profits in respect of infringing acts by SARB prior to 15 February 2013 (being six years prior to institution of the infringement proceeding). For reasons not explained in the judgment, the parties had also agreed that VMS would not seek to recover damages or an account of profits in respect of acts performed prior to 9 May 2013 (being the expiry of the innovation patent). Accordingly, the agreed limitation period was after 9 May 2013. The interesting question for the Court was whether SARB was liable for authorising patent infringement and/or as a joint tortfeasor in relation to uses by SARB's clients which occurred inside the agreed limitation period in respect of products supplied outside the agreed limitation period.

VMS argued that it was entitled to recovery for such supplies because SARB provided acts of service, maintenance, firmware upgrades and other assistance to its customers in relation to those products ("customer support") within the

period where liability did accrue, and those acts were each separate acts of authorisation of infringement and a separate statutory tort.

SARB sought to argue that VMS failed at the first hurdle because it had not led any evidence as to the nature and timing of the customer support. The Court rejected this argument and found that the point had effectively been decided against SARB in a previous decision on a discovery fight between the parties in the same matter. In that discovery fight before Justice Yates in 2020, VMS applied for the discovery of SARB's contracts in relation to SARB's supply of its products before 9 May 2013. In resisting that application, SARB admitted that it provided customer support during the course of its contracts. This admission resulted in Justice Yates deciding that the discovery of those documents was not required. Justice Besanko relied on that earlier admission as sufficient evidence of SARB providing customer support inside the limitation period.

SARB also argued that it was not liable for its conduct inside the limitation period because the infringing act of authorisation was given to each client only once, and that was when it supplied the relevant products.

The Court found in SARB's favour on this latter issue. Justice Besanko did not consider that the customer support which occurred after 9 May 2013 in relation to supplies provided prior to 9 May 2013 constituted authorisation of any customer's infringing uses. Further, his Honour did not consider there to be any scope to argue that there was authorisation by reason of mere failure to act within the limitation period. When SARB sold or otherwise disposed of the products, it was at that time that it authorised its customers to use the systems and SARB had no power to prevent those customers from using the systems subsequently. His Honour also held that the customer support did not make SARB a joint tortfeasor because those acts were performed pursuant to lawfully binding contracts entered into before the limitation period and there was no power to prevent the use and no procuring, inducing or acting in concert in the relevant sense. Justice Besanko's findings on this issue provide some useful guidance on the complex question of alleged "ongoing infringement", which often arises in the context of products which require end user support.

### Authorisation issue

SARB also argued that VMS was not entitled to any relief prior to 9 May 2013 because of the implied authorisation given by VMS under the settlement deed. The substance of SARB's argument was that, on payment of the settlement amount, the settlement deed released and discharged it from all claims of infringement or exploitations of the innovation patent prior to 9 May 2013. SARB submitted that VMS was aware when it signed the settlement deed that SARB was likely to have supply obligations to existing clients and that by entering into the deed without requiring SARB to remove

its existing products, VMS impliedly authorised the ongoing use of the products that were supplied prior to 9 May 2013. That is, to the extent it can be said that the customer support constituted authorisation of infringement, that conduct was itself authorised by VMS.

His Honour observed that for this issue to be relevant he would have to accept that, contrary to his finding on the Limitation issue, customer support inside the limitation period constituted authorisation of infringement or joint tortfeasorship. His Honour considered that the settlement deed did not release SARB in relation to such claims. The language of the deed provided that VMS released and discharged SARB from all claims for "any infringements or exploitations of the VMS Innovation Patent that happened prior to its expiry". If customer support constituted an infringement (contrary to his Honour's view) then his Honour considered that this clause did not protect SARB.

### *Are SARB and CoM liable for additional damages under section 122(1A) of the Patents Act?*

Justice Besanko considered the material relevant to the question of additional damages in great detail. Over 26 pages (of a 188 page judgment) his Honour set out a chronology of the relevant events, commencing in 2006 when SARB was first made aware that VMS had patent rights in parking overstay technology. His Honour ultimately concluded that SARB was liable for additional damages in relation to some (but not all) of its products, and that CoM were not liable for any additional damages. This portion of the judgment provides some valuable guidance of the circumstances in which a court may consider an award of additional damages to be warranted.

### SARB

Justice Besanko found that SARB was not liable for additional damages in relation to version 3 of its PinForce product. His Honour considered SARB's argument that the claims did not include a product where the determination of the vehicle overstay was made in the DCA only (i.e. the version 3 product) was reasonably arguable. However, with respect to version 1 and 2, Justice Besanko considered SARB's conduct after the delivery of judgment in *VMS 2013* to justify an award of additional damages. Justice Besanko said at [210] that:

*Even though that decision dealt with a different patent, there were sufficient similarities for it to be inferred that SARB must have known that to continue to deal in PinForce Versions 1 and 2 involved a very substantial risk of infringement.*

### CoM

His Honour looked closely at the correspondence between VMS and CoM and ultimately concluded that CoM's conduct at all relevant time points was reasonable. His Honour found the following factors to be of particular

significance in reaching this conclusion:

- CoM was not named as a respondent in *VMS 2013*.
- The fact that CoM was issued a subpoena to produce documents in relation to *VMS 2013* was not sufficient, without more, to put CoM on notice of its potentially infringing conduct. CoM often received requests for documents.
- After *VMS 2013*, CoM was told by SARB that the parties were engaged in mediation and that the matters appeared close to resolution.
- The first time VMS made infringement allegations against CoA was in December 2015 and that assertion was made in the context of VMS requesting that CoM revisit its decision not to award a tender to VMS.
- After VMS' infringement allegations in 2015, there was no further action or communication by VMS until nearly three years later when a letter of demand was sent to CoM.

His Honour also noted that, even if he had reached a contrary conclusion regarding CoM, he would not award additional damages in relation to the use of PinForce version 3 for the same reasons that he was not prepared to award additional damages against SARB.

### **Validity**

#### *Lack of best method and insufficiency*

SARB's case on lack of best method was that the patents in suit failed to describe:

- (1) the best method known to VMS of communicating data from the DA using a wake-up scheme because the specifications did not describe what it knew at the relevant time to be the best transceiver (the ASTRX2/AIMS 52000 ("ASTRX2")); and
- (2) the best method known to VMS of designing and adjusting an antenna to communicate data from the DA because the specifications did not describe an antenna.

Justice Besanko found that the patents did disclose the best method.

As to ASTRX2, his Honour found that, while the ASTRX2 was the best transceiver known and was not disclosed, the patents did disclose the wake-up scheme and described the parameters within which the scheme may operate. In circumstances where there was nothing indicating that the inventor knew of a better method of performing the wake-up scheme or that the ASTRX2 which had been used by VMS had been programmed other than in accordance with those parameters, his Honour considered that the best method requirement had been established.

As to the antenna, his Honour considered that, based on the

evidence, the work required for the antenna was routine for the PSA and at [466] concluded that:

*[a]pproaching the matter in a practical and common sense manner, there is, in my view, nothing about the importance of the information or the practicality of disclosing it or the extent of the burden imposed on the person skilled in the art who is left to rely on routine experimental that brings this cases within a case where disclosure should be made.*

That observation aligns the best method requirement with the test for insufficiency that applied before Raising the Bar.

SARB's case on insufficiency was based on largely the same arguments as outlined above with respect to best method, with additional emphasis placed on a failure to describe details of the antenna scheme and provide adequate details of the wake-up signal adopted by it. In rejecting the insufficiency ground, Justice Besanko accepted the opinion of VMS' witness that two of the figures of the patents and the discussion of those figures disclosed sufficient details of the wake-up scheme and, for the same reasons provided on best method, the evidence of the experts established that the skilled addressee would know how to implement the invention using an antenna.

#### *Lack of entitlement*

SARB asserted that Mr Crowhurst, an individual who VMS contracted to assist with developing the invention, should have been named as a co-inventor. SARB's case was that Mr Crowhurst was responsible for developing the antenna, testing various transceivers and developing a functioning system, and that this work made a material contribution to the invention.

The circumstances surrounding Mr Crowhurst's evidence in chief are unusual and warrant mention. Mr Crowhurst declined to speak to SARB for the purpose of preparing affidavit evidence because he was bound by obligations of confidence to VMS. While Mr Crowhurst could be subpoenaed to attend at trial, that had the potential to disrupt the trial because the parties would not have advance notice of his evidence. Accordingly, the Court made orders for Mr Crowhurst to be deposed by counsel for SARB before Justice Besanko in late November 2020. The transcript of that oral examination was tendered at the trial as his evidence in chief and was intended to serve the same function as an affidavit before trial.

VMS objected to the admission of the transcript on the basis that Mr Crowhurst's evidence was so unclear and confusing that it would create substantial prejudice to VMS if admitted. Justice Besanko ultimately overruled the objection. However, in various parts of the judgment his Honour criticises Mr Crowhurst's evidence, including by stating that it was vague, difficult to follow and inconsistent in parts, that he would not place significant weight on it and, where there was conflict, he preferred the evidence of VMS'

witness. His Honour remarked at [347] that Mr Crowhurst’s “self assessment of the importance and value of his work was unreliable. His combativeness on the first day he was cross-examined was puzzling”.

Justice Besanko went on to conclude that Mr Crowhurst was not an inventor. His Honour pointed to the following reasons (amongst others) for arriving at this conclusion:

- up until the trial in the proceeding, Mr Crowhurst had not claimed to be the inventor and had in fact signed an agreement which contained an acknowledgment that the invention was solely invented by Mr Welch (the listed inventor);
- it was not clear whether Mr Crowhurst was claiming to be an inventor; and
- the work performed by Mr Crowhurst was based on common general knowledge or was routine.

As an aside, it was accepted by the parties that the operation of the transitional provisions of Raising the Bar (which introduced new sections 22A and 138(4)) meant that an order for revocation on the ground of lack of entitlement could not be made unless the Court was satisfied that, in all of the circumstances, it was just and equitable to do so. Given his Honour’s findings, that discretion did not need to be considered.

### *Lack of fair basis*

SARB argued that the claims which were broad enough to include a product which does not involve the use of wake-up signals were not fairly based because there was no real or reasonably clear disclosure in the specification of an invention which does not involve the use of wake-up signals.

Justice Besanko observed that Justice Yates had considered a materially similar ground in *VMS 2013* and had rejected that ground for reasons that his Honour considered “cogent and correct” (at [528]). In *VMS 2013*, Justice Yates identified a number of passages in the specification that, in his view, described the operation of products that did not require a wake-up signal. In addition to adopting Justice Yates’ views, Justice Besanko pointed to the use of inclusive language in the specification and the existence of counterpart consistency clauses. His Honour said that there was nothing elsewhere in the specification which meant that the specification, read as a whole, did not correspond with those consistency clauses.

### *Lack of inventive step*

SARB confined its inventive step case to obviousness in light of the common general knowledge alone. Justice Besanko referred to the following in reaching his conclusion that the patents were inventive:

- his Honour was not satisfied that, even if the skilled person would have been led to a sensor based solution (which he did not consider to be the case), they would not have been directly led to a magnetometer

or an inductive proximity sensor (being features of the invention); and

- this was a case where secondary indicia of inventiveness were significant, in particular:
  - the invention represented a long-felt want of overcoming the drawbacks of chalking (i.e. detecting overstay by marking tyres with chalk) which had existed since at least the mid-1970s; and
  - the introduction of VMS’ overstay detection system in 2005 (which is an embodiment of the patents) resulted in a paradigm shift in the market.

### *False suggestion*

SARB argued that, if the Court was to find that the relevant claims extended to an invention where the vehicle overstay is determined either in the DA or the DCA, then those claims were obtained by false suggestion or misrepresentation. SARB relied on prosecution correspondence from VMS’ patent attorneys to IP Australia in which they had said, for the purpose of distinguishing a novelty and inventive step citation, that in the claimed invention overstay was determined solely by the DA.

Justice Besanko rejected this argument and explained at [657]–[658] that:

*[a]ssuming fraud is not present and, as I have said, fraud is not alleged in this case, it is not sufficient to make out the ground of false suggestion or misrepresentation to prove simply that a false suggestion or misleading statement was made and nothing else. ... A submission about the meaning and effect of a piece of prior art will not necessarily involve a false suggestion or misrepresentation even where it transpires that it was wrong unless, it seems, it can be said that there was no basis for the submission.*

His Honour was also not satisfied that in this case it could be inferred that the representation was objectively likely to contribute to the grant of the patent. With “file-wrapper-estoppel” not being available in Australia, no doubt this was a sore point for SARB – having VMS prosecuting the patent application to grant on the basis of a construction that it abandoned in the infringement proceeding.

### *Lack of clarity and failure to define the invention*

SARB also argued that, if the Court was to find that the relevant claims extended to an invention where the vehicle overstay is determined either in the DA or the DCA, then those claims are not clear and do not define the invention because they do not set out how the identification of overstay is to be determined.

Justice Besanko dealt with these arguments briefly and found that:

- on lack of clarity, once the relevant claims were construed in the manner he had identified, there would be no difficulty for the skilled person to understand the boundaries of the claims; and
- a lack of definition will not be established unless a claim is “incapable of resolution by a skilled addressee by the application of common sense and common knowledge” (see [668]), and his Honour did not consider that that could be said of the claims in this case.

### **Conclusion**

Unsurprisingly, given the history between these parties, SARB has appealed this decision. It will be interesting to see if history repeats itself and the parties settle before the Full Court gets the opportunity to deliver a judgment.

### ***Seven Network (Operations) Limited v 7-Eleven Inc*** **[2023] FCA 608**

**8 June 2023 – Thawley J**

*Trade marks – non-use – domain names*

This was an appeal by Seven Network (Operations) Limited (“Seven”) from a decision of a delegate of the Registrar of Trade Marks in relation to a non-use application made by the respondent, 7-Eleven Inc (“7-Eleven”), under section 92 of the *Trade Marks Act* 1995 (Cth) to remove Seven’s registered trade mark for the word “7NOW” in classes 9, 35, 38 and 41 (the “7NOW Mark”).

The removal application was made on the basis of section 92(4)(b) of the Trade Marks Act, namely that Seven had not used the 7NOW Mark, or had not used it in good faith, during the three years between 10 June 2016 and 10 June 2019 (the “non-use period”) in respect of the designated goods and services. The delegate held that the 7NOW Mark should be removed from the register and refused to exercise the discretion in section 101(3) of the Trade Marks Act not to remove the 7NOW Mark. Seven appealed to the Federal Court.

Seven is the major operating company for the Seven Group and operates the Seven Network, a major Australian commercial free-to-air television network broadcasting across Australia for many years. Seven’s core business operation is to generate revenue from the provision of advertising services and selling advertising space on its television channels. In order to generate that revenue, Seven makes content available for free and promotes that content with the aim of attracting audiences to whom advertisers can promote their goods and services.

7-Eleven Inc operates an international chain of convenience stores under its 7-ELEVEN brand, including in Australia since 1977. Overseas, 7-Eleven uses 7NOW in relation to a food and alcohol delivery and pick-up service. It has not

been able to use the 7NOW mark in Australia but has been trying to register this mark so it can commence use here.

Seven’s 7NOW Mark has been registered since August 2013 in relation to goods and services in classes 9, 35, 38 and 41.

### ***Part of appeal allowed by consent***

In the appeal, 7-Eleven sought to defend the delegate’s decision only in respect of particular goods and services (the “Defended Goods and Services”). The parties agreed to the appeal being allowed in relation to certain goods and services without a hearing on the merits. The Registrar did not oppose this course. As in *Hungry Spirit Pty Limited ATF The Hungry Spirit Trust v Fit n Fast Australia Pty Ltd* [2020] FCA 883, the parties asked the Court to make an order by consent allowing an appeal pursuant to section 104 of the Trade Marks Act. Justice Thawley accepted this course, but noted that it did not equate to finding or accepting that there had been use by Seven during the non-use period. The authors understand that as a practical matter, the “Undefended Services” were not of commercial relevance to 7-Eleven and 7-Eleven intended to only contest arguments by Seven that it had used the 7NOW Mark for such services to the extent that Seven intended to then rely on any such use as being relevant to the exercise of discretion.

### ***Had there been use of the 7NOW Mark in relation to the Defended Goods and Services in the non-use period?***

Two issues were to be resolved. First, whether Seven had discharged its onus of proof that it had used the 7NOW Mark in respect of the Defended Goods and Services during the non-use period. Secondly, if not, whether the Court ought to exercise its discretion under section 101 to remove the 7NOW Mark.

As to the first issue, the usage examined was divided into two periods:

- From 24 July 2018 to 1 April 2019 (the “redirect period”) during which the 7now.com.au domain redirected users to the 7plus.com.au domain. The 7PLUS website is a broadcaster video on demand platform. Users of the 7PLUS website could access live streaming of Channel 7, 7two, 7mate, and 7flix and a range of other digital channels and on-demand television programmes.
- From 1 April 2019 to the end of the non-use period on 10 June 2019 (the “7NOW website period”) the 7now.com.au domain ceased redirecting to 7plus.com.au and users landed on the 7NOW website.

Seven did not contend any use of the 7NOW Mark beyond the use of it in the domain name and on the 7NOW website during the non-use period.

### ***Use in the redirect period***

During the redirect period, the 7PLUS website allowed users to stream Seven’s digital channels live. Seven sold advertising

space on these channels, and screened advertisements for its clients.

Seven relied on the decision of Justice Perram in *Solahart Industries Pty Ltd v Solar Shop Pty Ltd* [2011] FCA 700; 281 ALR 544 (“*Solahart*”). In particular, it relied on his Honour’s statement at [61] and submitted that:

*[b]ecause the above categories of the Defended Goods and Services were offered or advertised on the 7PLUS website while the 7NOW domain name was redirecting there, it follows that the 7NOW domain name was used in respect of those goods and services during the redirect period.*

Justice Thawley examined *Solahart* and the question of whether use of a domain name is trade mark use, noting that, in that case, the respondent decided to abandon its use of the word SOLARHUT in favour of SUNSAVERS, but that, despite rebranding, the respondent maintained its solarhut.com.au domain name and used it to redirect consumers to its SunsaVERS website.

Justice Thawley stated that Justice Perram’s conclusion in *Solahart* that the domain name was still being used “as a trade mark” was reached in a context where:

- (a) before the time of the impugned use, there had been promotion of the SOLARHUT trade mark in conjunction with the solarhut.com.au domain name as indicating the trade origin of the solar panels that were for sale; and
- (b) the ongoing use of the domain name was to transfer customers who were looking for solar panels by reference to the SOLARHUT name, including by internet searches, to a business selling solar panels.

It was in that specific factual context that Justice Perram found that the domain name continued to function as a trade mark.

Justice Thawley considered that the present case was different to *Solahart*. At [60] his Honour concluded:

*“The 7NOW Mark was in the domain name which had been registered in 2011. This was not a trade mark use: Sports Warehouse Inc v Fry Consulting Pty Ltd* [2010] FCA 664; 186 FCR 519 at [153]; *Solahart* at [50]. All that had happened on around 24 July 2018 was that Seven caused a redirection to be put in place. There was no evidence of any promotion of 7NOW or the 7now.com.au website. Leaving aside the use of “7now” in the domain name, the 7NOW Mark was not apparently being used in any connection with any business or commercial activity. There was no evidence of anyone searching for 7NOW or in fact being redirected to the 7Plus website. There was no direct evidence about what a person who might have searched for 7NOW, or otherwise happened upon the www.7now.com.au website, might have been looking for or expecting to find or even if they expected goods or services to be available there.”

Therefore, there was no offer of any goods or services in connection with the 7NOW Mark when it was used in the domain name during the redirect period. A trade mark must be shown not to have been merely “used”, but used as a trade mark in relation to relevant goods or services.

While accepting that the use of a domain name to redirect potential customers to a website displaying one’s goods and services may be analogous to using those words as a sign on the front of a shop to indicate the goods or services that are sold within, that was not what was occurring in this case.

Rather, during the redirect period, the user was instantaneously redirected to the 7PLUS website (unlike the situation in *Taxiprop Pty Ltd v Neutron Holdings Inc* [2020] FCA 1565; 156 IPR 1), and the 7now.com.au domain name did not continue to be visible in the browser after the user was redirected. The 7NOW Mark did not appear on the 7PLUS website. At no time was a user taken to a 7NOW website. If anything, the user would assume that the 7NOW Mark was not in use at all.

### *Use during the 7NOW website period*

From 1 April 2019, 7now.com.au stopped redirecting to the 7PLUS website. It instead resolved to a standalone website that displayed its own content: the 7NOW website.

From 1 April 2019 to 10 June 2019 the user traffic to the website totalled 157. The 7NOW website promoted television content that was available to users through Seven’s online platforms and allowed users to access that content directly from the 7NOW website. Having determined that this involved use of the domain name as a trade mark, his Honour had to determine whether it was use with respect to any of the Defended Goods and Services.

### *Category 1 – class 9 – computer software*

The first category of the Defended Goods and Services was in class 9, for computer software.

