IP @ Ashurst

March 2017

From the Editors

Welcome to the March 2017 edition of IP @ Ashurst.

There has been a flurry of activity in the courts in relation to intellectual property matters between the end of last year to the beginning of this year, which has provided us with lots of interesting material to report on.

In particular, we cover two recent cases in which we acted successfully for our clients, *Henley Arch v Lucky Homes* (which concerned copyright in house plans, and confirmed that damages can be awarded on the basis of lost profits in circumstances where the infringement resulted in the loss of a contract to build) and *Merial v Intervet* (which concerned a patent opposition, and confirmed the importance of demonstrating chain of title when applying for a patent). We also report on other recent cases in marketing and advertising, copyright and trade mark law, as well as the new provision in the AANA Code of Ethics and the Productivity Commission's Final Report.

We hope you enjoy this edition.

Marlia Saunders
Senior Associate, Sydney
marlia.saunders
@ashurst.com

Lisa Ritson
Partner, Sydney
lisa.ritson
@ashurst.com

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Federal Court rules on "the best" form of puffery

REA GROUP LIMITED v FAIRFAX MEDIA LIMITED [2017] FCA 91 (13 FEBRUARY 2017)

What you need to know

- An advertising claim that has a definite, specific or quantifiable meaning is more likely to be relied upon by the target audience and, unless capable of substantiation, risks being misleading or deceptive in contravention of the Australian Consumer Law (ACL).
- In contrast, a claim whose meaning is subject to a number of potential interpretations is more likely to be interpreted by the target audience as mere puffery and less likely to be relied upon.
- Whether a broad claim of superiority (eg "the best") will be considered definite or indefinite will very much depend on the overall context in which it is made.

What you need to do

- When assessing advertising claims, businesses should consider the overall context in which a claim is made, including the interplay of the claim with other claims which appear in proximity to it.
- As always, continue to ensure that any disclaimers are used only to qualify a claim and not to contradict the dominant message of the claim.
- Remember that claims made in the context of comparative advertising campaigns invariably invite closer scrutiny from both courts and competitors.
- Be careful when relying on "puffery" as the position is not always clear!

BACKGROUND

Realestate.com.au (majority owned by News Corp Australia) and Domain (owned by Fairfax Media Limited) are well-known rivals in the property listings industry.

Realestate commenced proceedings in the Federal Court against Domain alleging that six of Domain's advertisements across a number of newspapers and other advertising platforms contravened the ACL's prohibitions on misleading or deceptive conduct.

The Court held that Domain had breached the ACL in respect of two of these advertisements.

The Court considered whether the meaning of each advertising claim was sufficiently definite and, if so, whether the evidence substantiated the claim. The Court considered whether ordinary and reasonable members of the target audience would understand the claim as having a single meaning or whether it was open to different possible interpretations. Those claims whose meanings were open to different interpretations were likely to be considered vague, indefinite and mere puffery by the target audience. Such claims did not require evidence to substantiate them (indeed, given the range of possible meanings, it was not clear what evidence would be required).

Domain's advertising claims and the Court's analysis of them are summarised below:

Advertising claim	Definite meaning?	Substantiated by evidence?	Contravention of ACL?
The Domain app has "the most property listings in Sydney" The Domain app is the "#1 property app in Australia" because it allows users to view "the most property listings in Sydney"	Yes	No	Yes
"The best property listings in Melbourne are on Domain" The Domain app is the "#1 property app in Australia" because it allows the user to view "the best property listings in Melbourne"	No	N/A because puffery	No
The Domain app is the "#1 property app in Australia"	No	N/A because puffery	No
The Domain app is "Australia's highest rated property app"	Yes	Yes	No

WHEN IS AN ADVERTISING CLAIM LIKELY TO CONSTITUTE MERE PUFFERY?

The advertising claims which included a reference to "the most property listings" and "highest rated property app" were found to convey definite representations, with the former being interpreted as a specific representation about the number of properties listed on the Domain app and the latter being a representation of the number of ratings for the app. The evidence did not establish that Domain had in fact achieved the greatest number of listings and, accordingly, the former claims were found to contravene the ACL. The Court was, however, satisfied that ratings as measured by the Apple iTunes store, amongst other outlets, established Domain as the highest rated property app.

The Court held that the claim "the best property listings" was not sufficiently definite and would be understood by the target audience as mere puffery.

The decision serves as a reminder that each case turns upon its facts and depends on the context and target audience. The Court noted that when claims such as "the best" are proposed, it is useful to ask "the best in what way?". While it was acknowledged that superiority claims may sometimes have a definite meaning which must be substantiated with evidence, in this case, there were too many possible answers to the question of why the Domain app was "the best" property listings app for that claim to be considered sufficiently definite. For example, were the property listings of a higher standard or better presented, were the properties listed located in better socio-economic areas, was the app easier to access and use, and so on.

The Court is yet to make orders in relation to issues of relief and it is not yet known whether either of the parties have appealed the decision. Watch this space for further updates!

Ben Teeger
Lawyer, Sydney
ben.teeger@ashurst.com

Anita Cade
Partner, Sydney
anita.cade@ashurst.com

Running out of steam: Valve Corporation to pay $3 million for misrepresenting gamers' consumer guarantees