Seven submitted that the 7NOW website promoted the 7PLUS App by displaying the 7PLUS logo and providing links which stated, “Get iOS App” and “Get the Android App”.

Justice Thawley found that the viewer of the 7NOW website would see the banner at the top of the page in which 7NOW appears. The viewer would also understand that the viewer was on a website the address of which included “7now”. The viewer would see the various tiles on the website and would not fail to notice that many of them were associated with Seven. At the bottom of the page, after the tiles, the viewer would see the 7PLUS mark in the following part of the screen [the strike through arises from deletions in the evidence]:



Although Austin recovered the desktop just over a month later, it alleged that Ms Podulova may have retained Austin's information on those USB devices. It was strongly arguable that if Ms Podulova did these things, she breached several terms of her written contract of employment with Austin, as well as equitable duties of confidence.

After she left Austin's employment, Ms Podulova was employed by the Schlam Group. Ms Podulova accessed the Schlam SharePoint server from the Austin computer multiple times after she started working for Schlam, suggesting that she may have copied Austin's information from one of the external USB storage devices to the Schlam SharePoint server. The forensic computer expert's opinion was that "there is a reasonable probability that the Austin information could have been copied to the Schlam SharePoint server, or used in documents being accessed on" that server. Justice Jackson accepted that inference was open.

It was not disputed that Ms Podulova kept possession of Austin's information after she ceased being Austin's employee, that she had possession of that information at least part of the time she worked for Schlam, and that she *may* have used Austin's information in the course of that work.

While Ms Podulova had complied with earlier orders requiring her to produce some of the USB devices to the Court, she had not produced the main external drive which appeared to have been the repository of the bulk of Austin's information. Ms Podulova informed the Court that she destroyed that device before the earlier orders were made. Justice Jackson also ordered Ms Podulova to provide an affidavit as to the whereabouts and contents of that drive.

### **Decision**

Justice Jackson ordered injunctions preventing Ms Podulova from doing certain things with Austin's information, in so far as it was stored in digital form in certain places and requiring her to produce that information to the Court.

His Honour also ordered her new employer (Schlam) to disclose details that were potentially relevant to the alleged misuse of the information.

### **Schlam's involvement**

Austin did not allege that Schlam was knowingly involved in any of the claimed wrongful use of Austin's information, and the extent to which anyone at Schlam other than Ms Podulova knew of what she was doing with the information was unknown. However, there was a basis in the evidence to think that Ms Podulova made use of the information in a way that involved the Schlam SharePoint server or files on that server, and an inference was open that she was using the information for the purposes of her employment with Schlam.

Austin sought orders requiring a director of each of the Schlam respondents to provide an affidavit attesting to

the best of their knowledge or belief to details of devices, networks and cloud storage, email and other accounts which may have Austin's information on them and compelling production of a review of Austin's systems. Justice Jackson made the orders sought.

### **The basis of the orders**

Justice Jackson made the orders on the basis of the principle, articulated in *Norwich Pharmacal Co v Commissioners of Customs & Excise* [1974] AC 133 ("*Norwich Pharmacal*") and developed in later cases, that if through no fault of his or her own a person gets mixed up in the tortious acts of others so as to facilitate their wrongdoing, he or she comes under a duty to assist the person who has been wronged by giving the wronged person full information. This principle has equitable foundations. It is not necessary for the applicant to have a cause of action against the person to whom discovery is sought.

To obtain *Norwich Pharmacal* relief it is not necessary to satisfy the stringent requirements for an *Anton Piller* order. The Court is entitled to approach the matter by asking whether there is a serious question to be tried in circumstances where, at an early stage of the case, the evidence is often incomplete. The order is made at an early stage in the proceeding if the Court is satisfied that the applicant will probably suffer irreparable damage if there is any delay in ordering discovery.

There are three conditions that must be satisfied to obtain *Norwich Pharmacal* relief:

- (a) there must be an arguable case that a wrong has been carried out by an ultimate wrongdoer;
- (b) the order must be necessary to enable the applicant to bring legal proceedings or seek other legitimate redress for the wrongdoing; and
- (c) the persons against whom the order is sought must be involved in the wrongdoing in a way which distinguishes them from being a mere witness.

If those conditions are met, the Court must exercise its discretion to decide whether disclosure should be ordered, so as to do justice.

Counsel for Schlam submitted that a *Norwich Pharmacal* order should not be made unless the Court is reasonably satisfied that the applicant will suffer irreparable damage if there is any delay, and that the order is necessary for the long-term protection of the applicant. Justice Jackson rejected this submission. Justice Jackson concluded that the question of irreparable damage was relevant to the issue of discretion. Justice Jackson considered that the likelihood that damage will be suffered by an applicant if there was delay was an important factor, and the weaker that likelihood, the less likely it is to be in the interests of justice to make the order.

Justice Jackson observed that these applications usually arise early in the proceedings where the evidence may not permit certainty, and where the point of the order sought may be to

help the applicant and the Court find out the extent to which confidential information has been used or disseminated. His Honour concluded that it was not necessary to be satisfied that irreparable damage *will* occur before making orders.

Justice Jackson concluded that the three criteria were satisfied.

First, it was not in dispute that Austin had established there was an arguable case that wrongs have been carried out by Ms Podulova.

Second, Justice Jackson also considered the order was necessary for Austin to bring legal proceedings and to seek redress for the alleged wrongdoing: Austin had provided confidential examples of Austin's information, which included detailed technical drawings, sales and pricing information, client tender information and other communications with customers, but could not bring proceedings unless it knew what Ms Podulova had done with the information. Some of the Schlam respondents may have the information, but what information Schlam had was unknown.

Third, Justice Jackson concluded that Schlam was involved in the wrongdoing in a way which distinguished it from being a mere witness. It employed Ms Podulova and many of the alleged wrongs took place during the period of, and possibly in the course of, her employment (even if that was without Schlam's knowledge or approval). There was reason to believe that Austin's information may have been transferred to a Schlam server or used in files located on that server. That was enough to mean that Schlam was "mixed up" in the alleged wrongs.

Justice Jackson concluded that there were good reasons to exercise the discretion to require Schlam to provide information about what had taken place. Ms Podulova had allegedly committed wrongs involving some deception and dishonesty and even if Schlam had no knowing involvement in those wrongs, its evidence as to what has occurred may be valuable to compare with and supplement hers.

Further, since Ms Podulova said that the main external USB device which was used in the alleged unauthorised copying of Austin's information had been destroyed, it could not be used to reconstruct what has been done with the information on it. The only way for Austin to identify whether the information had gone further may be to inquire as to whether it had been further copied or otherwise transferred to Schlam's network or devices.

If Austin were required to wait for discovery and inspection, that may be too late to prevent Austin's information from being further disseminated or used, and therefore making the disclosure orders was necessary to prevent probable irreparable damage to Austin, and for its long-term protection.

In response to particular arguments put by Schlam:

- Justice Jackson accepted Schlam was not an alleged wrongdoer, but Austin needed to identify the actual information used, its manner of use and who had had access to it. There was reason to think that information was within Schlam's knowledge.
- The forensic expert's report only concluded that there was a reasonable probability that Austin's information could have been copied to Schlam's SharePoint server, but that evidence needed to be assessed in the interlocutory context in which it was adduced. It provided sufficient basis to think that Austin's information may have found its way to Schlam and to make it in the interests of justice to require Schlam to provide information that would help trace what had happened to it.
- Although Schlam had cooperated to some extent: (a) its enquiries were said to be ongoing; (b) some of the information it had provided was incorrect; and (c) the details of the "comprehensive review" it had provided showed that it was inadequate. On that basis, Justice Jackson accepted that Schlam might produce better and more accurate information pursuant to the orders.

### **Conclusions**

This case is a useful reminder that:

- (a) equity can come to the aid of ex-employers where their ex-employees have taken confidential or copyright information and a new employer may be able to shed light on the use that has been made of the information; and
- (b) since new employers can become unwittingly caught up in cases where an ex-employee has taken copyright and/or confidential information, it is advisable for employers to remind new employees of the need to respect any contractual obligations owed to and/or copyright owned by former employers.

### ***Chapcon Building Services Pty Ltd v Spectrum Homes Qld Pty Ltd***

**[2023] FCA 873**

**28 July 2023 – judgment published 31 July 2023 – Downes J**

*Copyright infringement – authorisation – summary judgment*

The applicant, Chapcon, is a company which is primarily involved in the construction industry. Chapcon alleged that it acquired certain assets from liquidators of Newstart Homes (SE Qld) Pty Ltd ("NHSQ"), including "copyright in the NHSQ Plans". Chapcon's claims against the third respondent (Mr Wiggett) pertained only to the NHSQ Plans. The first respondent (Spectrum Homes) is a competitor of Chapcon. The case against Spectrum Homes related to the Spectrum Plans.

Mr Wiggett applied for summary judgment pursuant to section 31A(2)(b) of the Federal Court of Australia Act or, alternatively, rule 26.01(1)(a), (b), or (c) of the Federal Court Rules on the basis that the claims set out in the amended statement of claim had no reasonable prospects of success, were vexatious, or no reasonable cause of action was disclosed.

Justice Downes entered summary judgment for Mr Wiggett on the basis that the pleading failed to plead a reasonable cause of action against him, and suffered from numerous deficiencies which did not appear to be capable of being remedied.

### ***Background Facts***

Mr Wiggett is a chartered accountant, a financial turnaround expert, and the sole director and shareholder of Maraton Capital Pty Ltd (“Maraton”). At the direction of the National Australia Bank, Maraton was engaged as a consultant to a group of companies (which included NHSQ) because the group was in a precarious financial position. Contrary to allegations in Chapcon’s pleading, Mr Wiggett was never employed by NHSQ and nor was he ever its chief operating officer and chief financial officer.

At all times during Maraton’s engagement, Mr Wiggett was based in Melbourne, solely working on strategic and financial solutions. He was not involved in the operational side of the group of companies, including NHSQ. Neither he nor Maraton had direct access to, or personal involvement with, the tendering or home design activities of NHSQ; NHSQ’s assets, plans or designs; or NHSQ’s client names or contract information, or documents relating to these matters. Nor were these documents in his (or Maraton’s) possession or control.

The engagement of Maraton was terminated on or about 2 August 2016, and liquidators were appointed to the group of companies on 17 October 2016. Mr Wiggett, through Maraton, had some limited involvement with the group of companies between 2 August 2016 and 17 October 2016, but had no operational involvement with NHSQ, or access to NHSQ documents.

Mr Wiggett then became a director of Spectrum Homes, which is a company which he and Mr Reeves formed on 17 October 2016. Initially, Mr Wiggett’s role was to provide administrative and financial services, with Mr Reeves, a registered builder, attending to the contracting and building side of the company. Mr Wiggett was not involved in the activities of Spectrum Homes such as tendering or client names or contract information.

During 2017, Mr Wiggett became involved in the development and creation of new smaller home designs, but only for designs which were not the subject of Chapcon’s claims. Mr Wiggett also became involved in “façade rendering” of three of the plans referred to in the pleading.

However, these plans were created by the fourth respondent (Mr Melo) on the instructions of Mr Reeves. Mr Wiggett met Mr Melo for the first time after he had created the Acreage Plans, and his communications with Mr Melo were limited to the design of new smaller home designs. Mr Wiggett had no reason to believe or suspect that Mr Melo had reproduced or copied a substantial part of the Grange 38 Modified Plan and the Homestead 37 Modified Plan (two of the NHSQ Plans discussed further below), or that Mr Reeves would have given instructions to Mr Melo to copy or reproduce the NHSQ Plans.

Mr Wiggett ceased to be involved with, and ceased being a director of, Spectrum Homes on 5 October 2018 and Maraton also ceased to be a shareholder. All documents relating to Spectrum Homes were handed over to Mr Reeves and his associated company.

### ***Allegations against Mr Wiggett***

Chapcon alleged that Mr Reeves, Mr Wiggett and Mr Melo “caused, authorised, directed or procured [Spectrum Homes] to produce the Spectrum Plans which reproduce or substantially reproduce the NHSQ Plans and to build or cause to be built residential homes which substantially reproduce the NHSQ Plans in a material form” and that Mr Reeves and/or Mr Wiggett and/or Mr Melo “has infringed the copyright of the Applicant in the NHSQ Plans or authorised or directed or procured or participated in the said infringements”.

The NHSQ Plans were not referred to or identified in the documents which were pleaded to support the conclusion that Chapcon owns the copyright in the NHSQ Plans, and no evidence that might support copyright ownership was identified at the summary judgment hearing. Indeed, Spectrum Homes received correspondence from Newstart Homes Australia Pty Ltd (“Newstart Homes Australia”) (which had the same sole director as Chapcon) which asserted that Newstart Homes Australia was the owner of the copyright in “drawings and plans that were drafted by [NHSQ], which were subsequently sold and assigned exclusively” to it, including the “Homestead 37” Plan (a plan referred to in the pleading). Newstart Homes Australia’s website advertised two of the pleaded plans (the Grange 38 Plan and the Homestead 37 Plan) as at June 2023.

Justice Downes concluded that the absence of evidence as to ownership was a deficiency which tended to indicate that no other evidence would be able to be adduced by Chapcon at trial. Her Honour concluded that there was a serious doubt about whether Chapcon was the owner of any copyright which might subsist in the NHSQ Plans, providing strong support for the conclusion that Chapcon has no reasonable prospect of success in its claims against Mr Wiggett.

For the NHSQ Plans, no material fact was pleaded as part of any cause of action brought against Mr Wiggett in relation

to the Logan 31 plan, or the Milan 29 plan. The other two plans were the Grange 38 Modified Plan and the Homestead 37 Modified Plan. The pleading purported to plead a case that Spectrum Homes had infringed Chapcon's copyright "in the Grange 38 and/or Grande 38 modified Plans" and that Mr Wiggett and Mr Reeves authorised the infringement. However, Chapcon did not plead that it owned copyright in the Grange 38 Plan. On the assumption that the reference to the "Grande 38 modified Plans" was intended to be the Grange 38 Modified Plan, Mr Wiggett's evidence was that he had never seen it or authorised Spectrum Homes to engage in the pleaded conduct. This evidence was not challenged or contested.

Justice Downes observed that the fact that Mr Wiggett was a director of Spectrum Homes was not enough to establish the case pleaded against him. Chapcon had not pleaded when the conduct occurred and there was a real prospect that Mr Wiggett (who ceased to be a director nearly five years ago) was not a director at the relevant time, even if the conduct occurred. Her Honour observed that it was not clear in what way, and the basis upon which, Mr Wiggett was said to have had knowledge of the alleged infringement by Spectrum Homes, or why Mr Wiggett was in a position to authorise (or prevent) any infringement of copyright by Spectrum Homes, because no material facts were pleaded and no particulars were provided. The same fundamental problems arose in relation to the allegations relating to the Homestead 37 Modified Plan. Again, Mr Wiggett's evidence in relation to those plans, which refuted the allegations made against him, was not challenged or contested.

For these reasons, Justice Downes held that Chapcon had no reasonable prospect of success in its claims against Mr Wiggett and that no reasonable cause of action had been pleaded against Mr Wiggett.

### ***Relief claimed against Mr Wiggett***

Justice Downes also held that since Mr Wiggett had made out that he was not aware, and had no reasonable grounds for suspecting, there had been an infringement of copyright, section 115(3) of the *Copyright Act 1968* (Cth) was invoked and Chapcon had no reasonable prospect of obtaining damages against Mr Wiggett, and could only claim an account of profits. However, no allegation was made that Mr Wiggett derived a profit from the alleged conduct, and so Chapcon had no reasonable prospect of obtaining an account of profits. Since Mr Wiggett was no longer a director of Spectrum Homes, was not involved with its business and no longer had any documents in his possession or control which related to its business, Chapcon also had no reasonable prospect of obtaining an injunction against him or for delivery up. Nor would there be any utility in the declarations sought by Chapcon. Her Honour considered that these matters provided a further reason to conclude that Chapcon had no reasonable prospect of success in its claims against Mr Wiggett.

### **Abuse of process**

Justice Downes concluded, based on the submissions of Chapcon's counsel, that the failure to plead material facts to sustain the plea that Mr Wiggett "caused, authorised, directed or procured" Spectrum Homes to do the pleaded things or "authorised" the conduct of Spectrum Homes was no accident. In truth, Chapcon did not know whether Mr Wiggett did the things which its pleading alleged that he did, but planned to use this Court's processes to find out and then, if it could, flesh out the allegations against him. Her Honour observed that to commence the proceeding against Mr Wiggett was vexatious and an abuse of process, providing another reason to summarily dismiss the claims against Mr Wiggett.

### ***Some comments from the authors***

This judgment highlights the need to plead material facts supporting an allegation that an alleged authoriser of copyright infringement was aware of the conduct which is said to constitute the infringement (over and above the fact that the authoriser was a director of the alleged infringer, particularly where that fact changed over the relevant period). If those facts are not known to a potential applicant and cannot be obtained by corresponding with the other side, the appropriate course is to seek preliminary discovery, not to commence litigation and hope to obtain evidence in the course of proceedings.

### ***Ragopika Pty Ltd v Padmasingh Isaac Trading as Aachi Spices and Foods***

[2023] FCA 487

18 May 2023 – Kennett J

*Appeal from decision of a delegate of the Registrar of Trade Marks refusing registration application – whether use of mark sought to be registered would be likely to mislead or deceive – whether closely related goods – ACL – owner of the mark – whether application made in bad faith*

The appellant (Ragopika) is the corporate vehicle through which Mr Pillai operates an Indian restaurant in Perth known as Aachi Indian Cuisine. The restaurant has been operating under that name since around June 2016. The respondent (Aachi), described as a "proprietary concern", was founded in 2006 by Mr Isaac, and is part of a group of enterprises under Mr Isaac's control, based principally in Chennai, India, carrying on a business that Mr Isaac founded in 1995 under the name Aachi. A "proprietary concern" is a creature of Indian rather than Australian law, being the name under which one or more persons conduct a business.

Aachi produces a range of packaged foods such as spices and spice mixes, pickles, jams, wheat products and ghee which are sold in several countries including Australia. Since about 1998, Aachi has also operated "quick serve" restaurants in Chennai. Its packaged food products have been available in shops in Australia since 2008.

While there was some debate between the parties about how common the word “Aachi” was, the Court proceeded on the understanding that “Aachi” is an ordinary word which a person with a knowledge of the Tamil language would understand as referring either to a grandmother or a respected older woman.

Aachi had registered the word “AACHI” in several countries, including Australia, the latter with a priority date of 16 January 2008 (the “Aachi mark”). The Aachi mark was registered in class 29 (e.g., meat, fish, poultry etc) and class 30 (e.g., masala powder and spices, turmeric powder, flour and preparations made from cereals etc).

On 22 February 2018, Ragopika filed an application to register the words “AACHI INDIAN CUISINE” for “Restaurant services; fast food outlet” (the “AIC Mark”). Aachi opposed the AIC Mark under sections 42(b), 44, 58, 60, and 62A of the Trade Marks Act. The delegate found that the AIC mark was likely to deceive and cause confusion and the section 60 ground of opposition was made out. The delegate did not consider the other grounds. Ragopika appealed and, by way of notice of contention, Aachi pressed the other grounds of opposition.

### **Sections 60 and 42**

In relation to the ground of opposition under section 60 of the Trade Marks Act, the Court concluded that the evidence did not support a finding that, in February 2018, the Aachi mark had a reputation that meant that confusion or deception would be likely to arise from use of the AIC mark.

While it could be accepted that Aachi had a significant presence in India and was a sizeable global business, sales of Aachi products in Australia in the period leading up to the relevant date were, according to the Judge, small. The evidence established that the volume of sales in Australia from 2016 to mid-2019 was approximately US\$297,787.94; or around \$AU447,000 for the whole of Australia over a period of two years or more (AU\$179,000 to AU\$223,500 per annum). It appears (although not clear from the decision) that these figures related to sales of small fast moving consumer goods. A finding of no reputation in those circumstances may seem surprising. However, it was not clear what the overall size of the market was. Moreover, the Court also found that there was no direct evidence of any advertising or promotional activity in relation to Aachi’s products in Australia. While Aachi had a website that was accessible from Australia, the evidence did not show the number of visits to that site by people from Australia.

The Court acknowledged that it is possible for a trade mark to acquire a reputation in Australia as a result of business activity outside Australia (e.g., *ConAgra Inc v McCain Foods (Aust) Pty Ltd* (1992) 33 FCR 302 at 334 (Lockhart J)). However, there was no evidence which would allow an assessment of the extent to which members of the Indian

diaspora in Australia had been exposed to the Aachi mark overseas.