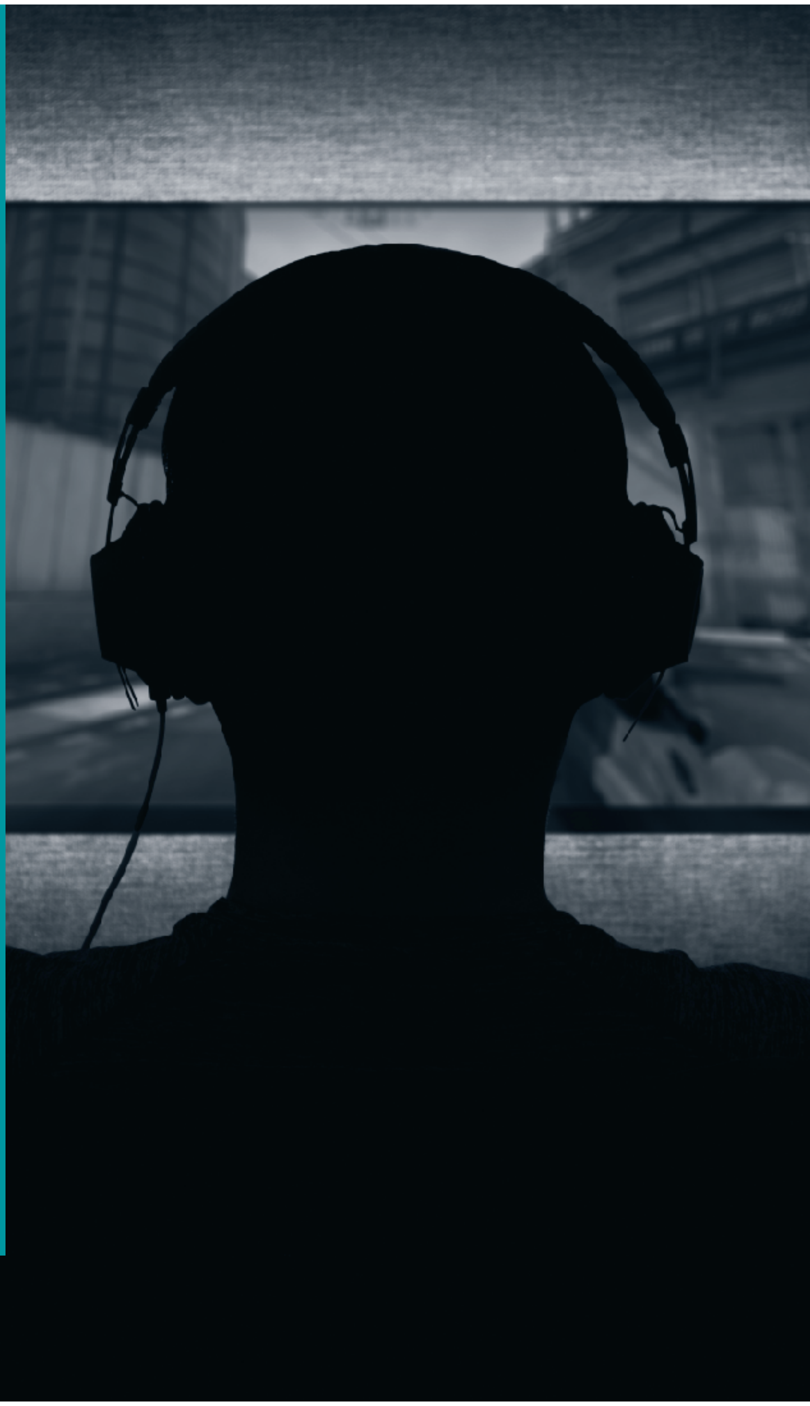
AUSTRALIAN COMPETITION AND CONSUMER COMMISSION v VALVE CORPORATION (NO 7) [2016] FCA 1553 (23 DECEMBER 2016)

What you need to know

- The Federal Court has imposed a $3 million penalty on American-based entertainment and gaming giant Valve Corporation (Valve) for contraventions of the Australian Consumer Law (ACL) in relation to its "Steam" gaming distribution platform. The Court also granted an injunction and ordered Valve to publish consumer rights-related information on its website for 12 months and to implement an internal consumer compliance program.
- The contraventions related to false or misleading representations to consumers in its terms and conditions (particularly relating to consumer guarantees under the ACL, and the consumers' entitlement to a refund). The Court ordered such a significant penalty for a number of reasons, including Valve's "very poor" culture of compliance.

What you need to do

- These proceedings are a reminder that the ACCC is willing to institute proceedings against overseas corporations which engage in conduct that affects Australian consumers (even if that corporation does not have a physical presence in Australia).
- Businesses should ensure that their policies and procedures (both internal and customer-facing terms and conditions) are compliant with Australian consumer law in relation to dealings with Australian consumers. Although many international businesses prefer to have one set of terms and conditions which apply world-wide, this case demonstrates that jurisdiction-specific clauses may be necessary.



BACKGROUND

Valve, one of the world's largest online game retailers, operates the Steam game distribution platform. Steam has approximately 125 million users worldwide, which includes approximately 2.2 million users in Australia. In related proceedings in March 2016, the Court found the terms and conditions in Steam's subscriber agreements and refund policies falsely represented consumers' guarantees and were misleading, in breach of the ACL. For example, the Court said that Valve represented in its terms and conditions that consumers had no entitlement in any circumstances to a refund from Valve for video games which the consumer had purchased.

These current proceedings were to determine the relief in relation to those prior proceedings. In determining the appropriate penalty, the Court had regard to (among other things) Valve's culture of non-compliance and failure to admit any culpability.

VALVE'S CULTURE OF NONCOMPLIANCE

The Court found that Valve's culture of compliance "was, and is, very poor" and that some of the evidence given by its general counsel was "disturbing". This included that:

- prior to (and during) the period of contravention, Valve did not obtain Australian legal advice – its general counsel said that he had not turned his mind to whether the ACL might apply because of the "way we think about our legal position in the world"; and
- Valve's support staff (who handled refund enquiries from Australian consumers) were only given oral guidance from its general counsel in relation to compliance – Valve did not have any training manuals or other documents.

The Court noted that Valve had a history of reactive, rather than proactive, compliance – it would only comply with local laws if a court or regulator had sought or required it.

NO ADMISSION OF CULPABILITY

The Court said that Valve remained resolute that it was not liable for its contraventions and that subsequent amendments to its offending policies were not done out of an admission of responsibility. It further noted that in the prior proceedings, it was not clear whether Valve's general counsel even accepted the outcome of those proceedings.

The fact that there were few mitigating factors in Valve's favour meant that more stringent penalties were ultimately ordered by the Court.

OUTCOME

The Court ordered Valve to pay a $3 million penalty (as both a substantive penalty and for deterrence purposes) and to:

- be restrained for 3 years from representing to Australian consumers that it is not under an obligation to offer refunds for video game subscriptions or does not regard itself as being subject to the ACL;
- publish information on its website (accessible from a prominent link on its home page) for 12 months in relation to Australian consumer rights, including that Valve's video games come with a non-excludable guarantee that they are of acceptable quality and consumers are entitled to a replacement or refund if that guarantee is not met; and
- implement a consumer compliance program for its staff.

IMPLICATIONS

This case highlights the willingness and ability of the ACCC to institute proceedings against overseas corporations which do not comply with the ACL. This is a particularly timely reminder for those businesses with an online-only presence in Australia to obtain Australian legal advice to ensure that their policies and procedures (including customer-facing terms and conditions) are compliant with Australian consumer law in relation to their dealings with Australian consumers.