Further, the intersection of the persons likely to encounter the AIC mark (e.g., by going to the restaurant or encountering its online presence when searching for Indian food in Perth) and the persons with an awareness of the Aachi mark was a small subset of the Australian community. The Court concluded that the chance of members of that relatively small subset being deceived or confused was limited. Interestingly, one of the factors that led the Court to form that conclusion was the fact that the word “Aachi” was an ordinary Tamil word with an obvious association with family, and therefore food. The fact that Aachi had commenced a large number of separate proceedings against third parties in India, the USA and Australia suggested that a number of other proprietors considered the word appropriate for naming a restaurant.

Given the above, unsurprisingly, the ground of opposition under section 42(b) of the Trade Marks Act, based on an ACL claim, failed for similar reasons.

### **Section 44**

In relation to the ground of opposition under section 44 of the Trade Marks Act, the Court found that the key issue for the purposes of section 44(2) of the Trade Marks Act was whether, with the AIC mark sought to be registered in relation to identified services, the Aachi mark was a mark “registered ... in respect of ... closely related goods”. The Court stated the question was whether the various foodstuffs and preparations in relation to which the Aachi mark is registered are, or include, goods that are “closely related” to the services “restaurant; fast food outlet”.

The question turned on the relationship between these categories of goods and services, not on the specific nature of either Aachi’s or Ragopika’s business. Although a restaurant or fast-food outlet is highly likely to use at least some of the products in relation to which the Aachi mark is registered in the preparation of its offerings, the Court found that it did not follow that those goods are closely related to the services of operating a restaurant. Nor were the goods and services closely related because the specific subsets of the goods describe things that may be served in a restaurant.

Even for fast food, the food supplied is either eaten on the premises or taken away to be eaten, rather than taken home to be used as an ingredient or prepared for consumption. In regard to trade channels, the evidence did not allow any informed conclusion about how commonly the relevant goods or services are provided through the same channels or outlets, nor did it support a finding of an expectation or understanding among consumers that restaurant or fast-food services and packaged foodstuffs come from the same source.

As a result, the ground of opposition under section 44 of the Trade Marks Act was not established.

### **Section 58**

The section 58 ground of opposition was also not made out. However, the Court did note that there may be a question concerning the application of section 58 in a case where the first user of a trade mark acts as trustee and the same person then seeks registration of the trade mark in their own right (thus seeking the beneficial interest in the rights conferred by registration) or vice versa. However, that scenario was not established in this case.

### **Section 62A**

Finally, Aachi was also unsuccessful in its section 62A attack (bad faith application for the mark). Justice Kennett made a number of observations about what the section requires. His Honour said that “bad faith” usually connotes, if not outright dishonesty, at least an improper or extraneous purpose. Previous cases have referred to “bad faith” as involving the concept of “falling short of acceptable commercial behaviour”. Justice Kennett expressed the view that the behaviour needs to be more than simply ruthless or morally questionable, and if the behaviour is “not actually fraudulent or dishonest, it needs to have some quality that makes it repugnant to the purposes for which the statutory regime exists.”

Bad faith was not made out on the facts. Ragopika having been found to have done no more than trying to protect its right to use the mark on its existing business, and possibly trying to prevent a potential competitor from offering restaurant services under the same mark.

### **Taryn Lovegrove and Ian Drew**

Davies Collison Cave Pty Ltd

### **Ashley Cameron and Paul Dewar**

Davies Collison Cave Law Pty Ltd

Passages “impossible to reconcile” places trial judge in “awkward dilemma”

### ***The Agency Group Australia Limited v H.A.S. Real Estate Pty Ltd***

[2023] FCA 482

17 May 2023

This case concerned trade mark infringement, Australian Consumer Law and passing off claims by The Agency Group Australia Limited (The Agency Group) regarding H.A.S. Real Estate Pty Ltd’s use of various marks including THE NORTH AGENCY and related logos and get-up.

### **Background**


#### *The Agency Group*

The Agency Group operates a real estate business across Australia and has done so under THE AGENCY brand since at least 2016. Evidence led in the proceedings sought to demonstrate that The Agency Group’s business was significant, and highlights of the financial information provided include:


- For the financial year 2022, the business sold 5,709 properties with a total sale price of AU\$5.9 billion, AU\$105.2 million in gross commission and expended AU\$2.28 million on advertising and promotional expenses.
- From February 2017, it had listed 23,574 properties for sale in Australia.

The Agency Group employs 400 agents operating across 26 offices, including three in or close to the Northern Beaches suburbs of Sydney in Manly, Neutral Bay and North Shore.

The Agency Group owns several registered trade marks, but only two of these were relied on in the proceedings, both of which cover, broadly, class 36 real estate services, as follows:

- RegistrationNo.1836914 



- Registration No. 1877216 

The Agency Group’s website “get-up” was described as a “dark background which resembled a dark sky at dusk”.

## Current Developments – Australia

### *The North Agency*


Mr Christopher Aldren and Mr Tulouna Sila, Directors of The North Agency, both worked in the real estate industry since 2006 and 2007 respectively. Each was ranked often as leading agent for their respective agencies. In November 2022, they commenced establishing their own agency, which opened in March 2023 under the trade mark THE NORTH AGENCY with an office in Dee Why, a suburb in the same North Beaches location as the Agency Group' business.

In developing the new mark, the Directors sought to refrain from using their personal names and to ensure a connection to the Northern Beaches community. The brand was also considered to resonate with consumers because of the desirability of north facing houses. Further, the Directors concluded that the words "Real Estate" were too long and settled on the descriptive element "Agency" to identify the nature of the business.

The Directors indicated that they did not regard The Agency Group as a competitor as compared with other real estate agencies in the region with greater prominence, and during the branding process The Agency Group branding was not raised as a concern. The Directors indicated that they did consider the branding of direct competitors and proactively attempted to avoid similar branding.

The North Agency's get-up was described in the case as featuring the name THE NORTH AGENCY in white block capitals

**THE NORTH AGENCY**

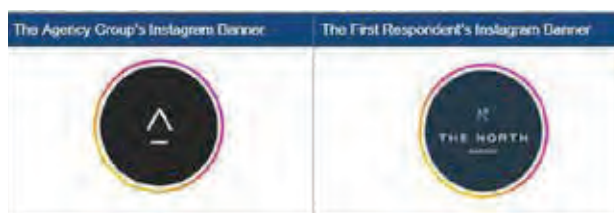
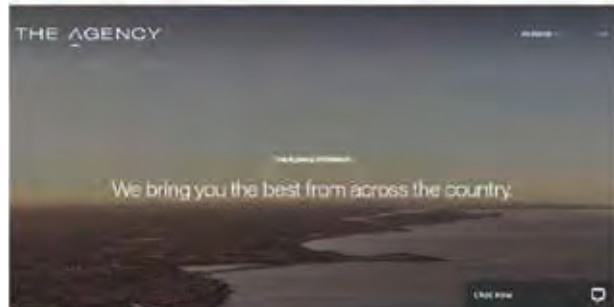
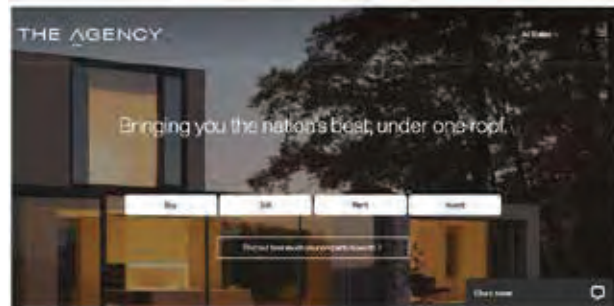
with the  logo against a "dark background which also resembled a dark sky at dusk".

### *Claims*

The Agency Group brought claims of trade mark infringement, contravention of the Australian Consumer Law, and passing off, as discussed in further detail below. Key issues in the case concerned the overall get-up used by the parties, branding practices in the real estate industry, and the manner in which clients were acquired in the industry.

### *Comparison of web pages*

In terms of overall get-up, the Agency Group provided examples of side-by-side comparisons of both parties' websites, Instagram pages and their profiles on the websites of prominent real estate aggregator sites, particularly those of RealEstate.com.au and Domain. Justice Jackman noted in the judgment that this was not for the purpose of arguing that the relevant test was side-by-side comparison, but rather a convenient way to present the evidence and what the applicant claimed to be use of similar get-up.





### *Real estate industry*

The Directors of The North Agency gave evidence, which was accepted by Justice Jackman and confirmed by The Agency Group, on real estate industry practices and how clients are acquired. Mr Aldren stated that if a person wants to list their property, either for sale or for rent, they list with the agent first, and then the agency, as the relationship is with the agent, either as a past client or through word of mouth. The reputation of the agency is only relevant when you are a new agent without an established reputation or client base.

With respect to buyers or renters, a relationship with an agent is only established either when that person contacts the agent to arrange a viewing of the particular property, or once the person's contact details are entered into the agent's customer relationship management database following the viewing of a property. In either case, it was noted that the relationship is less with the agency and more connected with an individual agent.

The Agency Group also gave evidence that some of the elements of the branding in dispute were common to the trade, as discussed further below.

### **Trade mark infringement**

#### *Use as a trade mark*

In turning to whether use of The North Agency infringed the registrations held by The Agency Group, Justice Jackman considered whether THE NORTH AGENCY had been used as a trade mark. His Honour concluded that there had been use as a trade mark on marketing material, particularly online (on the business' website and the third party real estate websites Domain and Realestate.com.au), in addition to on signboards, brochures, merchandise, fit-out at the office and other print material.

Further, Justice Jackman raised a number of cases which supported the position that use of the domain name and social media handles which incorporated THE NORTH AGENCY would also constitute trade mark use and concluded the same himself.

His Honour further stated that the word "agency" is plainly a description of the nature of a real estate agent's business. However, his Honour noted that the High Court said in *Self*

*Care IP Holdings Pty Ltd v Allergan Australia Pty Ltd* (2023) 408 ALR 195 ("*Self Care*") :

*The existence of a descriptive element or purpose does not necessarily preclude the sign being used as a trade mark. Where there are several purposes for the use of the sign, if one purpose is to distinguish the goods provided in the course of trade that will be sufficient to establish use as a trade mark. Where there are several words or signs used in combination, the existence of a clear dominant "brand" is relevant to the assessment of what would be taken to be the effect of the balance of the label, but does not mean another part of the label cannot also act to distinguish the goods.*<sup>1</sup>

#### *Deceptive similarity*

The decision referenced 12 accepted principles considering deceptive similarity and the relevant tests which Justice Jackman extracted directly from *Self Care* , including:

*(f) the notional buyer is a person with no knowledge about any actual use of the registered mark, the actual business of the owner of the registered mark, the goods the owner produces, any acquired distinctiveness from the use of the marks prior to filing, or any reputation associated with the registered mark;*<sup>2</sup> and

*(g) the correct approach is to compare the impression (allowing for imperfect recollection) that the notional buyer would have of the registered mark (as notionally used on all of the goods or services covered by the registration), with the impression that the notional buyer would have of the alleged infringer's mark (as actually used).*<sup>3</sup>

Following along the lines of these two principles, Justice Jackman undertook a detailed analysis of *Self Care*. His Honour concluded that the High Court cited approval for numerous authorities which held that material external to the respondent's mark is irrelevant to the issue of deceptive similarity and that the comparison is between the marks, as opposed to actual use of the marks. Justice Jackman agreed with these cases and stated that it cannot be said that the respondent's use of the mark was, in all circumstances, not deceptive if the marks were inherently deceptively similar.

Justice Jackman continued that the High Court further stated that disclaimers are to be disregarded, price differential is irrelevant, differences in use by the parties of colour is disregarded, and differences in the respective sections of the public to whom the goods are sold should be discounted. However, Justice Jackman found the following passages of the High Court decision in *Self Care* to be problematic for these conclusions:

*In this case, the back of the packaging of the product bearing the alleged infringing mark, PROTOX stated in small font that "Botox is a registered trade mark of Allergan Inc" and, although the assumption is that Botox is an anti-wrinkle cream, the website stated that "PROTOX has no association with any anti-wrinkle injection brand".*<sup>4</sup>

*That conclusion is reinforced by the fact that the PROTOX mark was “almost always used in proximity to the FREEZEFRAME mark” that being a mark owned by the alleged infringer.<sup>5</sup>*


Justice Jackman went on to state:

*With the greatest respect, those passages are impossible to reconcile with the Court’s approval of the authorities referred to above which state that such additional material used by the respondent is irrelevant to the issue of trade mark infringement. The internal contradiction places a trial judge in an awkward dilemma, which I propose to resolve by simply disregarding the passages quoted above from paragraphs 70 and 71 as unfortunate errors. On the High Court’s own reasoning, it would be a fundamental error of longstanding legal principle if I were to adopt their Honours’ mode of analysis in paragraphs 70 and 71 by taking into account on the question of deceptive similarity, for example, that the use of “THE NORTH AGENCY” was typically accompanied by the distinctive N Logo, thereby implicitly disavowing any association with the applicants or their services.*

However, the High Court in *Self Care* did further state, and Justice Jackman agreed, that evidence of trade usage can be considered and is relevant to the assessment of deceptive similarity where an element of the marks is commonly used by other traders in the field.

Ultimately, Justice Jackman determined that The North Agency marks were not deceptively similar to The Agency Group’s registered marks



and  for a number of reasons including:

- The addition of NORTH was a substantially differentiating feature which would remain in the minds of consumers noting that it was not just a reference to geographical location.
- With respect to aural considerations, Justice Jackman noted that this was not a case of “sales over the counter” in which aural similarities would be of greater concern.
- The Agency Group would be afforded an unwarranted monopoly if rival businesses were unable to use the words THE or AGENCY.
- Both the word AGENCY and a stylised roof or house device representing the letter A are commonly used within the real estate industry – evidence demonstrated six other agencies using the word Agency and five using a roof-shaped device in place of the letter “A” in their branding.
- There would be a heightened sense of awareness and concentration among consumers in making one of the most important transactions of a person’s life.

- With respect to the device marks, Justice Jackman was of the view that the marks were visually distinct – one being a stylised letter “N” logo and the other a stylised “A”.
- The “N” logo reinforced the idea of a northerly direction and presented visually as a compass. In contrast, the “A” logo presented as a representation of a house.

Accordingly, Justice Jackman concluded that there was no real, tangible danger or real likelihood of confusion occurring.

With respect to the North Agency’s defence under s.122(1)(b) of the *Trade Marks Act 1995* (Cth), that they used the mark in good faith as a sign to indicate the description of the services, Justice Jackman said that while he did not need to consider the defence as infringement was not made out, he would not have upheld the respondent’s defence as:

- It was clear the respondents had not used The North Agency purely to describe their services.
- The good faith requirement was not satisfied merely by proving the absence of fraud or conscious dishonesty, but rather imported a requirement of reasonable diligence which would have meant conducting a search of the Trade Marks Register to ascertain whether there were any competing registered trade mark rights.

### ***Australian Consumer Law and passing off***

Justice Jackman accepted The Agency Group’s evidence of substantial reputation and goodwill in the registered marks and much of the associated get-up. He did not however accept that The Agency Group had a reputation in the “dark sky at dusk” get-up as that particular image was only added to the website in January 2023 and the accepted evidence indicated that dark sky at dusk was very common imagery used within the real estate industry.

In considering the relevant class of consumers, Justice Jackman accepted that the class consisted of consumers Australia wide, and not just from the Northern Beaches.

Overall Justice Jackman concluded that The North Agency had not engaged in misleading and deceptive conduct or passing off for a number of reasons including:

- The inclusion and prominence of the word NORTH.
- The striking differences between the logos.
- The prominence of the logos in all marketing material such that if there was any thought that The Agency Group and the North Agency were related, the logos would dispel this thought.
- The word Agency and a stylised roof or house device was commonly used within the real estate industry.

- The common use of the dark sky at dusk imagery in the real estate industry.
- The similarities between the parties Domain and Realestate.com.au pages were a function of the requirements of those websites for layout as opposed to any particular action taken by either party.
- The evidence provided that the client relationship is with the agent rather than the agency.
- The decision to buy a house is significant and these decisions are not made with haste.
- The colour palettes used by each party were different.

With respect to passing off, The North Agency was able to establish that since their launch each transaction came from a previous client or referral by a previous client. The Agency Group's argument that a negative experience in dealing with The North Agency would have a negative impact on The Agency Group was dismissed as having no basis as Justice Jackman pointed to the 114 online reviews, each of which included five stars.

### ***New case***

Finally, during the hearing, counsel for The Agency Group introduced a different way of putting the misleading and deceptive conduct and passing off claim based on The Agency Group's use of the alternative mark The Agency North, alleging a misrepresentation as to connection or association between the businesses.

Counsel for The North Agency objected to the case being run on this basis noting that it was not included in the concise statement or the outline of submissions. She stated that it would prejudice The North Agency if that line of argument were allowed.

Justice Jackman accepted this position and did not allow The Agency Group to run the case with reference to earlier use of the alternative mark The Agency North.

### ***Take aways***

The decision is a useful illustration of the assessment of deceptive similarity in cases where elements of the impugned mark are common to the trade post-*Self Care*.

### **Who knew? Australian Government's claim to recoup PBS losses unsuccessful on appeal**

#### ***Commonwealth of Australia v Sanofi (formerly Sanofi-Aventis)***

**[2023]FCAFC 97**

**26 June 2023**

#### ***Introduction***

On 26 June 2023, the Full Court of the Federal Court of Australia in *Commonwealth of Australia v Sanofi (formerly Sanofi-Aventis)* [2023] FCAFC 97 unanimously upheld the

first instance decision by Justice Nicholas of the Federal Court in *Commonwealth of Australia v Sanofi (formerly Sanofi-Aventis) (No 5)* [2020] FCA 543. The Full Court found that the Commonwealth is not entitled to compensation pursuant to its claim in respect of the "usual undertaking" given by Sanofi in 2007. The "usual undertaking" as to damages was given by Sanofi as the price for obtaining a preliminary injunction ("PI") that prevented Apotex from launching generic clopidogrel products in 2007.

This decision is the first time the Full Court has considered a claim by the Commonwealth for compensation pursuant to such an undertaking. While the Commonwealth has made similar claims in other proceedings, those claims have previously settled out of court, other than one outstanding claim which is ongoing.

The decision provides guidance on the approach to assessing causation and remoteness in these types of circumstances, sheds light on the complex nature of the evidence required to make out a claim by a third party pursuant to the "usual undertaking", and highlights potential difficulties associated with adducing such evidence.

### ***Background***

In 2007, Apotex brought proceedings seeking to revoke Sanofi's patent in relation to clopidogrel (PLAVIX), a medication for inhibiting the formation of blood clots. Sanofi filed a cross-claim, seeking interlocutory and final injunctive relief to enjoin Apotex from exploiting (including making, importing or supplying) its generic clopidogrel products in Australia.

The PI was granted upon Sanofi giving the "usual undertaking" to compensate any person (whether or not a party) adversely affected by the PI. Apotex also gave a separate undertaking not to seek listing of its generic clopidogrel products on the Pharmaceutical Benefits Scheme ("PBS").

Apotex was ultimately successful in invalidating the patent in 2009, with special leave to appeal that decision refused in 2010. Accordingly, all injunctions granted were set aside and Apotex launched its clopidogrel products shortly after the application for special leave was refused.

Both Apotex and the Commonwealth brought claims seeking compensation from Sanofi pursuant to the undertakings it had given. While Apotex and Sanofi settled their dispute, the Commonwealth continued its claim. The Commonwealth's claim sought damages for the loss suffered due to the delay in the listing of a generic clopidogrel product on the PBS. The Commonwealth alleged this delay also delayed the various price reductions triggered by a first generic listing on the PBS, and if such delays had not occurred, the Commonwealth would have saved hundreds of millions of dollars. The Commonwealth's claim exceeded AU\$325 million plus interest.

### *First instance judgment*

Justice Nicholas of the Federal Court handed down the first instance judgment in these proceedings in April 2020, 31 months after the matter was heard. In that judgment, his Honour dismissed the Commonwealth's claim, finding (among other things) that:

- (1) Apotex would not have sought to list its generic clopidogrel products on the PBS on 1 April 2008, even if it had not been enjoined from doing so (the "Apotex Launch and Listing Issue"); and
- (2) even if Apotex were to have listed its generic clopidogrel products on the PBS on 1 April 2008, the loss claimed by the Commonwealth did not flow directly from the PI, but rather from Apotex's undertaking not to seek PBS listing. This was asserted to be an interposed causal step preventing loss flowing directly from the PI (the "Directness Issue").

### **Key findings and reasoning from the appeal judgment**

#### *The Apotex Launch and Listing Issue*

On the Apotex Launch and Listing Issue, the Commonwealth advanced a number of reasons why Justice Nicholas' conclusion that Apotex would not have listed its generic clopidogrel products on the PBS on 1 April 2008 in the absence of a PI was wrong.

A significant portion of the judgment is dedicated to stepping through the evidence and submissions that the Commonwealth contended had not been taken into account by Justice Nicholas. The Full Court was ultimately not convinced that Justice Nicholas had erred in his dealings with and treatment of the various evidence and submissions.

Importantly, the Full Court upheld the findings that:

- it remained open to Apotex to decide not to launch on 1 April 2008;
- the key decision maker was ultimately the CEO of Apotex, Dr Sherman;
- the evidence was consistent with Dr Sherman taking the position that he would wait to see the outcome of the PI application before making the decision to launch; and
- Justice Nicholas was correct to decline to speculate about what Dr Sherman would have done, in the absence of evidence from Dr Sherman.

The Full Court rejected the Commonwealth's contention that Justice Nicholas had erred in drawing a *Jones v Dunkel* inference against the Commonwealth, i.e., that because the Commonwealth did not call Dr Sherman to give evidence, such evidence would not have assisted the Commonwealth. The Full Court agreed with Justice Nicholas that there was an evidential deficiency that could only have been remedied by Dr Sherman giving evidence about what he would have done if the PI had been refused. The Full Court noted that

the Commonwealth had called other witnesses from Apotex who were based outside of Australia, and the Commonwealth had not provided any explanation nor led evidence as to why it did not call Dr Sherman, or what attempts had been made to call him.

While the Full Court accepted in principle that a significant delay (here 31 months) between a hearing and judgment may weaken a trial judge's advantage with respect to seeing the oral and documentary evidence unfold in a coherent manner (including the assessment of the credit of witnesses), the Court was satisfied that Justice Nicholas' reasons were "a most thorough and searching excavation of the very complicated factual questions which the case generated", and that the delay was not a basis for review of Justice Nicholas' conclusions.

The Commonwealth was unable to impugn Justice Nicholas' approach and reasoning, and therefore failed to convince the Full Court that, had the PI not been granted, Apotex would have launched its generic clopidogrel products in 2008. As this counterfactual scenario was not sufficiently proved, the Commonwealth's claim failed.

#### *The Directness Issue*

Directness Issue, the Full Court recognised the reality that from the moment of the grant of the PI, there was "not the slightest prospect that Apotex would seek PBS listing". The PI had the practical effect of preventing Apotex from seeking PBS listing because, regardless of Apotex's undertaking not to seek PBS listing, PBS listing required a written assurance of supply to meet anticipated demand from the date of listing. Therefore, the PI was the direct cause of the Commonwealth's alleged loss and not an indirect cause of it.

The Full Court undertook a comprehensive analysis of the authorities regarding causation and remoteness and rejected the proposition that the presence of an interposed causal step inevitably prevents a loss flowing directly from an injunction. In any event, the Full Court found that the undertaking given by Apotex not to seek PBS listing was not an interposed causal step, and deferred the question of what would be an interposed causal step sufficient to prevent loss flowing directly from a PI to a time when that question needs to be answered.

The Full Court noted that it did not strictly have to decide the Directness Issue, having regard to its findings on the Apotex Launch and Listing Issue and thus its comments on this issue are obiter dicta.

### **Conclusion**

The Full Court's judgment provides some guidance regarding aspects of evidence in proceedings involving hypothetical or "counterfactual" inquiries. In particular, the case highlights the need for cogent and comprehensive evidence from the ultimate decision maker regarding what would have

## Current Developments – Australia

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happened if a PI had not been granted.

The Commonwealth will likely take this decision into account in its ongoing claim for compensation pursuant to the “usual undertakings” given by Otsuka and Bristol-Myers Squibb in respect of the litigation concerning aripiprazole (ABILIFY).

This decision remains potentially subject to appeal in the High Court of Australia, if the Commonwealth successfully makes an application for special leave to appeal to the High Court.

- 1 *Self Care IP Holdings Pty Ltd v Allergan Australia Pty Ltd* (2023) 408 ALR 195, [25].
- 2 *Self Care IP Holdings Pty Ltd v Allergan Australia Pty Ltd* (2023) 408 ALR 195, [28].
- 3 *Self Care IP Holdings Pty Ltd v Allergan Australia Pty Ltd* (2023) 408 ALR 195, [29].
- 4 *Self Care IP Holdings Pty Ltd v Allergan Australia Pty Ltd* (2023) 408 ALR 195, [70].
- 5 *Self Care IP Holdings Pty Ltd v Allergan Australia Pty Ltd* (2023) 408 ALR 195, [71].

# Current Developments – New Zealand

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***ZURU New Zealand Ltd & Others v LEGO JURIS A/S & Another***

**High Court of New Zealand**

**Lang J**

**Hearing: 8–11, 15–18, 22–3 May 2023**

**Judgment: 12 July 2023**

**[2023] NZHC 1808**

**Comment:**

This important decision explores a number of key areas of trade mark law. The case arose out of ZURU's use of the LEGO trade mark in a compatibility statement on its toy packaging. ZURU had sought the making of declarations of non-infringement in relation to three proposed compatibility statements which intended to use the LEGO mark. The LEGO Group counterclaimed for trade mark infringement, passing off and breaches of the *Fair Trading Act* 1986 (NZ).

The decision deals inter alia with:

- (a) the availability and rules governing declarations of non-infringement under the Court's inherent jurisdiction. Here the Court declined to grant such declarations because it found that ZURU was effectively asking the Court to find a means by which it might avoid breaching the LEGO trade mark. Further, the Court was concerned as to a lack of precision on the facts, given ZURU's wish to cover use in a manner "substantially similar" to the packaging before the Court;
- (b) whether a compatibility statement on toy packaging stating LEGO BRICK COMPATIBLE amounted to "use as a trade mark" under s.89(2). (It did.);
- (c) the importance of context in evaluating "use as a trade mark". The Court distinguished the recent High Court of Australia decision in *Self Care IP Holdings Ltd v Allergan Australia Pty Ltd* (2023) 408 ALR 195 ("*Self Care*") from the facts of this case;
- (d) whether ZURU had used the LEGO trade mark in accordance with honest practices. (It had not); and
- (e) whether the compatibility statement used by ZURU constituted "comparative advertising" under s. 94 or was protected by s.95 (reasonably necessary to indicate the intended purpose of its products). (Neither applied.)

**Facts:**

The defendant and first and second counterclaim plaintiffs (together the "LEGO Group") were the well-known manufacturers of toy building bricks and associated components. LEGO JURIS A/S was a proprietor of two registered trade marks in New Zealand for the word mark LEGO in class 28 in relation to toys, toy parts and toy accessories. Every stud on every LEGO brick bore the LEGO mark in word form. The LEGO name and logo were used extensively on LEGO Group packaging as well as in advertising and promotional material.

The plaintiffs and the second and third counterclaim defendants (together "ZURU") were toy companies. ZURU decided to enter the toy building brick market after it saw how successful the LEGO Group had been in the manufacture and distribution of its products. ZURU described itself as a "disrupter," i.e., entering established markets and endeavouring to obtain market share at the expense of established participants.

In 2017, ZURU approached Walmart in the United States with a proposal to sell toy building products. Walmart subsequently issued a formal request for products having complete compatibility with LEGO products. ZURU then put together a detailed proposal to build a product range under the MAX Build More trade mark. This led to an agreement for ZURU to supply Walmart with toy building bricks.

ZURU added a compatibility statement stating that its bricks were compatible with LEGO bricks. As part of this compatibility statement, ZURU also added a sample brick in a blister pack on the outside of its packaging. Walmart told ZURU that it did not want the compatibility statements to mention LEGO by name. ZURU amended the statement to read "Compatible with Major Brands."

In late 2018 ZURU began selling its products in New Zealand through stores operated by The Warehouse. The packaging in New Zealand contained compatibility statements stating LEGO BRICK COMPATIBLE.

The LEGO Group's lawyers sent cease and desist letters to ZURU and to The Warehouse in November and December 2018. This resulted in The Warehouse withdrawing ZURU's products from sale on 27 December 2018. The Warehouse advised ZURU that it would only restock products if the situation was resolved with the LEGO Group. ZURU re-designed its compatibility statements to remove any reference to the LEGO trade mark. The ZURU compatibility statements stated, "COMPATIBLE WITH MAJOR BRANDS." ZURU advised the LEGO Group and

## Current Developments – New Zealand

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The Warehouse that it had taken this step. The Warehouse then agreed to re-stock stores with ZURU products in January 2019.

Two years later in February 2021, ZURU decided to re-introduce its original compatibility statements, i.e., LEGO BRICK COMPATIBLE. The LEGO Group reacted to this by requesting The Warehouse to remove products containing the new compatibility statement from their shelves. The Warehouse advised ZURU that unless it provided a satisfactory explanation as to why the compatibility statement had been amended, The Warehouse would withdraw ZURU products from sale at ZURU's cost.

On 7 May 2021, ZURU's solicitors sought consent from the LEGO Group to use the following proposed compatibility statements on its packaging:



Consent was not provided by the LEGO Group.

### *ZURU's application for declarations*

ZURU then filed this proceeding seeking declarations in the Court's inherent jurisdiction. ZURU sought three forms of declaration:

1. A declaration that the proposed compatibility statements did not constitute infringement under s.89(1) of the *Trade Marks Act* 2002 (NZ) on three bases:
  - (a) the use of the word LEGO in the original and proposed compatibility statements would not be taken by consumers as being use of the LEGO trade mark;
  - (b) if such use constituted use as a trade mark, it constituted a form of comparative advertising and therefore did not infringe by virtue of s.94 of the *Trade Marks Act*; and
  - (c) such use indicated a characteristic of the MAX Build More products and/or was reasonably necessary to indicate the intended purpose of those products and therefore did not infringe the LEGO trade mark by virtue of s.95 of the *Trade Marks Act*.
2. A declaration that the proposed compatibility statements would not breach the *Fair Trading Act*; and
3. A declaration that ZURU's use of the proposed compatibility statements would not amount to passing off.

### *The LEGO Group's Counterclaims*

The LEGO Group brought three counterclaims:

1. The first alleged that ZURU's use of the LEGO trade mark in the original compatibility statement in 2018 amounted to trade mark infringement under s.89(1) of

the *Trade Marks Act*. The LEGO Group alleged that any use of the proposed three compatibility statements in the future would also constitute infringement under s. 89(1). It sought remedies in the form of injunctions restraining ZURU from using the LEGO trade mark in any compatibility statement relating to ZURU's MAX Build More products.

2. The second cause of action alleged that the original compatibility statement and the proposed compatibility statements breached ss.9, 10, 13 and 16 of the *Fair Trading Act* because they falsely represented that ZURU's MAX Build More products were manufactured by the LEGO Group or were otherwise associated with, licensed by or endorsed by the LEGO Group. It sought injunctions to prevent the future use of compatibility statements in that form.
3. The third counterclaim alleged that ZURU's use of the word LEGO on its original and proposed compatibility statements resulted in ZURU passing off its MAX Build More products as products manufactured by LEGO or otherwise associated with or licenced and/or endorsed by the LEGO Group.

In the judgment (for reasons set out below) Lang J declined to grant the declaratory judgments in the Court's inherent jurisdiction that were sought by ZURU. The Court further considered that in relation to trade mark infringement, there was considerable overlap between the issues raised in ZURU's claims and the LEGO Group's counterclaims. The Court therefore dealt with those together [47].

There was no dispute that ZURU had used the word LEGO in its compatibility statements in the course of trade [54]. The LEGO Group relied on s.89(1)(a) and claimed that the sign LEGO was identical to its registered trade mark and that ZURU was using it for toy products for which the LEGO Group had registration [54].

ZURU relied on s.89(2) which excluded from infringement any use of a trade mark that would not be likely to be taken as use as a trade mark [55].

The Court held that the issues to be determined were:

#### **A. Alleged trade mark infringement**

1. Would the use of the word "LEGO" in the original compatibility statement be likely to be taken by a substantial number of prospective purchasers as being use of the word as a trade mark?
2. If so, did ZURU use the trade mark in accordance with honest practices in commercial matters?
3. If so, did the original compatibility statement constitute "comparative advertising" so as to be subject to the protection afforded by s.94 of the *Trade Marks Act*?

4. Was the use of the word “LEGO” in the original compatibility statement protected by s.95 of the Trade Marks Act?

### **B. Passing Off**

The issues for this cause of action were:

- (a) What is the nature and extent of LEGO’s goodwill in its trade mark for toy building brick products in New Zealand?
- (b) Does ZURU’s use of the LEGO trade mark in the original compatibility statement constitute use of the LEGO trade mark that is likely to confuse or deceive the relevant public?
- (c) If so, is that use likely to damage LEGO’s goodwill in the trademark for toy building brick products in New Zealand?

### **C. Fair Trading Act**

The issue here was whether the use of the original compatibility statement breached ss.9, 10, 13 or 16.

### **Held**

#### ***Declarations of non-infringement in respect of ZURU’s proposed compatibility statements***

1. Refusing to grant such relief, non-infringement declarations were a novel form of intellectual property relief in New Zealand with the leading statement of principles being that:
  - (a) the correct approach to the question of whether to grant negative declarations is one of discretion rather than jurisdiction;
  - (b) the use of negative declarations should be scrutinised and their use rejected where it would serve no useful purpose but where such a declaration would help ensure that the aims of justice were achieved, the Court should not be reluctant to grant a negative declaration; and
  - (c) before a Court can properly make a negative declaration, the underlying issue must be sufficiently clearly defined to render it properly justiciable.

*New Transducers Ltd v Slab Technology Ltd* CA71/01, 14 May 2001 at [11] referred to;  
*Nokia Corporation v Interdigital Technology Corp* [2006] EWHC 802(Pat), [2006] All ER (D) 182 at [20] applied.
2. ZURU had never labelled its products with the proposed compatibility statements, so no dispute had arisen about them to date. ZURU was therefore seeking declaratory relief in relation to a course of action it might (or might not) undertake in the future. ZURU was asking the Court for its advice or opinion [39]. The declarations sought went beyond asking the Court to declare the law and instead required it to apply the law to an insufficiently

defined future issue. The Court does not use its power to grant declaratory relief to give advisory opinions in this way. Further, the precise manner in which ZURU would place the proposed compatibility statements on the variety of current and likely future products was unknown. The wording of the proposed declaration involved ZURU seeking to use an acceptable compatibility statement in a manner “substantially similar” to the packaging before the Court [41]. A declaration as to future use of a compatibility statement may encounter difficulties where the format of the statement is not precisely in accordance with that for which ZURU now sought declarations of non-infringement [42].

3. In effect, ZURU was asking the Court to find a means by which it might avoid breaching the LEGO trade marks. The unfairness of such an approach had been recognised in the United Kingdom and would undermine LEGO’s ability to respond to any changes that might be suggested by the Court [43].

*Millen v Karen Millen Fashions Ltd* [2016] EWHC 2104 (Ch), [2017] FSR 7 at [265]–[267], *Skyscape Cloud Services Ltd v Sky Plc* [2016] EWHC 1340 (IPEC), [2016] All ER (D) 28 at [12]–[15] referred to.

### **A. Alleged trade mark infringement**

***Issue 1: Would the use of LEGO in the original compatibility statements be taken by a substantial number of prospective purchasers as being use of the word as a trade mark: s.89(2) Trade Marks Act?***

4. The purpose of s.89(2) is to exclude non-distinctive or merely descriptive uses of a trade mark from the scope of infringement. The focus is not on whether the trade mark may confuse or deceive prospective customers regarding the origin of the goods or services to which the trade mark relates [64]. An assessment of whether use is likely to be taken as use of a trade mark involves close consideration of the context in which the use occurs [61]. The fact that a feature of an article may have a functional purpose does not however mean that the feature cannot also serve as a trade mark. A sign may fulfil more than one function, and a mark can have a descriptive element but still serve as a badge of trade origin.

*Mainland Products Limited v Bonlac Foods (NZ) Limited* [1998] 3 NZLR 341 (CA) (“Mainland”), *Coca-Cola Company v Frucor Soft Drinks Limited* [2013] NZHC 3282, (2013) 104 IPR 432 followed.
5. The Court was required to form a view as to how ZURU’s use of the word LEGO in the original compatibility statement would be taken by those who viewed it. This was a matter of impression, taking into account the *Mainland* considerations and the circumstances in which the product was sold [78].

6. Viewing the following factors in combination, a substantial number of consumers would be likely to take the use of the word LEGO in the original compatibility statement as being more than a description of ZURU's products. Many prospective customers would be likely to perceive LEGO in the compatibility statement as being use as a trade mark [106]. Therefore, ZURU's use fell outside the exclusionary scope of s.89(2) [108]. The cumulative factors were:
  - (a) the word LEGO had no meaning beyond its association with products made by the LEGO Group. It was highly likely that prospective customers would be well acquainted with the LEGO trade mark. Those who saw the word LEGO would immediately take the compatibility statements as a reference to the LEGO brand [103];
  - (b) the original compatibility statement containing LEGO was a prominent feature of all three forms of packaging. While not the central feature, the eye was immediately drawn to the word LEGO due to its size and the distinctive colours used in the compatibility statement. It was the most prominent feature of the panel other than the word MAX [104]; and
  - (c) the fact that the word LEGO was significantly larger than the words "BRICK COMPATIBLE" meant that it was not immediately apparent that it comprised part of a compatibility statement. That fact only became apparent when the counterstatement was read as a whole. The prominence of the compatibility statement on the plastic container and the packaging for the figurines was further enhanced by the presence of the red brick in the blister pack protruding from the container and packaging. [105]
7. *Observed*: the leading Australian decision in *Self Care* was distinguishable on the facts [87–91].

*Self Care IP Holding Pty Ltd v Allergan Australia Pty Ltd* (2023) 408 ALR 195 distinguished.

***Issue 2: Did ZURU use the LEGO trade mark in accordance with honest practices in commercial matters?***
8. The Court found that:
  - (a) ZURU included the comparative statement to provide express confirmation that ZURU's MAX Build More products were compatible with those provided by the LEGO Group [119];
  - (b) there was no dispute that ZURU knew of the LEGO Group's reputation for making high quality products and its dominant position in the toy building brick market worldwide [120];
  - (c) ZURU was involved in proceedings in the United States in which it was endeavouring to have the LEGO Group LEGO trade mark revoked in the United States on the basis that it had become generic. The Court's concern must be that ZURU intended its actions in New Zealand to bolster the proceedings it had commenced in the United States. If so, this would amount to use of the trade mark for a collateral purpose [121];
  - (d) ZURU did not advise or obtain the consent of the LEGO Group or The Warehouse in its comparative statements when it launched MAX Build More in New Zealand. At that point, ZURU knew that Walmart was not prepared to allow the use of LEGO on compatibility statements in the United States. ZURU took a calculated risk [122];
  - (e) the fact that an alleged infringement has used a trade mark after obtaining competent legal advice based on proper instructions may be taken into account when assessing whether such use was in accordance with honest commercial practices [123]; and
  - (f) evidence from ZURU's CEO was clearly designed to give the impression that ZURU had obtained general legal advice about the legality of compatibility statements at an early stage [124]. That legal advice (provided to the Court after a successful waiver of privilege application) was manifestly inadequate. It did not refer to the legal position in New Zealand as governed by the Trade Marks Act or to relevant case law on the use of trade marks in New Zealand or Australia. Such legal advice as ZURU received was not sufficiently thorough to provide it with any legal justification for the use of LEGO's trade mark on the compatibility statements [128].
9. The Court was satisfied that ZURU sought to use the LEGO Group's LEGO trade mark on the compatibility statements to gain leverage from the reputation LEGO had built up over many years, both in New Zealand and worldwide. It sought to do so by positioning the LEGO trade mark in a prominent location, size and colour on the front panel of its containers and packaging to draw the attention of prospective customers to its products [133].
10. Viewed objectively, the matters referred to would cause persons involved in the toy building brick market place to view the use of the LEGO trade mark on the original compatibility statement as an aggressive attempt by ZURU to obtain leverage for its products from those manufactured by the LEGO Group. ZURU's decision to reintroduce the original compatibility statement of March 2021 would be regarded as even more aggressive

because it knew beyond any doubt by that stage how the LEGO Group would react and failed to obtain sufficient legal advice to support its position. The use of the LEGO trade mark on the original compatibility statement was not in accordance with honest practices in commercial matters [133].

***Issue 3: would the use of the LEGO trade mark in the original compatibility statements be protected by s.94 of the Trade Marks Act?***

11. Given the Court's finding that use of the word LEGO in the original compatibility statement was not in accordance with honest practices of commercial matters, for ZURU to obtain the protection of s.94, the use must occur in the context of comparative advertising and not take unfair advantage of, or be detrimental to, the distinctive character or reputation of the LEGO trade mark [137].

*Did the use occur in the context of comparative advertising?*

12. As to comparative advertising, there was no difference in principle between promotional material that a trader provided to the general public (or to a targeted audience by traditional forms of paid advertising) and that which was displayed on packaging for consideration by those who viewed it in retail stores [145].
13. The original compatibility statements did not compare ZURU's products with those manufactured by the LEGO Group in any way. Nor did they claim that any feature or characteristic of ZURU's products was superior or even equivalent to those of the LEGO products. The statement that the ZURU products were compatible with LEGO products meant that they could be used interchangeably. The wording used in the original compatibility statement prevented it from falling within the interpretation of comparative advertising so that ZURU was not entitled to the protection afforded by s.94 [155]–[156].