Shawn Burns
Lawyer, Brisbane
shawn.burns@ashurst.com

Amanda Ludlow
Partner, Brisbane
amanda.ludlow@ashurst.com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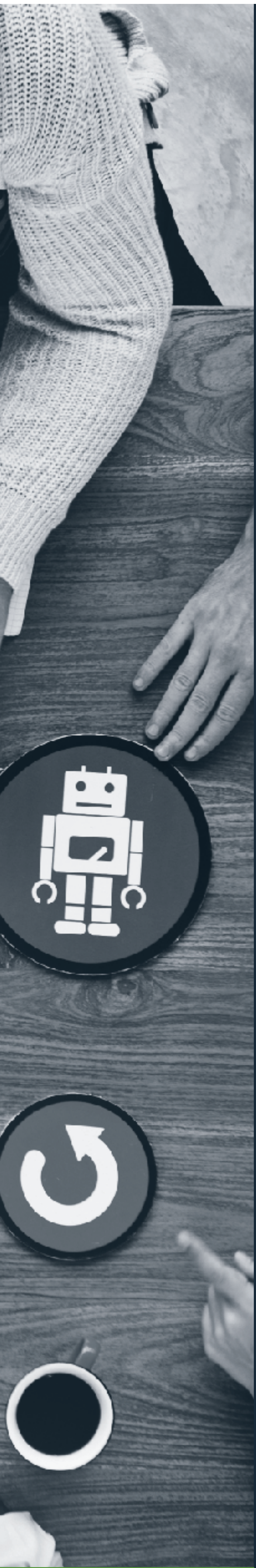


Influencing the influencers: advertising and marketing must be “clearly distinguishable”

What you need to know

- From 1 March 2017, the Australian Association of National Advertisers (AANA) Code of Ethics (the Code) now includes a new provision which requires that “Advertising or Marketing Communication must be clearly distinguishable as such to the relevant audience”.
- The new provision is accompanied by a best practice guideline published by the AANA, the “Clearly Distinguishable Advertising: Best Practice Guideline”, to assist advertisers to understand what needs to be done to clearly distinguish to audiences when a communication is in fact marketing or advertising.
- The guideline provides that if it is clear to the relevant audience that certain content is commercial in nature, then there is no requirement to label it as marketing or advertising. However, if it is not clear that the content is marketing or advertising, the advertiser may be in breach of the Code where it has a reasonable degree of control over it but no disclaimers are included.

Application to social media “influencers”

While the new provision applies to all forms of advertising and marketing communications, the guideline provides specific commentary in relation to the use of social media ambassadors or “influencers” by advertisers. This is where advertisers provide free products or services to bloggers and celebrities, who create their own user-generated content featuring the products or services and share it with their followers. It is not always apparent when a post is independent in nature or when it has been “sponsored” in some way.

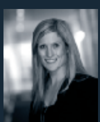
The guideline states that where a brand sends products to a social media influencer without any requirement that they must promote the products on social media, and the brand has no control over the statements the influencer may make, any resulting communication by the influencer will not fall within the ambit of the Code. However, if the brand does retain some control over the content, it is likely to be a marketing communication and should be distinguished as such by use of a hashtag such as #ad.

The AANA’s approach in this regard is similar to that of the Federal Trade Commission in the United States, which in 2015 updated its guidance around brand endorsements and testimonials to deal with these social media issues. However, the US position goes further by requiring that influencers must disclose all free products that they write about.

What you need to do

This serves as an important reminder to businesses who regularly use social media influencers to promote their brand or products to ensure that:

- their marketing teams are aware of the new provision and guideline;
- their arrangements with influencers either require them to disclose any connection with the business in their posts or do not contain obligations to post about free products; and
- they actively monitor posts by influencers to check that they have made any necessary disclosures and do not make any other false or misleading claims about the products (which could be in breach of requirements under the Australian Consumer Law).