*Did the use of the LEGO trade mark, without due cause, take unfair advantage of or cause detriment to, the distinctive character or the repute of the trade mark?*

14. ZURU did not have good cause to use the LEGO trade mark as it did [157]. ZURU took unfair advantage of the trade mark [158]. By using LEGO on the original compatibility statements ZURU sought to align its products in consumers' minds with those produced by the LEGO Group. It also sought to create a reputation for its own products without going to the expense and effort the LEGO Group had undertaken to promote its trade mark to the position it was in today. Had the use continued, the LEGO Group stood to lose market share to ZURU [159]. The Court was therefore satisfied that ZURU's use of the LEGO trade mark took unfair advantage of it.

***Issue 4: Was the use of the word LEGO in the original compatibility statement protected by s.95 of the Trade Marks Act?***

15. The Court's conclusion that ZURU did not use the LEGO trade mark in accordance with honest practices in commercial matters meant that it could not avail of itself of the protection afforded by s.95 [163].

*As to reliance on s.95(c)(i), did the use of the LEGO trade mark indicate a characteristic of ZURU's products?*

16. *Obiter* The use of the word LEGO in the original compatibility statement did indicate a characteristic of goods or services. Had ZURU's use of the LEGO trade mark been in accordance with honest practices, the Court would have found that ZURU could qualify for protection pursuant to s.95(c)(i) [168].

*As to reliance on s.95(d), was it reasonably necessary for ZURU to use the LEGO trade mark to indicate the intended purpose of its products?*

17. *Obiter* It was not reasonably necessary in terms of s.95(d) for consumers to be advised of the compatibility of ZURU's products with those made by LEGO through use of the LEGO trade mark [170].
18. The LEGO Group had succeeded in establishing trade mark infringement of its LEGO trade mark [237].

***B. Passing Off***

***Did the LEGO trade mark possess an element of reputation or goodwill?***

19. This element was not in dispute and ZURU accepted that the mark had acquired very strong goodwill and reputation in the field of toy building bricks in New Zealand and worldwide. The evidence established this beyond any doubt [178].

***Had ZURU used the LEGO trade marks so as to confuse or deceive the relevant public?***

20. Prospective purchasers of toy building brick products were likely to have at least a moderate level of involvement in their purchases. That meant they were likely to take some care in choosing the products they wished to purchase and would recognise that those displayed under the MAX Build More label were different products to those made by the LEGO Group. Accordingly, the presence of the word LEGO on the original compatibility statement was not likely to confuse or deceive consumers who viewed ZURU's products for the first time in the store. Consumers would likely realise that the words LEGO® BRICK COMPATIBLE did not mean that the products were likely to be made by or associated with the LEGO Group. Consumers would understand that the words meant only that the products were compatible with LEGO bricks [210]. LEGO had failed to establish that

ZURU had used the LEGO trade mark so as to confuse or deceive the relevant public or that was likely to do so if not restrained. [220] Accordingly this cause of action failed [238].

### ***C. Fair Trading Act***

21. The use of the word LEGO in the original compatibility statement did not constitute conduct that was misleading or deceptive or was likely to mislead or deceive in terms of s.9 of the Fair Trading Act [224] nor was it liable to mislead the relevant public by causing them to believe that ZURU products were made or otherwise endorsed by the LEGO Group (s.10) [228]. The allegations under ss.13 and 16 could not be sustained [231] and [235].

# Current Developments – Asia

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## CHINA & HONG KONG SAR

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### PRC Trade Mark Prosecution – New Rules on Suspension of Cases Before the TRAD and the BIPC

In June 2023, the Trade Mark Review and Adjudication Department (“TRAD”) under the China National Intellectual Property Administration (“CNIPA”) adopted internal rules permitting the suspension of cases pending before the TRAD (“*TRAD Suspension Regulations*”). These rules will now allow trade mark owners to avoid the cost and inconvenience of being forced to file additional “back-up” applications to maintain rights in the queue. Up until now, that strategy has been the accepted best practice for minimising prosecution costs and maintaining priority on the register. This is because both the TRAD and the BIPC, which have always had the discretion to grant requested suspensions, had almost universally declined to exercise the same for the last several years, forcing brand owners to choose between expensive court appeals or less-expensive back-up applications.

Although the new rules have not been formally published, their substance was explained in a document recently issued by CNIPA.<sup>1</sup> This document confirms that suspensions may be granted in cases involving appeals of rejected applications and oppositions, as well as invalidations (subject to certain conditions covered later in this update).

Shortly after the issuance of the TRAD Suspension Regulations, the Beijing Intellectual Property Court (“BIPC”), the first-instance court for trade mark rejection appeals, also announced its own new pre-docketing practice (“BIPC Pre-Docketing Practice”) on the same issue. Under the BIPC Pre-Docketing Practice, trade mark owners in trade mark refusal appeals will be permitted to seek a 12-month suspension of their appeal where the status of the cited mark(s) remains uncertain.

As is always the case, and while these new practices are steps in the right direction, it remains to be seen how these new rules will practically be enforced going forward, particularly in respect of already-pending cases. For example, as part of these changes, TRAD officials have informally suggested that requests for suspensions filed before the issuance of the TRAD Suspension Regulations may now be reconsidered. That said, out of an abundance of caution, consideration should strongly be given to renewing or filing new suspension requests in cases already pending before the TRAD to

increase the likelihood of approval of such requests and to minimise the risk that prior requests might be overlooked by the TRAD.

### *Background*

In response to a People’s Republic of China (“PRC”) Trade Mark Office (“TMO”) rejection of a trade mark application due to the citation of “similar” prior trade marks in respect of “similar” goods or services, trade mark owners have a variety of tools at their disposal to eliminate those prior marks. These include:

- (i) oppositions against the prior application (if the prior mark has not been registered and is published for opposition);
- (ii) non-use cancellations (if the prior mark has been registered for at least three years);
- (iii) cancellation of the prior registration on grounds of genericness; and
- (iv) invalidation of the prior registration (if the prior mark has been registered for less than five years).

At the same time, the trade mark owner can file an appeal of the TMO’s decision to the TRAD in order to maintain the application’s validity whilst actions against the cited prior marks run their course.

In that regard, however, the timeframe for the TRAD’s review of refusal appeals has always been shorter than those for the actions against those cited trade marks (and has been getting progressively shorter still over the last few years). These timelines currently stand as follows:

- Appeal against preliminary refusal of trade mark application: as fast as **six to eight months from the filing date of the appeal**.
- Opposition: initial (appealable) decision around 13 months from the filing date.
- Non-use cancellation action: seven to 10 months from the filing date (assuming no appeals are filed); plus an additional two to three months for the TMO to confirm that no appeal is filed (total: nine to 13 months for first-instance decision).
- Cancellation based on genericness: seven to eight months from filing date (assuming no appeals are filed); plus an additional two to three months for the TMO to confirm that no appeal has been filed (total: nine to 11 months).
- Invalidation action: 11 to 12 months from the filing date (assuming no court appeal is filed); plus an additional four months for the TMO to confirm that no court appeal is filed (total: 15 to 16 months).

Due to the above timeframes, it is always a near certainty that a TRAD decision in any refusal appeal will be issued well before decisions on actions against the cited marks are issued, or indeed, are final. This makes it reasonable to expect a suspension of the TRAD's review pending outcomes in those dependent actions.

The PRC *Trade Mark Law* does not provide any explicit guidance for the suspension or coordination of dependent trade mark actions, however. That said, TRAD examiners have always had the discretion to decide whether to suspend cases. Up until 2020, the TRAD was generally willing to exercise that discretion to suspend reviews of refusal appeals, so long as appealing trade mark owners had affirmatively filed actions against the cited marks prior to filing their refusal appeals.

However, beginning in 2020, the TRAD (without issuing any formal notice it was doing so) drastically changed its policy. Presumably, this change was intended to help deal with the significant backlog of cases under which TRAD examiners were suffering (itself a natural consequence of rampant unchecked trade mark piracy in China). As a result, the TRAD began rejecting nearly all suspension requests. Indeed, suspensions were only really granted in exceptional cases involving prolific bad-faith filers or where the cited mark has been the subject of a final decision that had not yet taken effect merely due to procedural requirements. This meant that trade mark owners were forced to consider filing expensive court appeals to maintain the validity of their applications. Unfortunately, however, both the BIPC and Beijing Higher People's Court similarly began refusing requests for suspension in most cases.

With suspension requests basically a dead letter with both the TRAD and the courts, trade mark owners naturally took another path: filing multiple back-up applications for the identical mark in lieu of filing refusal appeals to minimise prosecution costs and maintain priority. Of course, this practice was not perfect, as by abandoning their earlier applications, trade mark owners risked pirates or other third parties filing intervening marks that might themselves block the trade mark owner's backup applications, potentially adding to their woes.

More recently, the need to file backup applications had become even more acute, with the TMO consistently shortening its examination period for identical back-up applications, issuing refusal notices for such applications in around three months from their filing date (down from four to six months previously).

This seemingly endless process of filing and refileing backup applications to stay one step ahead of the TMO, the TRAD, and the pirates had become utterly commonplace over the last few years. Indeed, it is not unusual to identify trade mark owners that have filed as many seven or eight identical

applications, particularly where the owners of the cited marks themselves also undertook multiple filings to maintain their own rights.

To add insult to injury, Article 14 of the latest draft revision to the PRC Trade Mark Law issued in January 2023<sup>2</sup> indicated that under the proposed amended law, registrants would be prohibited from filing new applications for the same mark on identical or similar goods and services. This rule was clearly designed expressly to address the issue of backup filings, again, an issue caused directly by the TRAD's and the courts' stubborn refusal to suspend review of refusal appeals pending outcomes in respect of actions against cited marks.

Interestingly, the same draft revision to the Trade Mark Law that sought to prohibit identical filings also presaged changes to the TRAD's and BIPC's suspension rules. Under the revised article, both the TMO and TRAD would be expressly permitted to suspend the handling of appeals and disputes (including oppositions and invalidations) pending outcomes in related actions. Notably however, the wording used in draft Article 42 did not give trade mark owners the explicit right to request suspensions or to receive formal responses to such requests, and therefore did not reflect a significant divergence from the status quo. Accordingly, the TRAD Suspension Regulations and BIPC Pre-Docketing Practice appear to offer very welcome relief to long-suffering trade mark owners. We examine these new policies in the sections below.

### ***TRAD Suspension Regulations***

#### *Circumstances for Suspension*

The TRAD Suspension Regulations explain in a fair degree of detail the circumstances under which suspensions must and may be granted.

For refusal appeal cases, where the status of the cited mark is subject to attack in a case pending before the TMO, TRAD, or courts, and the applicant files a suspension request, the TRAD is now *required* to suspend its review of the refusal appeal.

For all categories of cases – including refusal appeals, opposition appeals, and invalidations – the TRAD Suspension Regulations also require suspension when one of the following conditions apply:

- (a) The disputed or cited mark is the subject of a pending name change or assignment application, and the conflict will no longer exist after the name change or assignment is approved.
- (b) The cited mark has expired and is in the process of renewal or within the grace period for renewal.
- (c) The cited mark is the subject of a pending application for deregistration or withdrawal.

- (d) The cited mark has been cancelled or invalidated, or not renewed following expiration, but is still within the one-year period under which, by law, the refused mark may not yet be approved.
- (e) A case relevant to the fate of the cited mark has been concluded, but procedures are still pending to finalise the status, such as publication of a decision or re-issuance of the decision based on a court decision.

Meanwhile, the TRAD has the discretion – but is not required – to suspend its review where one of the following three conditions applies:

- (a) The cited mark in a refusal appeal case is the subject of a pending invalidation action, and the bad faith of the cited mark owner has been confirmed in other cases. In these circumstances, even if the applicant has not filed a suspension request, the examiner has the discretion to decide whether to suspend the appeal.
- (b) There are other pending cases in which the relevant facts are identical or similar to the current case, and suspension of the current case is desirable to ensure the consistency of examination criteria and avoid the issuance of conflicting decisions.
- (c) Other circumstances exist where it is deemed necessary to suspend to benefit the lawful right owners.

### *Timing for Filing a Suspension Request*

Requests for suspension will need to be filed no later than the deadline for filing supplemental submissions in the relevant case, i.e., within the three-month supplemental period after the initial filing.

While not addressed in the TRAD Suspension Regulations, if circumstances later arise that clearly warrant suspension of a case before the TRAD, it is reasonable to assume the TRAD will consider such requests. But whether the TRAD will do so in practice remains to be seen.

### *Updating the TRAD on Co-Pending Cases*

Once the status of the cited mark has been confirmed, the applicant should submit relevant evidence via a supplemental submission, and the TRAD can then resume its review of the case.

## **BIPC Pre-Docketing Practice**

### *Circumstances for Suspension*

After filing the initial appeal to the BIPC, if the status of the cited mark(s) remains uncertain, then the applicant can use the BIPC Pre-Docketing Practice to suspend the case for 12 months. If the status of the cited mark(s) is confirmed within the 12-month period, then the case will move forward to formal examination.<sup>3</sup>

The BIPC Pre-Docketing Practice only applies where:

- (a) the refusal appeal is based on relative grounds only (i.e., citations of prior marks), and not on absolute grounds (e.g., descriptiveness, non-distinctiveness, negative impact on social morality, etc., refusals which have become worryingly more commonplace over the last few years);
- (b) the plaintiff has taken actions against the cited mark(s) before the issuance of the TRAD's decision; and
- (c) the status of the cited mark(s) will substantively affect the decision of the disputed mark.

In relation to point (a) above, it is noted that where a mark was rejected both due to absolute grounds and prior citations, the BIPC Pre-Docketing Practice will *not* apply.

The BIPC Pre-Docketing Practice will also only apply to cases filed *after* 25 June 2023.

### *Impact on Filing of Formality Documents?*

Foreign plaintiffs are still required to prepare and submit a full set of legalised formality documents for the court appeal. At present it is unclear whether these legalised formality documents need to be submitted within six months of filing the appeal (which was the standard practice) or by the end of the 12-month suspension period.

## **Conclusion**

How the TRAD Suspension Regulations and the BIPC Pre-Docketing Practice will be implemented in practice is unclear at this stage. In general, however, the Regulations appear to be a positive development, finally providing trade mark owners with the right to formally request the suspension of cases – and a reasonable expectation that such requests should be granted.

Now that the TRAD Suspension Regulations have been issued, hopefully CNIPA will now consider measures to facilitate the consolidation and acceleration of related cases, particularly those involving bad faith filers. Consolidation and acceleration are key components to achieving more efficient handling of such cases and helping victim brands to secure their rights more quickly and cost-effectively.

- 1 See CNIPA, 'Interpretation of the Circumstances for the Suspension of Cases', *CNIPA* (Chinese Web Page, 13 June 2023), <[https://sbj.cnipa.gov.cn/sbj/ssbj\\_gzdt/202306/t20230613\\_27700.html](https://sbj.cnipa.gov.cn/sbj/ssbj_gzdt/202306/t20230613_27700.html)>.
- 2 See Joe Simone, 'SIPS White Paper on Proposed Trademark Law Revision in China', *SIPS* (Web Page, 15 February 2023) <<https://sips.asia/knowledge/legislation-and-policy/white-paper-on-proposed-trademark-law-revision-in-china/>>.
- 3 See BIPC, 'BIPC Pre-Docketing Application Form', *BIPC* (Chinese Web Page, 21 June 2023) <<https://bjzcfy.bjcourt.gov.cn/article/detail/2023/06/id/7353498.shtml>>.

### JAPAN

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#### Important 2023 Changes to Japan's Trade Mark and Unfair Competition Laws

On 10 March 2023, the Cabinet of the Government of Japan approved a Bill for partial revision of Japan's *Trademark Law*, *Unfair Competition Prevention Law* ("UCPL"), and several other intellectual property laws.<sup>2</sup> The Bill was subsequently enacted into law in June 2023.<sup>3</sup> These new statutory provisions reflect the Japanese Government's efforts to update Japan's IP laws to cope with the ever-evolving business needs of multinational corporations in today's global digital economy.

#### *Trademark Law*

While Japan's Trademark Law continues to prohibit registration of trade marks similar to those already registered, the new trade mark law allows for registration of similar trade marks if there is no risk of confusion as to the origin of the product and if the prior trade mark owner consents to the registration. This heralds the introduction of the "letter of consent" system in Japan that is already accepted and standard practice in several other jurisdictions such as Australia and the United States.

Under this letter of consent system, it is envisaged that the owner of a later-filed trade mark will now have the option to obtain a letter of consent from the owner of the prior trade mark in order to obtain registration for their mark. However, examiners still retain the discretion to reject the application of the later-filed trade mark even if a letter of consent is obtained if the examiner believes that there is a likelihood of confusion. In addition, a new form of cancellation actions will be introduced for cancelling a later-filed trade mark registration if the later-filed mark causes confusion with a prior trade mark for unfair competition purposes.

Additionally the new trade mark law expands the scope of registerable trade marks, allowing individuals who conduct business under their name to use that name as a trade mark and allowing for registration of these name trade marks without the consent of others in certain cases. The UCPL is also amended so that trade marks registered accordingly are not considered anticompetitive.

#### *Unfair Competition Prevention Law*

The new UCPL is expanded to cover digital counterfeits, allowing entities to seek a court order enjoining online distribution of such counterfeits. Accordingly, if someone engages in the sale of counterfeits in a digital space, the rights holder may file a request for an injunction.

Moreover, the new UCPL increases the quantum of damages payable to plaintiffs for acts of unfair competition. Traditionally, a plaintiff could only seek lost profits or reasonable royalties, i.e.:

- (i) the profits that the plaintiff would have earned in light of the harmed entity's manufacturing and marketing capacity to exploit demand for the product at issue but for the unfair behaviour;
- (ii) the equivalent amount of infringer's profits generated by unfair competition activities; or
- (iii) reasonable royalties.

Following revision of the UCPL, in addition to the lost profits described in (i), the plaintiff will be able to seek royalties towards the profits that the infringer earned beyond the plaintiff's manufacturing and marketing capacity to exploit demand for the product.

#### *Developing Digital IP Procedures*

In response to the COVID-19 pandemic, the new provisions will amend various IP procedures to modernise and digitise Japan's IP system. To better accommodate those doing business internationally, the revisions allow for lump sum payments for international registration of trade mark applications.

#### *Stronger Regulation of Business*

Recognising the need for stronger and clearer regulations for international businesses, the new UCPL will better reflect the OECD Anti-Bribery Convention by increasing the statutory penalties for individuals who commit bribery violations. Further, the revisions penalise bribery committed overseas by foreign employees of Japanese companies. Both of these penalty provisions also expand the scope of punishment to cover corporations. The UCPL is further amended to provide that, even where there is an overseas violation of a Japanese company's trade secrets, a lawsuit can be filed in a Japanese court where Japanese antitrust law will apply.

After the Cabinet's March 2023 approval, the Bill was subsequently approved by the Japanese Parliament on 7 June 2023 and the new provisions are scheduled to come into effect on 14 June 2024, one year from the law's promulgation date of 14 June 2023.<sup>4</sup>

The 2023 new provisions are welcomed as they are part of the Japanese Government's constant attempts to update and modernise its IP laws to cope with fast-breaking developments in the digital global modern economy.

- 1 Executive Director and Board Member, SHUSAKU-YAMAMOTO, Osaka, Japan. Any questions about this article should be e-mailed to John A Tessensohn at jtessensohn@shupat.gr.jp. This update reflects only the personal views of the author and should not be attributed to the author's firm or to any of its present or future clients.
- 2 Ministry of Economy Trade & Industry News Releases Archive, *Cabinet Decision on the Bill for Partial Revision of the Unfair Competition Prevention Act, etc.* (Japanese Web Page, 10 March 2023) <<https://www.meti.go.jp/press/2022/03/20230310002/20230310002.html>>.
- 3 Japan Patent Office Laws and Regulations Related to Industrial Property Rights, *Law for Partial Revision of the Unfair Competition Prevention Law, etc. (Law No. 51 of 14 June 2023)* (Japanese Web Page, 14 June 2023) <[https://www.jpo.go.jp/system/laws/rule/hokaisei/sangyozaian/fuseikyousou\\_2306.html](https://www.jpo.go.jp/system/laws/rule/hokaisei/sangyozaian/fuseikyousou_2306.html)>.
- 4 Japan Patent Office Laws and Regulations Related to Industrial Property Rights, *Law for Partial Revision of the Unfair Competition Prevention Law, etc. (Law No. 51 of 14 June 2023)* (Japanese Web Page, 14 June 2023) <[https://www.jpo.go.jp/system/laws/rule/hokaisei/sangyozaian/fuseikyousou\\_2306.html](https://www.jpo.go.jp/system/laws/rule/hokaisei/sangyozaian/fuseikyousou_2306.html)>.