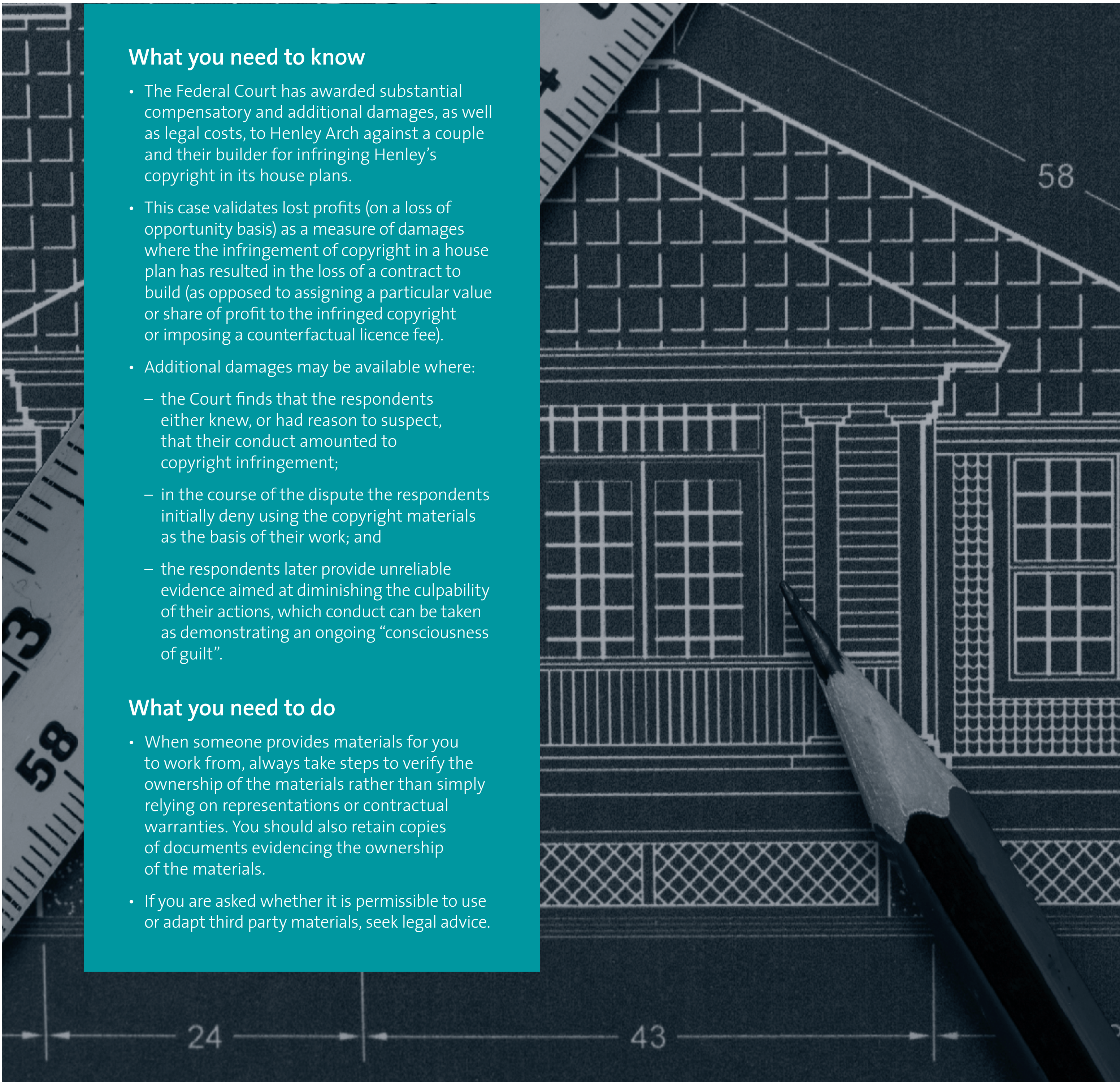


Marlia Saunders
Senior Associate, Sydney
marlia.saunders@ashurst.com

Lisa Ritson
Partner, Sydney
lisa.ritson@ashurst.com

Couple turns “dream home” into nightmare: copyright in house plans

HENLEY ARCH PTY LTD v LUCKY HOMES PTY LTD & ORS [2016] FCA 1217 (13 OCTOBER 2016)*



What you need to know

- The Federal Court has awarded substantial compensatory and additional damages, as well as legal costs, to Henley Arch against a couple and their builder for infringing Henley’s copyright in its house plans.
- This case validates lost profits (on a loss of opportunity basis) as a measure of damages where the infringement of copyright in a house plan has resulted in the loss of a contract to build (as opposed to assigning a particular value or share of profit to the infringed copyright or imposing a counterfactual licence fee).
- Additional damages may be available where:
  - the Court finds that the respondents either knew, or had reason to suspect, that their conduct amounted to copyright infringement;
  - in the course of the dispute the respondents initially deny using the copyright materials as the basis of their work; and
  - the respondents later provide unreliable evidence aimed at diminishing the culpability of their actions, which conduct can be taken as demonstrating an ongoing “consciousness of guilt”.

What you need to do

- When someone provides materials for you to work from, always take steps to verify the ownership of the materials rather than simply relying on representations or contractual warranties. You should also retain copies of documents evidencing the ownership of the materials.
- If you are asked whether it is permissible to use or adapt third party materials, seek legal advice.

BACKGROUND

In April 2013, Henley Arch was engaged by a couple, the Mistrys, to design a house based on one of Henley's standard designs. It was the parties' intention that the Mistrys would sign a building contract with Henley once the Mistrys had taken ownership of the land on which they wished to build. The Mistrys paid a deposit to Henley and throughout 2013, Henley prepared multiple versions of plans and tender documents in accordance with the Mistrys' instructions. However, the Mistrys suddenly terminated their dealings with Henley in November 2013, a matter of days before the Mistrys were due to sign a building contract with Henley. It was later established that, some weeks earlier, the Mistrys had met with another builder, Lucky Homes, and had signed a building contract with Lucky Homes for the construction of the same home.

In late 2014, as a result of an unsuccessful VCAT claim by the Mistrys for a refund of the deposit paid in 2013, Henley became aware that the Mistrys might have utilised the services of Lucky Homes to construct a house in accordance with Henley's plans. However, in response to letters of demand, and despite the existence of an almost identical set of plans that Henley had obtained from public records and enclosed with its letters of demand, both the Mistrys and Lucky Homes initially denied that they had made any use of Henley's plans. However, by the trial it had become clear that those denials were untrue.

In 2015, Henley commenced proceedings in the Federal Court against the Mistrys, Lucky Homes and the sole director of Lucky Homes, Muhammed Mohsin Shafiq, for copyright infringement. Henley sought compensatory damages for the profit it would have made if it had constructed the house, and additional damages for, among other things, the flagrancy of the respondents' infringement.

In their pleadings, both the Mistrys and Lucky Homes conceded that Henley's plans were in fact used as the basis for the design of the house that was built, although Lucky Homes still denied infringement. At that time, the respondents blamed each other for what had occurred, with the main point of contention between them concerning what was said and done at their first meeting.

RESPONDENTS' POSITIONS

Lucky Homes denied that copyright subsisted in Henley's plan, denied copyright infringement and cross-claimed against the Mistrys for breaching a warranty in their building contract to the effect that they owned the plans they provided to Lucky Homes. Lucky Homes also argued that sufficient changes had been made to the plans to avoid infringement and that, in any case, the Mistrys had represented at their meeting that they had purchased the plans, or had a licence to use them. Lucky Homes also stated that the Mistrys had provided plans with no identifying markings on them.

However, on the first day of trial Lucky Homes changed its position and admitted that it had received the plans bearing identifying markings. Later during trial, the director of Lucky Homes gave incredible evidence about how the identifying markings may have come to be removed from Henley's plans at the first meeting, and prior to their provision to a new draftsperson for redrawing (perhaps by accident or due to the actions of some unknown person in his office). That evidence was not accepted.

The Mistrys, on the other hand, had admitted copyright infringement but pleaded a defence of innocent infringement on the basis that they were not aware that using Henley's plans "as an example" (which they said was all they had asked Lucky Homes to do) constituted infringement. The Mistrys also cross-claimed against Lucky Homes for misleading them about what conduct would amount to copyright infringement, arguing that Lucky Homes told them that making "15 to 20 changes" was sufficient to avoid infringement. The Mistrys also stated that the plans provided by them to Lucky Homes at the first meeting bore all original identifying markings and they did not know how a set of plans without those markings had come into existence and been provided to the draftsperson.

LIABILITY

Justice Beach found that Henley Arch owned copyright in its plans as an original artistic work and that its copyright had been infringed by both sets of respondents. His Honour found that a substantial part of Henley's plan had been reproduced, despite the changes made by the respondents, because the substance and essential features of Henley's plan had been copied.

In respect of the Mistrys, his Honour found that they had infringed copyright by copying and reproducing Henley's plan, authorising Lucky Homes to copy and reproduce Henley's plan, and by reproducing Henley's plan in three dimensions with the construction of their house. He also found that Lucky Homes had similarly infringed and authorised the draftsperson to infringe copyright in Henley's plan, and that the company's director had authorised Lucky Homes to infringe copyright.

His Honour found that Lucky Homes could not rely on the warranty in the building contract or the Mistrys' representation as to ownership, because Lucky Homes at least suspected that the Mistrys did not own the plans, being the foundation for its suggestion that "15 to 20 changes" be made. Justice Beach also found that the identifying markings (title block) on the plans had been removed deliberately by the company's director with a clear motive to ensure that the draftsperson would not ask any questions.

Justice Beach rejected the Mistrys' innocent infringement defence, finding that their reliance on the assurances of Lucky Homes did not mean that they had no reasonable grounds for suspecting that their conduct would infringe Henley's copyright. In fact, the Mistrys had signed multiple documents during their dealings with Henley in which Henley reserved its copyright in the plans, and had built a prior home with Henley. Justice Beach also noted that a deliberate untruth can negate the innocent infringement defence:

> If an infringer tells a deliberate untruth because they perceive that the truth is inconsistent with the relevant innocent state of mind in question ... the untruth can be taken as springing from ... "consciousness of guilt" ... The untruth could be constituted by the infringer's actual statement after the act(s) of infringement whether verbally, in correspondence or in written or oral evidence. It could also be inferred from *false instructions given to lawyers which are then incorporated into correspondence or pleadings*. (emphasis added)

However, his Honour upheld the Mistrys' cross-claim of misleading and deceptive conduct against Lucky Homes on the basis that they had incurred liability to Henley in reliance on the incorrect advice of Lucky Homes about what constituted copyright infringement.