## SINGAPORE

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*Coinbase, Inc. v bitFlyer Inc.* [2023] SGIPOS 9<sup>1</sup>

#### **Comment:**

To what extent would applying to register a trade mark in an extremely wide range of goods and services provide grounds for finding that the trade mark application was made in bad faith? The Registrar dealt with, inter alia, this issue in *Coinbase, Inc. v bitFlyer Inc.* [2023] SGIPOS 9.

#### **Background**

The case involves an application for a declaration of invalidity against bitFlyer's (the "proprietor") registered word mark, "Coinbase" (the "mark").

The applicant is a major cryptocurrency exchange based in the United States that goes by and provides its products and services under the same name. Particularly, it operates a digital currency wallet and platform where users can transact using digital currencies such as Bitcoin, Ethereum, and Litecoin. In the same vein, the proprietor is a cryptocurrency exchange based in Japan that enables its customers to trade Bitcoin.

Broadly, the applicant relied on two grounds in the invalidation, namely that:

1. the application to register the mark was made in bad faith; and
2. the mark is identical or confusingly similar to its earlier "COINBASE" mark, and they are registered in relation to similar goods and services, resulting in a likelihood of confusion.

#### **Bad faith**

Section 23(1) read with section 7(6) of the *Trade Marks Act* (the "Act") provide that the registration of a trade mark may be declared invalid to the extent that the application was made in bad faith. The threshold to show bad faith is high – it encompasses actual dishonesty and dealings which would be considered as commercially unacceptable by reasonable and experienced persons in the trade. An allegation of bad faith is serious and must be sufficiently supported by evidence (*Valentino Globe BV v Pacific Rim Industries Inc* [2010] 2 SLR 1203 at [28] to [30]).

#### **Copying of the mark**

On this front, the applicant argued that the proprietor was well aware of the Applicant's "COINBASE" mark before the relevant date (i.e., the date the application to register the mark was made) but had nonetheless proceeded to apply to register the "Coinbase" mark without the applicant's knowledge, consent, or authority.

There was evidence that at the relevant date, the proprietor had actual knowledge of the applicant's existence and its "COINBASE" mark. The proprietor had mentioned the applicant by its trade name in press releases and the parties had appeared on the same panel discussion together. They were also in the same niche industry, making it likely that the proprietor was aware of the applicant's presence in the market. The proprietor failed to provide a clear explanation as to how its "Coinbase" mark was derived. In the circumstances, and upon considering the authorities before her, the Registrar agreed with the applicant that there had been outright copying of its "COINBASE" mark, and this was conduct that fell below acceptable commercial standards. To this end, the application to register the mark was made in bad faith across the entire range of claimed services.

#### **No bona fide intention to use**

In the alternative, the applicant also argued that the mark was registered in bad faith as at the relevant date, the proprietor did not have any bona fide intention to use the mark in relation to the services claimed. There was no compelling evidence that the proprietor put the mark to genuine use.

The Registrar observed the interesting overlap between:

- (1) the ground of bad faith for a lack of bona fide intention to use a registered mark, and
- (2) a revocation of the registered mark on the ground of non-use for a continuous period of five years.

The Registrar noted that while these are separate grounds to challenge the registration of a mark, they overlap on the issue of lack of use. Regarding (1), the Registrar considers the lack of intent to use the mark at the time of applying to register it and in (2), it is the fact that there is a lack of use that is relevant. The Registrar noted that evidence of the lack of use may be used to support the finding that there was a lack of intent to use.

The following question then arises – what else is required to show a lack of intent? This is not a straightforward issue. For one, the applicant is required to prove a negative. Second, the fact that a mark was not used does not necessarily mean that at the time of the application, the proprietor had no intention to use it. As the Registrar notes at [48] of the judgment, the proprietor could have simply changed his mind due to other reasons e.g., a change in market conditions such that it was no longer economically attractive to use the mark on the goods or services claimed. It is quite common for traders to claim trade mark protection with respect to goods and services not offered by them at the time of the application. In other words, an application can be filed on the basis of intended use.

On this ground, the applicant pointed to the extremely broad range of claimed services which were wholly unrelated to one another, for example:

- “... auctioneering; arranging newspaper subscriptions; rental of vending machines; retail services or wholesale services for sea food; veterinary and sanitary preparations and medical supplies; dentifrices, soaps and detergents” in Class 35; and
- “Providing meteorological information; architectural design; surveying; geological surveys or research; testing, inspection or research of pharmaceuticals, cosmetics or foodstuffs” in Class 42

The applicant also tendered extracts from the proprietor’s website and interviews wherein the proprietor never indicated an intention to expand its range of services beyond those relating to cryptocurrency. The Registrar held that this was cogent evidence reflecting the proprietor’s business interest and focus, which squarely related to cryptocurrency and not other areas relating to the aforementioned claimed services. Accordingly, the applicant raised a prima facie case that at the relevant date, the proprietor did not have a “legitimate and sensible commercial position” in seeking to protect the mark in respect of the aforementioned services. This shifted the evidential burden to the proprietor to prove that there was in fact a bona fide intention to use the mark.

However, the proprietor did not address this in evidence nor did it participate in the full hearing to provide a substantive response. The applicant thus succeeded in establishing bad faith for a lack of bona fide intention.

### **Identical mark, similar goods and services**

Notwithstanding the finding of bad faith, which would invalidate the mark in its entirety, the Registrar proceeded to consider the ground of invalidation under section 23(3)(a) (i) read with section 8(2)(a) and (b) of the Act.

#### *Mark identicality*

Comparing the competing marks, the Registrar held that “COINBASE” was identical to “Coinbase”, noting that a mark registered in upper case in plain font covers all stylistic permutations of the mark, and that the same words in plain font are considered identical despite differences in letter case.

#### *Goods and services were similar*

On the next limb, the Registrar found that the proprietor’s claimed Class 42 services relating to designing or maintaining computer programs were similar to the applicant’s downloadable computer software products in Class 9 and services relating to providing use of online software for electronically transmitting digital currency in Class 42. Such goods and services are used to facilitate electronic transactions conducted by the same group of end users, and are closely connected to software for this purpose.

#### *Likelihood of confusion*

Due to the wide range of similar goods and services, which can be inexpensive and readily accessible products on one hand, and more technical, specialised ones on the other, the relevant public included a range of consumers – those who select and purchase electronic commerce-related goods and services without a high degree of care and attention, and those who go through a more involved process of research and comparison (making confusion less likely).

Nonetheless, the Registrar found that there was a reasonable likelihood of confusion amongst the relevant public and this was largely due to the identity between the competing marks.

#### **Key Takeaways**

*Coinbase, Inc. v bitFlyer Inc.* is one of the few trade mark cases in Singapore where the high threshold for establishing bad faith was met. The applicant raised several points which were crucial for the proprietor to address, but which the latter failed to do so. Choosing to register a mark that is identical or highly similar to a competitor’s without a sound explanation may provide sufficient basis for the finding that the mark was registered in bad faith.

More interestingly, seeking protection with respect to an extremely wide range of unrelated goods and services, combined with there being no evidence of the mark actually being used, may raise a prima facie case that there was no bona fide intention to use the mark. The Registrar was careful to stress that had the proprietor participated in the hearing or adduced evidence to explain a bona fide intention, the case outcome may have been different. The Registrar also emphasised that the decision should not affect the common practice of trade mark applicants claiming a penumbra of goods and services beyond what they already offer.

However, we would add that trade mark applicants should still exercise discretion when deciding the goods and services protection should cover. They should have some connection with the field of business the applicants are in, or one which they foresee an expansion into. In the latter case, evidence of such intention could be important in showing a bona fide intention.

1 The authors acted for the applicant, Coinbase, Inc.

# Current Developments – Europe

## UNITED KINGDOM

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### Lidl wins High Court clash with rival supermarket Tesco over discount scheme logo

#### Introduction

In a high-profile case fought between two supermarket giants, the UK High Court has found largely in favour of Lidl following their objection to Tesco's use of its "Clubcard Prices" logo.

Lidl relied on a wide range of registered and unregistered IP rights against Tesco, succeeding in its claims for trade mark and copyright infringement as well as passing off.

As part of its counterclaim, Tesco successfully invalidated a series of trade marks for the background to Lidl's logo on the ground of bad faith as a result of so called "evergreening" by Lidl.

It is an interesting and unusual case, in part because Lidl's trade mark and passing off claims did not include an allegation that consumers would be confused as to origin, as is typical. Instead, it was effectively argued that Tesco's use of its Clubcard logo would deceive consumers into thinking Tesco's prices for the relevant goods were equivalent to Lidl's.

Useful lessons can also be taken from the judgment in relation to the broad scope of protection afforded to combination marks with a reputation, the value and importance of evidence and the ever-developing law around evergreening in the context of bad faith.

#### Background

Lidl and Tesco are well-known competing supermarket chains.

Tesco, one of the biggest supermarkets in the UK, is a "mid-tier" supermarket, having a selection of own-brand products and third party products at a range of price points. Lidl is a "discounter" supermarket with an emphasis on own-branded products and a reputation for low prices.

In 1995, Tesco launched its Clubcard loyalty scheme. Years later in September 2020, it then introduced a new discrete part of this scheme, namely the "Clubcard Prices promotion".

This was designed to provide discounts to Tesco Clubcard holders at the point of sale, with Tesco using the following identifiers for the promotion (the "CCP Signs").

The CCP Signs sometimes appeared together with a price figure with the text "Clubcard Price", or alternatively just with the text "Clubcard Prices", as illustrated below.



Lidl alleged that the use of the CCP Signs infringed its various intellectual property rights in the following marks:



#### Trade mark infringement

Lidl own various trade mark registrations for its logo as a whole (the "Mark with Text"), as well as for the logo's background (the "Wordless Mark"), together the "Lidl Marks".

The Judge dealt first with the alleged infringement of the Mark with Text.

Typically, claimants alleging trade mark infringement include a claim on the grounds that there is a likelihood of confusion between its trade mark and the defendant's use of a sign similar to that mark under s.10(2) of the *Trade Marks Act 1994*.

Interestingly, Lidl chose not to pursue that cause of action and instead limited their trade mark claim solely to s.10(3) of the Trade Marks Act, which provides protection to trade marks with a reputation including against the taking of unfair advantage of or detriment to the distinctive character of that mark (i.e., dilution and free-riding).

In summary, it was Lidl's case that consumers would link the CCP Signs to Lidl's brand. In doing so, would be led to believe that Tesco's prices were comparable to Lidl's low prices and/or that they were price matched to Lidl, thereby giving Tesco an unfair advantage and/or resulting in detriment to the distinctive character of Lidl's mark (i.e., that of a low-price brand), by suggesting Tesco was price-matched.

Lidl did not have difficulty in demonstrating its Mark with Text had a significant reputation in the UK – an important pre-requisite for any s.10(3) claim.

A summary of some of the more interesting (and in some cases contentious) aspects of the infringement ruling are set out below.

### *Similarity*

For claims under s.10(3), the claimant is not required to demonstrate that the trade mark and allegedly infringing sign are *confusingly* similar, only that they are similar.

On this point, the Judge considered there was a sufficient degree of similarity between the Lidl Marks and the CCP Signs on the basis both included background components made up of a yellow circle within a blue square with writing in the centre of the blue circle.

While accepting that there were also obvious differences – most notably the use of entirely different words within the marks – the Judge did not consider those differences had the effect of extinguishing the strong impression of similarity conveyed by their backgrounds.

This finding of similarity was due in large part to the evidence submitted, including emails between Tesco's internal team acknowledging that the CCP Signs “look a bit like a Lidl ad”, contemporaneous statements from members of the public identified on social media and in disclosure noting the similarities between the CCP Signs and the Lidl logo (the “Vox Populi”), and the witness evidence of two consumers who were cross examined at trial.

### *Link*

A further requirement for claims under s.10(3) is that the use of the sign in question must give rise to a link between the sign and the trade mark in the mind of the average consumer.

Lidl successfully established that consumers seeing the CCP Signs would link them to Lidl's brand and reputation. It did so with the help evidence including the Vox Populi and consumer witness evidence referred to above, and a consumer survey commission by Tesco prior to the launch of the Clubcard campaign, which the Judge considered not only established the requisite link in the mind of the average consumer but also constituted “clear evidence” of confusion as to origin.

### *Injury – detriment and unfair advantage*

As to whether the above had resulted in damage to Lidl, the Judge concluded that it had in the form of detriment to the distinctive character of Lidl's Marks (i.e., dilution) and unfair advantage taken of the repute of the Lidl Marks (i.e., free-riding).

With regard to free-riding, the Judge rejected Lidl's case of subjective intent and deliberate “coat tailing” by Tesco on its reputation. However, it was acknowledged that a lack of intent was not fatal to the claim and that Tesco's use of the CCP Signs had nevertheless conveyed the message to consumers that Tesco goods were of low (discounted) value and/or price-matched with Lidl.

As for detriment to the distinctive character of the Lidl Marks, it would typically be necessary for the claimant to show that consumers had changed their behaviour as a result of the use by Tesco of the CCP Signs. However, the Judge acknowledged identifying actual evidence of this kind is difficult and accepted Lidl's contention that detriment could instead be evidenced by showing steps that Lidl had to take as a result of Tesco's activities. Namely, being forced to produce its own campaign showing consumers that Clubcard prices advertised by Tesco were not price-matched to those of Lidl. The detriment was therefore found in the fact Lidl had found it necessary to take evasive action in the form of corrective advertising.

### *Due cause*

Finally, the Judge rejected Tesco's contention that it had good cause to use CCP Signs which would have nullified Lidl's infringement claim under s.10(3) if successful.

Tesco argued that the colour blue had long been associated with its brand and that the use of yellow by supermarkets to indicate value was commonplace, with Tesco itself already using a “yellow value roundel” on its packaging.

However, while the Judge accepted that was the case, those submissions were not considered enough to satisfy the burden of establishing due cause because they did not explain why Tesco had specifically chosen to superimpose the yellow roundel on a blue background in the same manner as Lidl.

### *Conclusion on trade mark infringement*

Accordingly, Tesco's use of the CCP Signs was found to infringe Lidl's Mark with Text, with the Judge noting that the position was the same for the Wordless Mark (had it been considered valid ...).

### *Tesco's counterclaim for invalidity*

In response to the infringement action, Tesco sought to invalidate Lidl's Wordless Marks on various grounds, namely non-use, lack of distinctiveness and bad faith.

### *Non-use and distinctiveness*

The Judge dismissed the non-use arguments by Tesco, finding that its use of the Mark with Text was sufficient to establish genuine use of the Wordless Mark.

Lidl was also able to demonstrate the Wordless Mark was distinctive through, among other things, survey evidence showing a high proportion of participants recognising the

background-only to be Lidl's trade mark and therefore distinctive of Lidl rather than merely decorative elements.

### *Bad faith*

Despite the Judge finding the Wordless Mark had been used as a result of the use of the Mark with Text, it nevertheless concluded that the Wordless Mark had been registered in bad faith. This is an interesting and significant ruling.

Tesco's bad faith claim was made on the basis that Lidl had applied for the Wordless Mark solely as a legal weapon to be used against competitors and that Lidl had filed successive applications for the Wordless Mark in order to evade proof of use requirements (commonly known as evergreening).

Tesco highlighted, among other things, the repeat filings of the Wordless Mark in 2002, 2005 and 2007 relation to goods and services already covered by prior Wordless Mark(s) and the absence of any use by Lidl of the Wordless Mark.

Importantly, these circumstances were considered by the Judge to be sufficient evidence to raise a rebuttable presumption of bad faith on the part of Lidl.

The onus was therefore on Lidl to provide a plausible explanation of its objectives and commercial logic pursued by the application.

It was unable to do so and the Judge therefore concluded that the registrations were part of an evergreening exercise which amounted to an abuse of the trade mark system.

Accordingly, the Wordless Marks were declared invalid.

This decision is an important reminder that evidence of actual use of a mark at a later date will not save a trade mark from invalidation on the grounds of bad faith, since bad faith is assessed from the date of filing.

### *Passing off*

As with the trade mark infringement claim, Lidl's passing off action was not based on an allegation that consumers would be confused as to origin.

Instead, Lidl's contention was that the use of the CCP Signs would result in consumers being misled into thinking the Tesco Clubcard prices were the same or lower than the Lidl price for equivalent goods (or that Tesco had price-matched Lidl in relation to those goods).

The Judge agreed, finding that the various conditions for passing off were satisfied. Namely, that Lidl possessed the requisite goodwill in the Lidl Marks owing to its reputation among the UK public as discounter offering goods at low prices and that a misrepresentation as to equivalence had occurred, with Lidl suffering damage in same form as that set out above for trade mark infringement.

### *Copyright infringement*

Although Lidl claimed infringement of both the Mark with Text and the Wordless Mark, the Judge disregarded the latter on the basis that it had not been used by Lidl and there was no suggestion Tesco had seen it. Accordingly, any copying by Tesco could only have been in respect of the Mark with Text.

With regard to subsistence and originality, Tesco contended (among other things) that the bringing together of the Lidl text within the yellow circle on a blue background was effectively too simple and was not an act which involved the "skill and labour" required to attract copyright.

The Judge disagreed, concluding that the combination of colours and shapes and the orientation of the various elements did involve skill and labour, and that simplicity of design and/or a low level of artistic quality does not preclude originality. Copyright was therefore found to subsist in the Mark with Text.

As to copying, given the similarities between the CCP Signs and Mark with Text and the access Tesco had to the latter, the Judge considered there to be an inference of copying. The burden of proving otherwise therefore passed to Tesco, who were unable to provide a credible explanation for the similarities. Tesco's position was not helped by its inaccurate recollection of how the CCP Signs had been created and its unwillingness to call its external design agency to give evidence concerning the creative process, despite it being clear that it had been heavily involved.

Finally, the Judge was satisfied that the blue background and yellow circle constituted a substantial part of Lidl's work and concluded that Tesco had infringed the same.

### *Comment*

At first blush, observers may consider some of the findings in favour of Lidl to be somewhat surprising given that Lidl's branding and Tesco's CCP Signs include entirely different – and relatively prominent – foreground text, and that the similarities are limited to background features which appear relatively banal i.e., a yellow circle against a blue background.

What the lengthy judgment primarily demonstrates is that the outcome was heavily influenced by the strength of evidence Lidl was able to rely on in order to prove a considerable number of different elements for each of the causes of action claimed.

### *Scope of protection for marks with a reputation*

The outcome also continues a recent trend of claimants succeeding with trade mark infringement actions on the grounds of detriment and/or unfair advantage under s.10(3), and not under the more traditionally relied on likelihood of confusion under s.10(2).

This demonstrates the wide scope of protection marks with a reputation are increasingly afforded, with this case also suggesting a potentially broad protection for brands consisting of a combination of words, shapes and colours.

### *Bad faith and evergreening*

Although it did not ultimately have a material impact on the outcome, arguably the most notable aspect of the judgment was the ruling on bad faith. In particular, the findings in relation to the practice of evergreening, which has been the subject of several recent and ongoing cases.

This judgment indicates that, where circumstances strongly suggest evergreening has taken place (e.g., repeat filings for marks covering the same goods and services), it may result in a presumption of bad faith with the burden of proving otherwise shifting to the trade mark owner.

In most cases, it will likely be very difficult for applicants to evidence good faith unless they have contemporaneous records of their commercial logic and objectives at the time of filing. Trade mark owners would therefore be well advised to keep and maintain any records demonstrating good faith intentions to use filed marks at the time applications are made.

It is also particularly notable here that bad faith was found despite Lidl successfully demonstrating that the relevant marks had been put to genuine use. This, again, is a reminder that genuine use and bad faith are different issues, with the latter assessed at the time the trade marks are filed. Therefore, any finding of genuine use at a later date will not in itself save an applicant from falling foul of the developing law prohibiting the practice of evergreening.

### *Passing off as to equivalence*

Rather than claiming passing off as to origin or association, as it typically the case, Lidl successfully argued that consumers would be deceived into believing Tesco's goods were equivalent to Lidl's in terms of price, resulting in shoppers switching away from Lidl.

These findings illustrates the value of unregistered rights and how flexibly the tort can be applied in certain circumstances.

### *Copyright*

Finally, as to copyright, the judgment is a reminder that the artistic merit is not a requirement for originality – only that the work is a result of skill and labour. Copyright can therefore subsist in something as simple as a combination of commonplace shapes and colours.