COMPENSATORY DAMAGES

Justice Beach ordered the Mistrys and Lucky Homes to pay compensatory damages to Henley based on the lost profit Henley would have enjoyed had it been contracted to build the Mistrys' house. His Honour also ordered that Lucky Homes pay to the Mistrys the share of damages paid by them to Henley.

Justice Beach accepted that lost profit was an appropriate measure of loss in this case, and that two questions had to be answered: whether there was a lost opportunity, and what was the value of that opportunity? His Honour found that a lost opportunity existed because the Mistrys likely would have contracted with Henley, absent the infringing conduct. Justice Beach also accepted Henley's calculation of lost profit, with no deduction for fixed overheads as Henley's overheads would not have been affected by the construction of one house.

Finally, Justice Beach disposed of the notion that lost profit in such a case could or should be apportioned to assess the part attributable to the copyright or design aspect. He said: "[p]utting to one side the artificiality of such an exercise, the fact is that because of the infringing conduct, Henley Arch lost the opportunity to earn the entirety of the lost profit."

ADDITIONAL DAMAGES

Justice Beach ordered Lucky Homes and Mr Mistry (as distinct from Mrs Mistry) to separately pay additional damages to Henley. His Honour took into account: the flagrancy of the infringing conduct by Lucky Homes, the need for general deterrence of the infringing conduct, the profit received by Lucky Homes for constructing the house, the conduct of Lucky Homes and Mr Mistry after the infringing conduct (which included attempts by both to cover up the infringement, including by a failure to be frank in solicitors letters, the director of Lucky Homes attempting to conspire with the draftsperson, and making false denials in pleadings, as well as the provision of "unsatisfactory" evidence), and the fact that they had the capacity to pay additional damages.

In relation to the director's conduct, Justice Beach accepted the following evidence of the draftsperson which he set out in full in his judgment:

> Later, on or about 17 March 2015, [the director] came to see me at my office and at that meeting said words to the effect that *"you need to co-operate with us otherwise you will be in big trouble"*. At the time, I understood [the director's] reference to "us" to be a reference to both himself and the homeowner. [The director] asked me to agree that certain hand-drawn sketches were the beginning of our conversation and relationship in relation to the project. He said words to the effect "I want you to confirm this [the sketches] was the beginning of our relationship on this project" to which I replied "no, this is the plan you brought me" while handing him a copy of the floorplan he provided to me on 21 October 2013 ... [the director] also said words to the effect that *"the homeowner is prepared to backdate these sketches and to say these sketches were the start of the project"*... (emphasis added)

Justice Beach held that the Mistrys' successful cross-claim also applied in respect of additional damages. However, his Honour only ordered Lucky Homes to pay Mr Mistry *half* of the additional damages he owed to Henley, given that much of Mr Mistry's post-infringement conduct was of his own volition and was not sufficiently connected to the misleading conduct of Lucky Homes.

Will Scott
Lawyer, Melbourne
will.scott@ashurst.com

Kellech Smith
Partner, Melbourne
kellech.smith@ashurst.com

** Ashurst acted for Henley Arch in this proceeding.*

Always take the code less travelled: copyright infringement and breach of confidence found in relation to software

IPC GLOBAL PTY LTD v PAVETEST PTY LTD (NO 3) [2017] FCA 82 (10 FEBRUARY 2017)

What you need to know

- As always, retaining and using materials created under a previous employment is fraught with danger. In this instance, the act itself of copying software owned by a former employer onto a rival company's computer was found to constitute copyright infringement, and use of part of that software in a rival software product amounted to both copyright infringement and breach of confidence.
- In determining whether a "substantial part" had been copied (in relation to the software product ultimately created by the rival company):
  - A key consideration was that "originality of expression" was found to exist in the source code, as there was scope for choices and judgement to be made in its development.
  - Although the relevant source code was in many cases not difficult or unconventional, it was nevertheless determined to be "functionally significant" to the operation of the software.
  - In assessing substantiality, the emphasis was on quality over quantity. The similarity of approximately 800 out of 250,000 lines of source code (duplicated throughout the source code) was sufficient to comprise a "substantial part".

What you need to do

- Ensure that employees involved in creating copyright material, including software, for your company are aware of their obligations to avoid any breach of intellectual property laws or breach of confidence.
- This can be dealt with in employment agreements and induction training.

FACTS

This Federal Court proceeding centred around the action of two individuals who left their positions and started a rival company. Until 2012, Con Sinadinos and Alan Feeley were the CEO and Manager of Research and Development (respectively) at Industrial Process Controls Ltd, the former IPC Global Pty Ltd (IPC Global). IPC Global makes testing equipment for construction materials, such as asphalt, rock and soil, facilitated by its computer software and firmware. In 2012, Mr Sinadinos and Mr Feeley resigned, and established a rival company, Pavetest Pty Ltd (Pavetest), which subsequently launched a range of competing equipment testing products.

At the time that Mr Feeley resigned from IPC Global, he retained copies of IPC Global's software on his computer. He had been involved in the creation of the software, and gave evidence that he had made copies as a "back up". Mr Feeney later provided copies of the software to Pavetest's computer programmer, Mr Li, who was responsible for writing Pavetest's software. Mr Feeley claimed that this was to give Mr Li an understanding of the application of the software and how it had been previously achieved, in order to develop a different and better system. Mr Li referred "regularly" to IPC Global's software in writing Pavetest's software.

Pavetest's software was found to contain some identical and some similar lines of code to IPC Global's software. After the proceedings commenced, Mr Li was instructed by Pavetest to remove those parts of the software that were identical or similar, which resulted in a second version of the software. The Court was tasked with determining whether Pavetest's version 1 of its software infringed copyright in IPC Global's software, and whether Mr Sinadinos and Mr Feeley had breached duties of confidence, as well as contractual duties of good faith and fidelity to IPC Global. At trial, IPC Global withdrew its allegation that Pavetest's version 2 infringed IPC Global's copyright.

DECISION

In relation to the question of copyright infringement, Justice Moshinsky first considered the act of copying the software onto the computer provided to Mr Li. In this regard, the respondents conceded that copyright subsisted in IPC Global's software, that substantial parts of the software were copied to Mr Li's computer, and that the acts were performed on behalf of Pavetest. On this basis, his Honour had no difficulty in determining that Pavetest had infringed copyright by copying the software to Mr Li's computer. The second and more substantial query was whether copyright had been infringed in the creation of version 1 of Pavetest's software. In determining that there had been a reproduction of a *substantial part* of the software, Justice Moshinsky considered three key factors:

- First, his Honour directed his attention to whether there had been "originality of expression" in IPC Global's source code. The respondents argued that it was not an original expression, as the code's format was largely dictated by the "problem domain" (ie the requirements of the equipment tests, based on external factors such as international standards). Justice Moshinsky rejected this, finding that while the "problem domain" had a heavy influence, there were still choices that could have been made and judgement that could have been applied in developing the software, such that there was originality in the *expression* of the sequences of the relevant source code.
- Second, Justice Moshinsky considered whether the relevant source code played a "functionally significant" role within the software. In this regard, the respondents claimed that the software copied was "common code", and supporting infrastructure for the software, as opposed to its "core intelligence". Although his Honour confirmed that the relevant code was in many cases not "difficult or unconventional", he nevertheless determined it to be functionally significant to the operation of the software as a whole.
- Third, Justice Moshinsky reaffirmed the long established principle that, in considering substantiality, the emphasis should be on quality rather than quantity. In relation to the quantum of copying, the evidence indicated that approximately 800 lines of Pavetest's source code were identical or similar to IPC Global's source code, out of a total of approximately 250,000 lines. However, his Honour took into account that there was significant duplication of the code across the 40 "test modules" within the software, and that this was sufficient for a finding that a substantial part had been copied.

The Court accordingly found that version 1 of the Pavetest software infringed IPC Global's software, and that Mr Sinadinos and Mr Feeley had authorised that infringement.

Justice Moshinsky also determined that Mr Sinadinos and Mr Feeley's conduct amounted to a breach of confidence. His Honour was prepared to accept that Mr Feeley originally made copies of the software as a "back-up". However, he firmly noted that this did not negate the confidentiality of the material, that it was acquired in a relationship of confidence and was misused. In relation to the use, he found that by keeping the software and developing it in a rival product, Pavetest gained a substantial "springboard benefit". In particular, Mr Li had saved at least months of development time. The claims in relation to breach of contract were, however, not established due to a lack of written evidence.

Jordan Clitheroe
Lawyer, Sydney
jordan.clitheroe@ashurst.com

Anita Cade
Partner, Sydney
anita.cade@ashurst.com

No assignment from the chew inventor: Merial patent

MERIAL, INC. v INTERVET INTERNATIONAL B.V. (NO. 3) [2017] FCA 21 (25 JANUARY 2017)*

What you need to know

- The Federal Court upheld Merial's opposition to Intervet's patent application for a veterinary soft chew on the grounds of lack of entitlement and lack of inventive step.
- The Court found that Intervet did not derive title to the alleged invention from one of the inventors named on the patent application.

What you need to do

- When applying for a patent, it is critical to ensure there is a chain of title transferring all rights in the invention from the named inventors to the patent applicant.
- Make sure you retain copies of all documents required to prove the chain of title.

BACKGROUND

Merial appealed to the Federal Court following its unsuccessful opposition in the Patent Office to Intervet's Australian patent application no. 2009203180. The alleged invention claimed in Intervet's patent application was a veterinary soft chew containing active ingredients for the treatment of worms and other parasites.

LACK OF ENTITLEMENT

Merial argued that Intervet did not derive title to the alleged invention from one of the named inventors on the patent application, Mr Mark Pieloch.

Mr Pieloch was not an Intervet employee. Intervet had collaborated with Mr Pieloch and his company from early 2002 in relation to the development of soft chews for horses and dogs. In mid-2002, during the course of the collaboration, Intervet filed the patent application in suit.

Intervet contended that Mr Pieloch had executed a written assignment of his rights in the alleged invention to Intervet, but that due to a number of mergers and organisational changes since 2002, a copy of the assignment could not be located. Mr Pieloch, who gave evidence in the case, denied that he had executed an assignment. Justice Moshinsky accepted Mr Pieloch's evidence and found that it was consistent with the other evidence before the Court, including the contemporaneous documents that were available.

Intervet contended in the alternative that, even if there was no written assignment, an assignment should be implied because Mr Pieloch was "hired to invent" a soft chew formulation. Justice Moshinsky found there was no basis to imply an assignment for a number of reasons, including:

- the relevant soft chew technology had already been developed by Mr Pieloch prior to his engagement by Intervet (ie there was nothing left for Mr Pieloch to be "hired to invent"); and
- an implied term would be inconsistent with the provisions of other agreements between the parties at the relevant time, one of which provided for an assignment only when certain conditions (which had not been met) were satisfied.

LACK OF INVENTIVE STEP

Merial also opposed the patent application on the ground of lack of inventive step (or obviousness). Justice Moshinsky found that some, but not all of the claims of the patent were obvious in light of the closest prior art considered together with the common general knowledge in the field. This was because the combination of features claimed was either disclosed by the prior art or would have been made as a matter of course by the notional skilled team.

IMPLICATIONS

This case is a rare example of a patent opposition being successful under the regime in place prior to the "Raising the Bar" amendments, under which opponents were required to show that, if granted, the patent would be clearly invalid.

This case serves as a reminder that, when applying for a patent, you should ensure that there is a chain of title transferring all rights in the invention from the named inventors to the patent applicant. This is especially critical when the inventor is not an employee but a third party who is collaborating with your organisation. It is also important to ensure that documents proving the chain of title are retained, particularly if corporate restructuring occurs.