## EUROPEAN UNION

### **Professor Phillip Johnson**

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### **Satellite television and the home of the broadcast**

***C-290/21 Staatlich genehmigte Gesellschaft der Autoren, Komponisten und Musikverleger Reg. Gen. mbH (AKM) v Canal+*, EU:C:2022:711 (AG), EU:C:2023:424**

The 1990s saw the rapid development of satellite television across Europe, and in 1993 the European Economic Community<sup>1</sup> enacted the Satellite and Cable Directive.<sup>2</sup> The purpose of the Directive was to make it clear who had to obtain a copyright licence when a work was broadcast by satellite and to indicate how much should be paid for those rights. The Directive came up with the idea of attaching liability to the person who introduced the program-carrying signal into the “uninterrupted chain of communication” between its origin and the paying public.<sup>3</sup> In summary, it provided that the authorisation to transmit the copyright work was only required in the country where the signal was sent from earth to the satellite. This is commonly called the “country of uplift approach” or the “emission theory”.<sup>4</sup> Critically, the Directive made it clear that the authorisation to transmit the copyright work should take into account the footprint of the satellite transmission.<sup>5</sup>

This model was based on the premise that one broadcaster would be responsible for everything from start to finish, but over time television distribution has become more complicated. In *C-290/21 AKM v Canal* (“*AKM*”)<sup>6</sup> the Court was concerned with “satellite packages” which involve the aggregation of multiple signals. The most obvious combination being free to air channels and subscription (encrypted) channels.<sup>7</sup> It is possible for anyone (with a satellite receiver) to view the free to air channels<sup>8</sup> but it is necessary to have a decoder card (or access key) to view the encrypted channels.<sup>9</sup> In *AKM*, the Court had to consider whether satellite package providers were covered by the emission theory (one authorisation to rule them all) or whether the provider needed to obtain authorisations in every country where the decoder cards (or codes) were made available.

Critically, it was not the first time this issue had been considered by the Court and so in many respects this case was a rerun of *C-431/09 Airfield v SABAM* (“*Airfield*”)<sup>10</sup> albeit the outcome was different. In *Airfield*, the Court considered whether there was a communication by satellite and whether the provision of a decoder was making a work available to a new public. These issues returned in *AKM* along with some guidance on how the remuneration should be determined where a work is transmitted by satellite.

### ***Communication by satellite***

The rule that the satellite broadcast is deemed to only take place in the Member State of uplift (the emission theory) or

as the Advocate General called it, “the broadcasting Member State principle”<sup>11</sup> is intended to provide legal certainty and an adequate level of protection to rights holders.<sup>12</sup> It means that where a communication satisfies the necessary requirements of “the broadcasting Member State principle” then only the copyright law of that Member State applies to the entire communication.<sup>13</sup> The rule was, the Advocate General suggested, to both remove obstacles caused by the territoriality of copyright, but also to provide safeguards to copyright holders by designating an operator as responsible for the entire communication.<sup>14</sup> It means, for example, that if a communication is made from Austria which satisfies all the necessary requirements then only Austrian copyright law applies to the transmission even where it can be received in many (or even all) other Member States.

The necessary requirements for “the broadcasting Member State principle” to apply and so for the transmission to be a single communication to the public are as follows.<sup>15</sup> First, it is triggered by an “act of introducing” program-carrying signals, carried out “under the control and responsibility of the broadcasting organisation”; secondly, those signals are introduced “into an uninterrupted chain of communication leading to the satellite and down towards the earth”; thirdly, the signals are “intended for reception by the public”; and finally, where the signals are encrypted, the means for decrypting the broadcast are “provided to the public by the broadcasting organisation or with its consent”.<sup>16</sup>

In *AKM* the Advocate General opined that the program-carrying signal could be introduced into a “chain of communication” by the broadcasting organisation either directly or, by a third party, with the organisation’s consent. In other words, once transmitted the organisation is assuming responsibility for the communication<sup>17</sup> and everything that entails.<sup>18</sup> A corollary of there being a single act of communication is that responsibility for that act cannot be shared.<sup>19</sup> This means, the Advocate General stated, that the control over the copyright-relevant aspects of the communication<sup>20</sup> must be *total* for the responsibility to exist.<sup>21</sup> But it does not mean *physical* control over the entire communication: control can come from the ability to set contractual terms with a satellite package provider.<sup>22</sup> The Court did not address the issue of control directly, but nothing in its judgment diverged from what the Advocate General put forward.

One of the key aspects of rule is that it must be an “uninterrupted” communication. In *AKM* the Advocate General took the view that what is originally transmitted by the original provider of the signal must be that intended for reception by the public and any steps taken to delay or alter the transmission would mean it ceased to be “uninterrupted”.<sup>23</sup> The reference to “alteration” must mean the content of the program itself being altered – such as adding commercials or subtitles – rather than the signal being coded or decoded. This is because it had already been established in *Airfield*

that a broadcasting organisations receiving signals, possibly decoding them, re-scrambling them and beaming them up to the satellite concerned is a customary technical activity and therefore does not break the “uninterrupted chain of communication”.<sup>24</sup> Furthermore, it is suggested that any alteration or addition must be *during* the transmission of the signal and not something added by the receiving device (e.g., automatic subtitles generated by a television set).

The no alteration rule did not affect another issues before the Court, namely the fact that multiple broadcasting organisations could have their signals combined into one signal before being sent to the satellite (e.g., the free to air signal and the encrypted signal). The Advocate General simply took the view that this one transmission is in effect little more than multiple transmissions running side-by-side.<sup>25</sup> And, once more, there is nothing in the Court’s reasoning suggesting he was incorrect in his assessment.

Critically, to benefit from the broadcasting Member State principle, it is not necessary for the broadcasting organisation to carry out the communication *itself* provided it has control over it.<sup>26</sup> This means certain tasks in arranging the broadcast can be entrusted to others – such as satellite package providers.<sup>27</sup> Strangely, at one point the Advocate General inverted the relationship between the provider and the broadcaster. The broadcaster was not providing a service to the package provider (to transmit its package by satellite), rather the broadcasting organisation was *delegating* the content provision aspect to the provider. But later in his opinion the relationship is switched back as the package was acknowledged to enable the receipt of multiple single transmissions from different broadcasting organisations. The package being considered as an intrinsic part of the “uninterrupted communication” of each one.<sup>28</sup> The Court elided any complex explanation of the relationship between package provider and broadcasting organisation and concluded by saying little more than the copyright law of the country of uplift was the only one that applied and that the satellite package provider need not get an authorisation in respect of any other Member State.

### “New publics”

In *Airfield* despite the Court finding that there was only one single and indivisible communication to the public by satellite, it went on to conclude that a satellite package provider needed to get a separate authorisation from the broadcasting organisation.<sup>29</sup> The reasoning adopted in *Airfield* was that the provision of a decoder to view the encrypted signal was making the content of that signal – the television programs – available to a new public.<sup>30</sup> While there may appear to be some logic to this approach because a viewer could not watch the program at all until they got a decoder from *Airfield*, it ignores the fact that without the decoder there is no public at all. The original public and the new public are therefore the same. So it is the viewer with a decoder who was taken into account when

the original authorisation was given to broadcast the work.<sup>31</sup> Furthermore, this basic rationale is not affected where the decoder gives access to multiple broadcasters' signals. In each case, the decoding is the end of each of those signals and not a new transmission.<sup>32</sup>

Despite the Advocate General's strident criticism of this aspect of *Airfield*, the Court did not expressly overturn its previous decision.<sup>33</sup> Instead, it seamlessly side-stepped it by concluding that satellite package providers must obtain the authorisation of the right holders only in the Member State in respect of which the program-carrying signal is introduced into the chain of communication (i.e. the country of uplift).<sup>34</sup> It is difficult to see how this conclusion is compatible with *Airfield*, but the approach the Court adopted in *AKM* does appear to be the right one.

### **Assessing the licence fee**

The very purpose of the Satellite and Cable Directive was to ensure that where the necessary requirements were met there would be only one communication.<sup>35</sup> One communication means one payment. Indeed, the Directive expressly refers to a single payment being made to cover the actual exploitation of the work (and not just the use in the country of uplift).<sup>36</sup> So while the broadcasting organisation has to get an authorisation to cover the actual effect of the communication,<sup>37</sup> it falls to the collecting societies (and the right holders) to find suitable solutions to determine the level of remuneration that should be paid when the broadcast can be accessed in multiple Member States.<sup>38</sup> Only where there is an interruption so it ceases to be an "uninterrupted communication" is a new authorisation needed.<sup>39</sup>

A final, and interesting, point was what should happen where the licence agreed for the "single" communication did not take account of the actual audience. The answer was where the parties have been honest and provided each other with information, nothing can be done. The right holders simply agreed to a bad deal. This is the case even where the right holder in Member State A may have no connection with the right holder in Member State B and so has no interest in obtaining more money to share out. On the other hand, where incorrect information was used to obtain the authorisation, then it makes the authorisation for the whole broadcast invalid.<sup>40</sup> But even then, only the right holder in the country of uplift has a right to sue for infringement.

### **Conclusion**

The conclusion in *AKM* is one which closely aligns with business practices and the terms of the Directive. In many respects, it corrects the approach put forward by the Court in *Airfield*. While there are some mental gymnastics needed to get to the outcome, the final result that a satellite package provider only needs to seek permission in the country of uplift achieves the legal certainty and clarity at the heart of the Directive.

- 1 The predecessor of the European Union.
- 2 Directive 93/83/EEC on the coordination of certain rules concerning copyright and rights related to copyright applicable to satellite broadcasting and cable retransmission (it is amended by Directive (EU) 2019/789 laying down rules on the exercise of copyright and related rights applicable to certain online transmissions of broadcasting organisations and retransmissions of television and radio programs: but not in a relevant way: C-290/21 *AKM v Canal*, EU:C:2022:711, [45]). The Directive was a follow on from the earlier Directive 89/552/EEC on the coordination of certain provisions laid down by law, regulation or administrative action in Member States concerning the pursuit of television broadcasting activities (the Television without Frontiers Directive).
- 3 Directive 93/83/EEC, art 1(2)(a) and (b).
- 4 As to this rule see, C-290/21 *AKM v Canal*, EU:C:2023:424, [27].
- 5 Directive 93/83/EEC, Recital (17).
- 6 EU:C:2022:711 ("AG"), EU:C:2023:424 ("Court").
- 7 The Advocate General considered these to be two separate and primary broadcasts: AG [65]. Also see AG, [73] (questioning the idea that a high-definition program might be the retransmission of a standard definition program).
- 8 Court, [12].
- 9 AG, [11] and [12]; C-431/09 *Airfield v SABAM*, EU:C:2011:648, [11] and [12] ("*Airfield*"). The AG opined that the absence of these models during the negotiations of the Directive were immaterial as to whether the Directive applied or not: AG [42] and [43].
- 10 EU:C:2011:648.
- 11 AG, [24].
- 12 Court, [31]; AG, [26].
- 13 AG, [28].
- 14 Court, [32]; AG, [39].
- 15 These originate from *Airfield*, [52] and are given in slightly different terms by AG, [27]. They are a simplification of Directive 93/83/EEC, art 1(2).
- 16 *Airfield*, [52] adopted by the Court, [22]. The Advocate General expressed it differently: AG, [27].
- 17 AG, [31].
- 18 AG, [37].
- 19 AG, [39] (one presumes this is subject to accessory liability rules).
- 20 AG, [38].
- 21 AG, [36].
- 22 AG, [37]. For instance, that the provider will obtain the necessary clearances for any work transmitted.
- 23 AG [33].
- 24 *Airfield*, [60] and [61]; AG [31].
- 25 AG, [44] (rejecting the initial transmission argument) and [66].
- 26 AG, [43].
- 27 AG, [43].
- 28 AG, [60].
- 29 *Airfield*, [69]–[83].
- 30 *Airfield*, [77]–[80].
- 31 Expressed differently, but see AG, [50] and [58] (and this is represented by the subscription fee, [59]).
- 32 AG, [60].
- 33 Indeed, it seemed to directly endorse it: Court, [29].
- 34 Court, [30].
- 35 AG, [55].
- 36 Directive 93/83/EEC, Recital (17); *Airfield*, [71] and [73]; Court, [24].
- 37 Court, [26].
- 38 Court, [28].
- 39 Court, [25] and [29].
- 40 AG, [56].

### FRANCE

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#### LVMH and Richemont dispute over the Alhambra motif: an awaited decision at the appeal stage

The Paris Court of Appeal recently ruled on an interesting dispute involving two major companies in the luxury goods industry.

On the one hand, Richemont, who owns the famous “Van Cleef & Arpels” and “Cartier” brands, and on the other hand, LVMH and its subsidiary Louis Vuitton, which is well-known throughout the world for its logo the “Monogram”, notably serving as a decorative motif on handbags or luggage.

The dispute started at the end of 2015 when Van Cleef & Arpels discovered that Louis Vuitton was commercialising a new range of jewellery called, like its well-known logo, “Monogram”. Some of the jewels found in that range used a quadrilobed trefoil motif in semi-precious hardstone surrounded by a precious metal outline.

Van Cleef & Arpels considered those jewels were too close to its Alhambra design and its jewel creations. It therefore initiated a suit against Louis Vuitton on the grounds of unfair competition and parasitism. The Paris Commercial Court in its ruling dated 4 October 2021 held that the jewels developed and sold by Louis Vuitton were to be prohibited from sale as they amounted to unfair competition and parasitic behaviour towards Van Cleef & Arpels.

Louis Vuitton filed an appeal to the Paris Court of Appeal. The appeal Judges took a different stance than the first instance Judges. The Court, in its decision dated 23 June 2023, ruled in Van Cleef & Arpels’ favour by finding that no unfair competition or parasitism acts could be evidenced.

The Court found for Van Cleef & Arpels, pursuant to the well-established principle of French law that a product which is not protected by intellectual property rights can be freely copied and commercialised by a third party. It is only in case of likelihood of confusion as to the commercial origin of a product or parasitic behaviour by a third party that a company having reproduced or imitated a competitor’s product might be liable under general tort law rules. In particular, parasitism arises if a company unduly benefits from the reputation of a third party’s asset without incurring any expenses and/or unduly benefits from its efforts or its know-how.

The interesting issue is that there obviously exists similarities between the quadrilobed trefoil used by Van Cleef & Arpels for its jewels and the one included by Louis Vuitton in its monogram. As part of the appeal, Louis Vuitton therefore also tried to rely on the existence of its trade mark of such trefoil registered since 1996 to challenge Van Cleef & Arpels’ action. With regards to Louis Vuitton’s trade mark, the Court

ruled that the mere existence of this trade mark was not an obstacle to the admissibility of Van Cleef & Arpels’ claims.

On the merits of the claims, the Court first noted that Van Cleef & Arpels had acknowledged some years ago, as part of settlement discussions, the right for Louis Vuitton to keep using its trefoil found in its monogram.

Turning to the jewels at stake, the Court noted that some differences existed between those sold by Van Cleef & Arpels and those by Louis Vuitton. The Court ruled that the disputed pattern of Louis Vuitton’s jewels “does not include all the characteristics of the iconic model of the respondents in that the quadrilobed trefoil shape is not cut out, does not include beaded setting, nor double-sided character, the stone is not smooth and has a central element”, especially since, “the use of the quadrilobed shape ... is a known and usual element in the field of applied arts and particularly jewellery”. The Court also held that Louis Vuitton was legitimate in updating the appearance of its own trefoil and, by using it for jewellery products, its acts could not amount to parasitic behaviour towards Van Cleef & Arpels.

The Court added that neither the existence of a complete range of jewellery nor the advertising campaigns created by Louis Vuitton constituted a wrongdoing.

The Court finally concluded:

*It follows from all of these elements that the various grievances alleged by (...) [Van Cleef & Arpels] against the Vuitton companies are insufficient to establish, even taken in combination, faulty behavior on the part of the latter, the risk of association noted by the respondent companies which they deduce from the comments of some Internet users on social networks who indicate that the Color Blossom collection is inspired by the Alhambra collection (...) [and] is in this respect insufficient to demonstrate unfair behavior.*

Van Cleef & Arpels may decide to appeal this decision to the French Supreme Court (Cour de Cassation). Yet, the decision from the Paris Court of Appeal is a useful reminder that the mere existence of similarities between products cannot, always, amount to unfair competition or parasitism. The same is all the truer should the similarities between the products pre-exist, be justified by technical reasons or be commonly shared by other companies.

Over the years, parasitism has become increasingly raised by claimants before French courts in an attempt to overcome some of the difficulties in copyright cases, such as the demonstration of a work’s originality. As a result, French courts are tending to be more protective of a claimant’s position. The Court of Appeal’s ruling is therefore an interesting reminder that in the absence of an intellectual property right, free competition is the guiding principle.

<sup>1</sup> This contribution reflects the personal views of the authors and should not be attributed to the authors’ firm or to any of its present and future clients.

### GERMANY

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**Can a “covenant not to sue” trigger exhaustion of patent rights? Yes, according to the German Federal Court of Justice**

**German Federal Court of Justice, decision dated 24 January 2023, X ZR 123/20**

#### *Introduction*

In its decision dated 26 January 2023, the Federal Court of Justice (“FCJ”) dealt with the doctrine of patent exhaustion and two clauses often found in settlement agreements, namely the so-called “covenant not to sue” and the “covenant to be sued last”. This was the FCJ’s first opportunity to discuss whether these clauses avoid triggering exhaustion or not.

#### *Background*

As background information, essential terms for the judgment are explained below, followed by a brief introduction to the previous judgment of the lower court regarding the principle of exhaustion of patent rights.

Pursuant to section 138(1) of the German Code of Civil Procedure (“ZPO”), the parties must, in principle, make their statements about factual circumstances completely and in accordance with the truth. Section 138(4) of the ZPO stipulates that a declaration of ignorance is only admissible regarding facts that were neither the party’s own acts nor its own perception.

The duty to tell the truth obliges the parties to make their statements about factual circumstances in court completely and in accordance with the truth. Contesting with ignorance is thus not to be understood as a way to quickly and easily reject any opposing party’s assertion, but can only to be “used” if there is genuinely no knowledge of the relevant facts.

An important aspect of the judgment discussed below is both the covenant not to sue and the covenant to be sued last. A covenant not to sue is an agreement between a patentee and another contracting party, in which the patentee undertakes not to sue the contracting party for patent infringement (BGH GRUR 2023, 474, 475). By contrast, a covenant to be sued last does not exclude an action – the action against the contracting party is merely to be postponed by such an agreement and the patentee is obliged to first bring an action against all other parties who can be impugned on the basis of an infringing act (BGH GRUR 2023, 474, 475).

In the appealed decision, the Higher Regional Court (“HRC”) Karlsruhe found that a covenant to be sued last does not lead to an exhaustion of patent rights.

#### *The case*

The case in question relates to patent infringement. The patent covers a product and a method. The method deals with receiving a control signal. The protected product comprises a mobile telephone terminal for carrying out the protected method.

The defendant is a provider of mobile telephone devices in Germany which, according to the defendant, are able to carry out the Long Term Evolution standard. According to the plaintiff, these terminals are patent infringing. Thereby, the method was completely or essentially carried out by the chipsets of the terminals, which were supplied to the defendant by a third party who enjoyed a covenant to be sued last on basis of the patent suit by the patentee.

#### *The decision*

In the decision the FCJ both supplemented an existing ruling and established new legal principles.

First, the Court recalled sections 138(1) and 138(4) of the ZPO. The Court also maintained that it is one of the obligations of the party making a declaration of ignorance to obtain the information necessary for a qualified denial. This is needed when it concerns events that take place involving persons who have acted under their guidance, supervision or responsibility. With regard to patent law, this means that the party offering or marketing the product challenged as patent infringing cannot merely plead ignorance with regard to a specific claim of the other party concerning the product’s technical properties. According to the Court, this should not constitute excessive requirements for the defendant. With this opinion, the Court reinforced the already existing understanding of section 138(4) of the ZPO.

In its decision, the FCJ contradicted the Court of Appeal by refuting its application of the covenant not to sue to the facts of the case.

The Court of Appeal denied exhaustion of rights under the patent in the present case. It held that a covenant not to sue does not normally lead to exhaustion of patent rights in respect of products put on the market on that basis, but the FCJ did not support this. The FCJ further found that a covenant to be sued last can cause exhaustion of patent rights.

The FCJ stated that, according to settled case law, the exclusive right conferred by a patent is exhausted in respect of the products put to market by the patentee or a third party with the patentee’s consent. This is a logical conclusion from the idea that an acquirer of a patented product only benefits from the acquisition of the patented product if he/she is entitled to a right of use after the acquisition. The FCJ also saw this step as a logical conclusion from the meaning and purpose of patent law.

The FCJ held that not only does the patentee's explicit consent to marketing a product result in exhaustion but so too does the contractual obligation to not assert the patent against such products. According to the FCJ it is not a requirement of the law that there is a valid licence to the patent. By undertaking not to assert the rights to the patent, the patentee would have exercised his/her rights fully. As a covenant not to sue is exactly such an undertaking it follows that it leads to exhaustion, according to the FCJ.

The FCJ also dealt with the question of whether exhaustion could be assumed based on the defendant's argument that the only commercially reasonable use of the disputed chipsets was to install them in mobile telephone terminals. The FCJ clarified that the patentee's consent to the distribution of the chipsets could be interpreted as implied consent to the distribution of mobile telephone devices equipped with the chipsets. In this context, the FCJ considered it necessary that the patentee's consent related to the marketing of the overall device. According to the FCJ, the fact that the installation of the chipsets in mobile telephones is the only economically sensible way of using the chipsets cannot in this case already constitute an implied consent to the marketing of mobile telephones equipped with the chipsets.