Stuart D'Aloisio
Senior Associate, Melbourne
stuart.d'aloisio@ashurst.com

Grant Fisher
Partner, Melbourne
grant.fisher@ashurst.com

** Ashurst acted for Merial in this proceeding.*

Dolly switch copy sparks folly in CLIPSAL v CLIPSO trade mark dispute

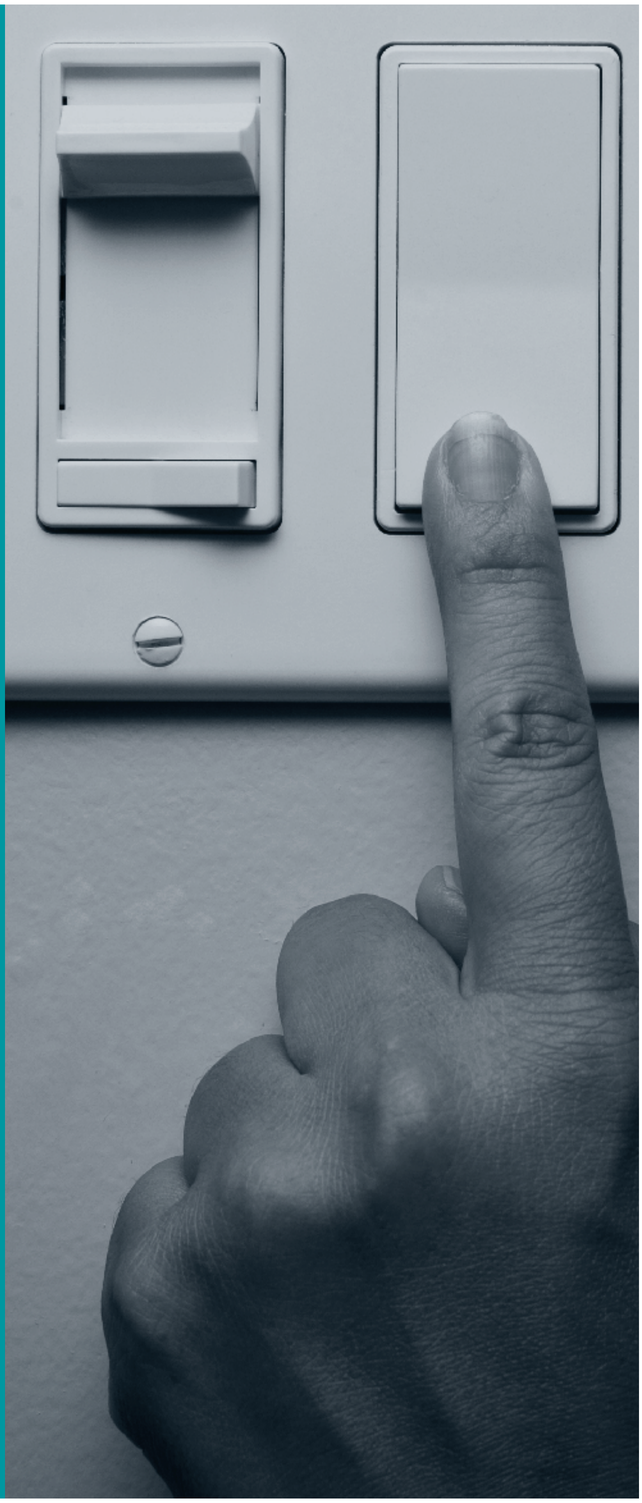
CLIPSAL AUSTRALIA PTY LTD v CLIPSO ELECTRICAL PTY LTD (NO 3) [2017] FCA 60 (3 FEBRUARY 2017)

What you need to know

- The Federal Court has held that the registered trade mark CLIPSO should be cancelled on the basis that it was registered in bad faith, deceptively similar to the prior registered mark CLIPSAL and likely to deceive and cause confusion with the CLIPSAL mark.
- While Clipso's registration for CLIPSO protected it from a trade mark infringement claim, Justice Perram considered that Clipso was still liable for passing off and had breached ss 18, 29(1)(g) and (h) of the Australian Consumer Law (ACL).
- However, the Court also held that Clipso had not infringed the applicant's shape mark covering an electrical "dolly switch", because Clipso was not using the shape as a badge of origin.
- This case illustrates the importance of strong and credible evidence in proving or defending trade mark cancellation and infringement actions. The unreliability of Clipso's key witness was detrimental to its defence, and contributed to Clipsal establishing that the CLIPSO mark was registered in bad faith, and that Clipso's conduct amounted to passing off and breached the ACL. Equally, Clipsal's case was supported by adducing evidence of actual consumer confusion arising between the two marks, and its strong evidence of the reputation that it had developed in the CLIPSAL brand.
- This case also reconfirms the difficulties of enforcing rights in shape marks involving functional elements. Where there is evidence that relevant consumers would view the alleged infringing use as embodying the shape mark's functional elements, it is unlikely that such conduct will amount to infringement, as it falls short of use "as a trade mark".

What you need to do

- When adopting a new brand, comprehensive searches should be undertaken to ensure that the use of the brand, even if it becomes registered as a trade mark, will not expose the owner to a claim for passing off or breaches of the ACL.
- If you receive reports of customer confusion arising from the sale of a competing product, keep comprehensive records of those reports.
- Undertake marketing campaigns featuring your shape trade marks so that customers identify those shapes as brands in their own right.



BACKGROUND

The applicant, Clipsal Australia Pty Ltd (Clipsal), is well-known in Australia for its range of electrical accessories bearing the CLIPSAL mark, including "Bakelite" or "dolly switches". Clipsal (through its predecessor) had originally used the CLIPSAL mark since the 1920s for light switches.

Clipsal owns numerous registered marks in relation to the CLIPSAL brand, including:

- a word mark CLIPSAL, registered since March 1989 in relation to telephone apparatus, equipment and accessories in class 9 (CLIPSAL Word Mark); and
- a shape mark consisting of the 3-dimensional shape of a switch dolly, registered since December 2003 in relation to electrical wiring accessories, electric switches and switched power outlets in class 9 (CLIPSAL Shape Mark).

The respondents in the proceedings were Clipso Electrical Pty Ltd (Clipso) and its director, Mr Abdul Kader. Mr Kader had rebranded his electrical imports business as Clipso in late 2008 and registered the mark CLIPSO in relation to class 9 goods. Mr Kader gave evidence that he developed the CLIPSO mark by examining the class 9 list of goods, which he noted contained the words "clip" and "clips" numerous times. He added the "O" as a suffix, to imply familiarity. Despite initially denying knowledge of the CLIPSAL brand, Mr Kader conceded that he was aware of the brand, but considered that as IP Australia had accepted the CLIPSO mark, he had no reason to be concerned about the CLIPSAL Word Mark.

After the CLIPSO mark was registered, Clipso began using the mark on its product packaging, catalogues and website. Clipso also sold a light switch product which wholly incorporated the CLIPSAL Shape Mark.

CREDIT ATTACK ON CLIPSO'S KEY WITNESS

The credibility of Mr Kader's evidence was subject to significant scrutiny. Critically, Justice Perram considered that Mr Kader was an unreliable witness and his evidence was false and incredible on numerous accounts. His Honour also found that Mr Kader was motivated to adopt the CLIPSO mark due to its close similarity with the CLIPSAL Word Mark.

As Mr Kader was Clipso's key witness, these findings significantly undermined Clipso's case, and supported Clipsal's contention that the mark had been registered in bad faith. Further, as a result of his direct involvement in Clipso's impugned conduct, and his own dishonest conduct, his Honour found Mr Kader personally liable for Clipso's conduct.

CANCELLATION OF THE CLIPSO MARK

Clipsal applied to cancel the CLIPSO mark on the basis that:

- it was substantially identical or deceptively similar to the CLIPSAL Word Mark (under s 44 of the *Trade Marks Act 1995* (Cth) (the Act));
- due to Clipsal's reputation in the CLIPSAL Word Mark in relation to the same goods, use of the CLIPSO mark is likely to deceive or cause confusion (under s 60 of the Act); and/or
- the application for registration was made in bad faith (under s 62A of the Act).