The FCJ referred the case back to the HRC Karlsruhe for final determination.

### ***Conclusion***

As a result, it remains to be seen how the HRC Karlsruhe will implement the FCJ's findings in its next decision. Here it could become most interesting. The patentee may argue against exhaustion on basis of the country of protection principle, because presumably the chipsets were not first introduced to the market in the European Economic Community, which is the relevant "country of protection" for Germany. If, for example, the chipsets were first put on the market in Taiwan, then the patent should still not be exhausted under the existing case law. In contrast to US case law (e.g., the Supreme Court of the United States decision of 30 May 2017, No 15–1189, *Impression Products, Inc. v. Lexmark International, Inc.*), European courts do not follow a notion of worldwide exhaustion but strictly adhere to the country of protection principle.

# Current Developments – North America

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## CANADA

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#### “The Need for Speed”! – Benefits of Timely Filing of Canadian Trade Mark Applications

Canadian trade mark owners that offer goods or services in Canada, including in the Province of Quebec, should be aware of three factors that are making it important to file trade mark applications for trade marks used in Canada as soon as possible:

1. changes to the French language laws in the Province of Quebec that will come into effect on 1 June 2025;
2. Canadian Intellectual Property Office (“CIPO”) fee increases of 25 per cent to be imposed in 2024; and
3. the continuing backlog of trade mark applications and timeline for examination of Canadian trade mark applications.

In order to obtain trade mark registrations before the French language law changes come into effect in June 2025, it is important that trade mark applications be filed now and that they include only pre-approved descriptions of goods and services that are listed in the CIPO *Goods and Services Manual*. Obtaining timely registrations will allow trade mark owners who use their marks in the Province of Quebec to continue to use the English version of their trade mark without translation into French on packaging, on signage, posters and in commercial advertising.

#### *Amendments to the Charter of the French Language*

Currently, there is an exception in the *Charter of the French Language* (the “Charter”) for “recognized” trade marks that allows a trade mark owner to use its trade mark in the Province of Quebec in English only, without translation into French. “Recognized” trade marks are those that are either registered in Canada or used without registration in Canada to such an extent that they have developed a reputation (common law trade marks) in English only. In the absence of the exception, translation requirements would apply.

Bill 96, *An Act respecting French, the official and common language of Québec*, is new legislation adopted by the Province of Quebec that came into force on 1 June 2022 and that significantly amends the Charter. When the amended provisions of the Charter relating to this exception come into force on 1 June 2025, the trade mark exception will be restricted to only registered trade marks. Canadian trade marks that have been registered only in English will continue

to benefit from the exception. However, unregistered trade marks will need to be translated into French on product packaging and labelling, on public signage, posters and commercial advertising.

In addition, as of 1 June 2025, if a Canadian trade mark registered only in English includes a “generic term or a description of the product”, this generic term or description must appear in French on the product or on a medium attached to the product. Any registered English trade marks on product packaging and labelling will need to be assessed to identify generic or descriptive words that will require French translation elsewhere on the packaging and labelling. For public signs and posters visible from outside premises, a trade mark registered only in English must be accompanied by French that is “markedly predominant”.

Further guidance on these issues will be available when the regulations to the legislation are finalised. It is expected that the draft regulations will be published in late August and that comments may be submitted by 7 October 2023.

Penalties for non-compliance with Bill 96 will be: CA\$3,000 to CA\$30,000 for a first offence (plus directors could be personally liable for fines of CA\$1,400 to CA\$14,000); CA\$6,000 to CA\$60,000 for a second offence (plus directors could be personally liable for fines of CA\$2,800 to CA\$28,000); and CA\$4,200 to CA\$42,000 for a third offence (plus directors could be personally liable for fines of CA\$4,200 to CA\$42,000).

When an offence continues for more than one day, each day constitutes a separate offence. Repeated offences could also result in the suspension or revocation of a permit or other authorisation issued by the Quebec government. A judge may also impose a further fine not exceeding the financial benefit realised by the offender as a result of the offence.

#### *CIPO Fee Increases in 2024*

CIPO has announced trade mark fee adjustments that will take effect on 1 January 2024. Most fees will increase by 25 per cent. These significant increases can be avoided by filing trade mark applications before the end of 2023.

Trade mark applications filed in 2023 require that a filing fee of CA\$347 for the first class of goods/services plus CA\$105 for each additional class be paid to CIPO. In 2024, those fees will be CA\$434 and CA\$131 respectively. Renewals in 2023 require payment of a renewal fee to CIPO in the amount of CA\$421 for the first class plus CA\$131 for each additional class. In 2024, those fees will be CA\$526 and CA\$164.

CIPO has stated that the increase is the result of the first fee review since 2004 and will “address its current structural deficit and better enable the organization to serve its clients”.

### ***CIPO Backlog and Delays in Examination of Trade Mark Applications***

In light of the benefit of having a registered trade mark, trade mark owners who use trade marks in the Province of Quebec should consider filing trade mark applications as soon as possible as significant delays continue to be experienced with the examination of trade mark applications by CIPO. For applications that include goods and services descriptions that are not pre-approved descriptions listed in the CIPO *Goods and Services Manual*, the current delay in examination is approximately 50 months from the filing of an application. For those that include only pre-approved goods and services descriptions, the current delay is approximately 19 months.

An application filed today with only pre-approved goods and services could proceed to registration by 1 June 2025 if no objections are raised on examination.

For all of the reasons above, Canadian trade mark owners have an incentive to review their Canadian trade mark portfolio and assess whether any additional filings would be of benefit.

## UNITED STATES OF AMERICA

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### ***The US Supreme Court Rules that Patents Must Enable Full Scope of Patent Claims***

In a greatly anticipated decision among patent practitioners, the Supreme Court of the United States unanimously invalidated a patent directed to antibodies for treating high cholesterol levels for lack of enablement. The decision in *Amgen Inc. v Sanofi* (“*Amgen*”) 143 S. Ct. 1243 (2023)<sup>1</sup> attempts to resolve a long-standing debate that has vexed courts, particularly in bioengineering patent cases, namely whether a specification is required to enable the full scope of genus claims or only a subset of them. The Court has now clarified that in order to be valid, the enablement of the patent specification must be commensurate with the full extent of the claims.

The underlying facts that led to *Amgen* started during the mid-2000s. A number of pharmaceutical companies began researching treatment for patients with high levels of low density lipoprotein (“LDL”) cholesterol by making antibodies to inhibit a naturally occurring protein called PCSK9 from binding to and degrading LDL receptors. It was then discovered that in order to be effective, these antibodies were required to bind to a particular 15-amino acid sequence of PCSK9 (out of a total of 692 amino acids).

Both Amgen and Sanofi developed and patented specific PCSK9-inhibiting drugs, where each employed a distinct antibody with its own unique amino acid sequence for binding to the same region of PCSK9. Neither of those patents claiming a specific antibody was at issue in this case. Rather, the dispute focused on two continuation patents that Amgen obtained in 2014 claiming priority from the original patent. In the two continuation patents, rather than claiming particular antibodies described by an amino acid sequence, Amgen’s claims broadly covered the entire genus of antibodies that (1) “bind to specific amino acid residues on PCSK9” and (2) “block PCSK9 from binding” to LDL receptors. In its specification supporting those claims, Amgen identified 26 antibodies that perform these two functions by their amino acid sequences and described two methods to identify additional antibodies that perform the claimed PCSK9 binding and blocking functions.

The first (“roadmap”) method disclosed by Amgen’s specification directed scientists to:

- (1) generate a range of antibodies in the lab;
- (2) test those antibodies to determine whether any bind to PCSK9;
- (3) test those antibodies that bind to PCSK9 to determine whether any bind to the desired region; and

- (4) test those antibodies to determine whether any block PCSK9 from binding to LDL receptors.

The second (“conservative substitution”) method required scientists to:

- (1) start with an antibody known to perform the described functions;
- (2) replace select amino acids in the antibody with other amino acids known to have similar properties; and
- (3) test the resulting antibody to see if it also performs the described functions.

Upon issuance of these two patents, Amgen sued Sanofi for infringement. Having no meaningful non-infringement defence to these broad claims, Sanofi’s defence was principally that Amgen’s claims were invalid as a matter of law, because Amgen had not enabled a person skilled in the art to make and use *all* of the antibodies that perform the two claimed functions. Sanofi argued that Amgen’s claims potentially covered millions of undisclosed antibodies beyond the mere 26 that it identified by sequence, and the methods Amgen disclosed for identifying suitable antibodies were essentially a trial-and-error process.

In the first instance, the Delaware District Court granted judgment as a matter of law to Sanofi, concluding that the claims at issue were not enabled. On appeal, the Court of Appeals for the Federal Circuit affirmed, determining that “no reasonable factfinder could conclude” that Amgen had provided adequate guidance to make and use the claimed antibodies beyond the narrow scope of the working examples it had identified by their amino acid sequences.

On appeal, the Supreme Court likewise affirmed the finding of invalidity as a matter of law. Starting from first principles, the Court outlined the patent “bargain”: in exchange for bringing new designs and technologies into the public domain through disclosure, the inventor receives a limited term of protection from competitive exploitation. In order to provide the public with a benefit, therefore, inventors were required to enable the public to practice their inventions by publishing an adequate specification. This requirement is embodied in 35 U. S. C. §112: a specification must include “a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art ... to make and use the same.” If this is not done, the public does not benefit, and the quid pro quo fails, resulting in an invalid patent.

Drawing upon lessons from century-old cases, the Supreme Court admonished Amgen of the simple statutory command:

*If a patent claims an entire class of processes, machines, manufactures, or compositions of matter, the patent’s specification must enable a person skilled in the art to make and use the entire class. In other words, the specification*

*must enable the full scope of the invention as defined by its claims. The more one claims, the more one must enable.*

After articulating this sweeping prohibition, the Court did leave room for some breadth of claims:

*That is not to say a specification always must describe with particularity how to make and use every single embodiment within a claimed class. For instance, it may suffice to give an example (or a few examples) if the specification also discloses some general quality running through the class that gives it a peculiar fitness for the particular purpose. In some cases, disclosing that general quality may reliably enable a person skilled in the art to make and use all of what is claimed, not merely a subset.*

Therefore, the Court allowed some room for a measure of adaptation or testing, acknowledging that a specification may call for a reasonable amount of experimentation to make and use a patented invention. What is reasonable in any case will depend on the nature of the invention and the underlying art.

With these principles in mind, the Court found that Amgen’s claims, which sweep much broader than 26 antibodies, were not enabled by the specification, even allowing for a reasonable degree of experimentation. By claiming an entire class of things defined solely by their function, Amgen impermissibly sought to claim “sovereignty over [an] entire kingdom” of antibodies.

The Court rejected Amgen’s argument that its tests enabled the entire scope of the claims, calling those tests “little more than two research assignments”. The first merely described step-by-step Amgen’s own trial-and-error method for finding functional antibodies. The second requires scientists to make substitutions to the amino acid sequences of antibodies known to work – an uncertain prospect given the state of the art. The Court admonished Amgen that this sort of painstaking experimentation to see what works is not enablement, stating: “More nearly, it is ‘a hunting license.’”

In short, the Court held – as it has in cases over the past 150 years – that section 112 of the Patent Act reflects Congress’s judgment that if an inventor claims much but enables little, the public does not receive its benefit of the bargain. The Court held: “Today’s case may involve a new technology, but the legal principle is the same.”

In the wake of this decision, patent attorneys should be mindful to (a) claim less ambitiously and (b) be sure to disclose in their specifications more experimental examples, in order to adequately enable broadly drafted claims.

### ***Warhol’s Fair Use Defence Rejected in Copyright Infringement***

In a widely publicised case involving an Andy Warhol print of the musician Prince, the Supreme Court of the

## Current Developments – North America

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United States clarified the fair use standard in *Andy Warhol Foundation for the Visual Arts, Inc. v Goldsmith et al.*, 143 S. Ct. 1258 (2023).<sup>2</sup> In 1984, *Vanity Fair* magazine licensed a photograph of Prince from the rock photographer Lynn Goldsmith for use as an “artist reference”, and Goldsmith agreed, on a “one time” basis. The artist *Vanity Fair* hired was Andy Warhol, who made a silkscreen using Goldsmith’s photo (*Purple Prince*), and the magazine published the resulting image alongside an article about Prince. Goldsmith was paid US\$400 and credited for the “source photograph”. Warhol proceeded to create 15 additional works from Goldsmith’s photograph in a variety of colours. After Prince’s death, the Andy Warhol Foundation (“AWF”) licensed Orange Prince to Condé Nast, for the purpose of illustrating a commemorative magazine about Prince. AWF was paid US\$10,000 and Goldsmith received no credit or remuneration.



After Goldsmith’s demand, AWF filed suit for declaratory judgment of its fair use rights, and Goldsmith sued for copyright infringement. In the first instance, the District Court for the Southern District of New York granted summary judgment for AWF, finding that all of the factors for establishing fair use favoured AWF. It found that Warhol’s prints were “transformative” as they “have a different character, give Goldsmith’s photograph a new expression, and employ new aesthetics with creative and communicative results distinct from Goldsmith’s.” In particular, the District Court found that the Warhol works “transformed Prince from a vulnerable, uncomfortable person to an iconic, larger-than-life figure.”

The Court of Appeals for the Second Circuit reversed summary judgment and remanded for further findings of fact. The Court rejected the notion that adding a new aesthetic or new expression to source material necessarily rendered a secondary work transformative as a matter of law. Rather, the Court held that the question was “whether the secondary work’s use of its source material is in service of a fundamentally different and new artistic purpose and character.” Such “transformative purpose and character must, at bare minimum, comprise something more than the imposition of another artist’s style on the primary work.” By

this measure, the overarching purpose and function of the two works at issue was identical, as they were both portraits of Prince.

With substantial similarity of the works not in dispute, the Supreme Court granted certiorari, considering only the question of whether the first fair use factor (“the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes”) weighed in favour of AWF. In a 7-2 decision, the Supreme Court affirmed and agreed that the first factor favoured Goldsmith, not AWF.

The Supreme Court held that the first fair use factor focuses on whether an allegedly infringing use has a further purpose or different character, which must be weighed against other considerations, like commercialism. Although a new mode of expression in the secondary work may be relevant to whether a copying use has a sufficiently distinct purpose or character, it is not, without more, dispositive of this first factor.

As a matter of policy, the Court held that the central question is whether the new work merely supersedes the objects of the original creation, or instead adds something new, with a further purpose or different character. The use of an original work to achieve a purpose that is the same as, or highly similar to, the original work is more likely to substitute for, or supplant the work. The examples provided in the preamble to the fair use section are instructive: criticism, comment, news reporting, teaching, scholarship, or research – each has a different purpose than an original artistic work. The term “transformative” is applied to such secondary works whose purpose or character is different to the original.

As an example of such transformation, the Court referred to *Campbell v Acuff-Rose Music, Inc.*, 114 S. Ct. 1164 (1994) in which it held that 2 Live Crew’s parody utilising certain lyrics and musical elements from Roy Orbison’s song, “Oh, Pretty Woman”, was fair use. There, the Court explained that “parody has an obvious claim to transformative value” because “it can provide social benefit, by shedding light on an earlier work, and, in the process, creating a new one.” Critically, the Court observed that the addition of musical elements and different aesthetic was present, but standing alone would have been insufficient to make it transformative. Rather, the Court found it necessary to determine whether 2 Live Crew’s song rose to the level of parody, which gave it a distinct purpose of commenting on the original or criticising it.

In sum, the Court held, the first fair use factor considered whether the use itself has a further purpose or a different character, which is a matter of degree. Then, the degree of difference must be balanced against the commercial nature of the use. If the original work and the secondary use share the same or highly similar purposes, and the secondary use is of a commercial nature, the first factor is likely to weigh against fair use. With this in mind, the Court held that Goldsmith’s

original photograph and Warhol's print shared the same purpose: a commercial portrait of Prince. More specifically, the Court considered AWF's use of the original work to be licensing of Warhol's Orange Prince as a commercial substitute for Goldsmith's own original photograph, i.e., in direct competition for sales to magazines looking for images of Prince to accompany articles about the musician. In this particular context, the Supreme Court held the first fair use factor favoured Goldsmith. (Goldsmith dropped her claims as to Warhol's other prints, or their use in any other context).

### ***Parody May Infringe Trade Mark if Used as Trade Name***

In *Jack Daniel's Props. v VIP Prods. LLC*, 143 S. Ct. 1578 (2023), the Supreme Court of the United States decided that the fair use defence does not extend to the use of a registered trade mark as a trade name by the accused infringer. The case involved a dog toy designed to look like a bottle of Jack Daniel's whiskey. Of particular issue was that the words "Jack Daniel's" on the label became "Bad Spaniels" as a trade name to identify the dog toy. The phrase "Old No. 7 Brand Tennessee Sour Mash Whiskey" was turned into "The Old No. 2 On Your Tennessee Carpet". After Jack Daniel's sent VIP a letter of demand, VIP sought a declaratory judgment that Bad Spaniels neither infringed nor diluted Jack Daniel's trade marks, and Jack Daniel's counterclaimed under the *Lanham Act* for both trade mark infringement and trade mark dilution by tarnishment.

In the District Court, VIP moved for summary judgment on both claims, arguing that Jack Daniel's infringement claim must fail because Bad Spaniels was protected as a form of free speech for "expressive works". Under this defence, VIP argued that expressive works such as parodies are not liable for trade mark infringement unless the complainant can show that the challenged use of a mark (a) "has no artistic relevance to the underlying work" or (b) "explicitly misleads as to the source or the content of the work" (see *Rogers v Grimaldi*, 875 F.2d 994 (2d Cir. 1989) ("*Rogers*") rejecting Ginger Rogers' claim based on the title "Ginger and Fred" for Federico Fellini's film about two fictional Italian cabaret dancers who imitated Ginger Rogers and Fred Astaire).

The District Court rejected the defences because VIP had used Jack Daniel's trade marked features as its own trade marks – that is, to identify the source of its own products. Therefore, the *Rogers* test did not apply, and VIP was required to defend according to the standard infringement question of likelihood of causing consumer confusion. After denial of this defence as a matter of law, Jack Daniel's prevailed in the bench trial that followed, inasmuch as the Court found (based largely on survey evidence) that consumers were likely to be confused about the source of the Bad Spaniels toy, and the toy would cause Jack Daniel's reputational harm by creating negative associations with "canine excrement".

On appeal, the Court of Appeals reversed, ruling that the

District Court had misunderstood the pretrial legal issues. Under its view, the infringement claim was subject to the threshold *Rogers* test because Bad Spaniels is an "expressive work", because it communicates a humorous message. The Court of Appeals therefore returned the case to the District Court to decide whether Jack Daniel's could satisfy either of *Rogers*' two prongs. The Court of Appeals held that the exclusion from liability for "noncommercial use" shielded VIP from liability, even if used to sell a product, because it comments humorously on Jack Daniel's. On remand, the District Court found that Jack Daniel's could not satisfy either prong of *Rogers*, and so granted summary judgment to VIP on infringement. Jack Daniel's appealed, and the Ninth Circuit summarily affirmed.

The Supreme Court reversed the Court of Appeals' rulings on both infringement and dilution.

First, it held that when the accused use of a trade mark is made to designate the source of its own goods, this falls within the core protections of trade mark law, and does not receive special First Amendment protection due to expressive free speech. Without deciding whether the so-called *Rogers* test has merit in other contexts, the Court held that its doctrine was cabined to cases involving "non-trademark" uses – or otherwise said, cases in which the defendant has used the mark at issue in a non-source-identifying way. However, it does not apply when an alleged infringer uses a trade mark in the way the Lanham Act most cares about, i.e., as a designation of source for the infringer's own goods. Rather, the Court held that the use of a trade name as a parody can be relevant in the context of likelihood of confusion, insofar as consumers are unlikely to think that the maker of a mocked product is itself doing the mocking.

Second, as for dilution, the use of a famous mark does not count as noncommercial just because it parodies, or otherwise comments on, another's products. More specifically, one statutory exclusion from trade mark dilution protects any "noncommercial use of a mark". Another protects a "fair use" of a mark in connection with "parodying, criticizing, or commenting upon the famous mark owner or [its] goods". The fair-use exclusion, however, expressly precludes use – even if engaging in parody, criticism, or commentary – of the similar-looking mark as a designation of source for the defendant's own goods. In other words, the exclusion does not apply if the defendant uses the similar mark as a mark.

- 1 Editor's note: for analysis on what impact this decision may have, if any, on related proceedings in Australia, see the report in this issue by Kate Donald, Odette Gourley, Grant Fisher and Eleni Carydis.
- 2 Editor's note: for a discussion of this judgment in the context of whether Australia should replace its fair dealing exception to copyright infringement with a US-style fair use defence, see the article by Jade Andrews in this issue.



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