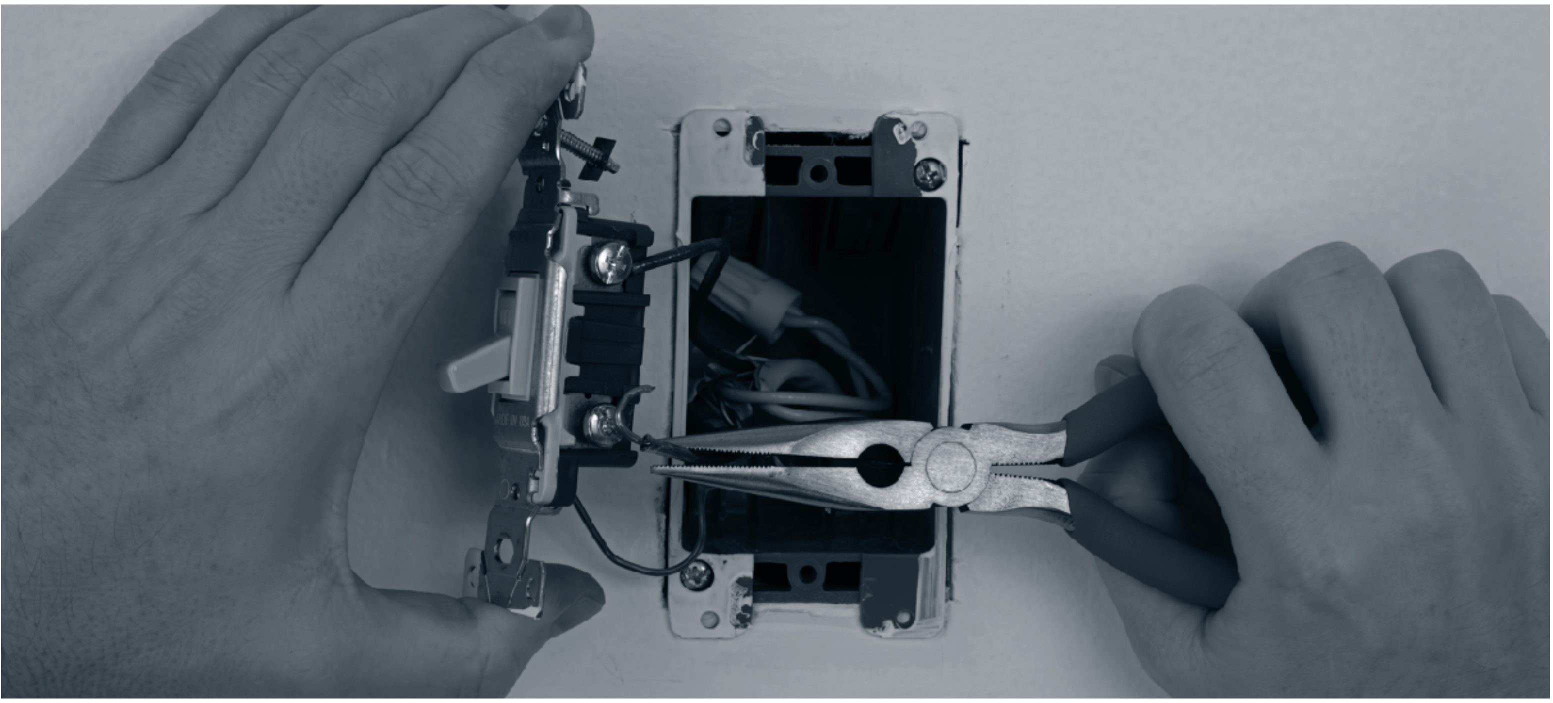
His Honour found that all three cancellation grounds were established.

SUBSTANTIAL IDENTITY AND DECEPTIVE SIMILARITY

Although both marks shared the root phrase "CLIPS", the CLIPSO mark and the CLIPSAL Word Mark were not substantially identical due to the visual differences. However, his Honour found that the two words were aurally very similar, and as the relevant market for the goods included non-professional consumers, there was an increased likelihood that consumers of electrical accessories would be confused by Clipso's use of the CLIPSO mark. Clipsal's case on deceptive similarity was strengthened by evidence from an electrician that he was caused to wonder whether CLIPSO was a discount line produced by CLIPSAL.

REPUTATION IN THE CLIPSAL WORD MARK

Clipsal also established that it had developed a significant prior reputation in the CLIPSAL Word Mark in relation to all of the goods in respect of which CLIPSO was registered. Clipsal adduced evidence that it sold over 14,000 products (falling within class 9) under the CLISPAL brand, and had annual sales exceeding $500 million. This evidence, coupled with the Court's findings on deceptive similarity, led Justice Perram to hold that use of CLIPSO would be likely to deceive or cause confusion.



BAD FAITH

As noted above, Justice Perram found that Mr Kader was fully aware of the CLIPSAL Word Mark and intended to trade off Clipsal's reputation in applying to register, and using, the CLIPSO mark. His Honour considered that:

> It is not commercially appropriate behaviour to sell competing products into the market under a very similar name, with the actual intention of misleading consumers into thinking that they are buying a different product.

Clipsal therefore successfully established that Clipso had applied to register the mark in bad faith.

CLIPSO'S MISLEADING OR DECEPTIVE CONDUCT

Clipsal also contended that Clipso's conduct in adopting and using the CLIPSO mark amounted to misleading or deceptive conduct, and falsely represented a connection with Clipsal's business, in breach of the ACL. Clipsal submitted that the same conduct amounted to passing off, due to its significant reputation in the CLIPSAL brand which would be damaged as a result of Clipso's conduct.

In finding that Clipso had contravened sections 18, 29(1)(g) and (h) of the ACL and engaged in passing off, Justice Perram gave detailed consideration to the relevant class of consumers alleged to have been misled. Clipso had contended that the relevant market was limited to electrical contractors and wholesalers, and that these specialist consumers were allegedly less likely to have been misled or deceived by the similarities between the two brands.

However, his Honour accepted Clipsal's submissions that the relevant market included end consumers. Although the relevant switches could only (legally) be installed by licensed electricians, Clipsal successfully adduced evidence demonstrating that end-consumers were increasingly influencing choices made by architects and builders engaged on their behalf on aesthetic design details such as light switches. Accordingly, the Court held that Clipso's conduct was likely to cause confusion among members of the general public, who formed part of the relevant market for the products. Clipsal would suffer damages as a result of this conduct, due to the potential for trade to be diverted.

NO INFRINGEMENT OF THE CLIPSAL SHAPE MARK

The Court found that Clipso was not using the CLIPSAL Shape Mark "as a trade mark" in relation to their CLIPSO branded light switches. Although the two products were "essentially indistinguishable", his Honour considered that there was no evidence that Clipsal had developed a reputation in the CLIPSAL Shape Mark such that consumers would associate that particular shaped dolly switch with Clipsal. Since the shape of Clipsal's products was no more than an "ordinary light switch", Clipsal's infringement claim failed.

Colette Downie
Lawyer, Melbourne
colette.downie@ashurst.com

Kellech Smith
Partner, Melbourne
kellech.smith@ashurst.com

Productivity Commission's Final Report outlines range of proposed IP amendments

What you need to know

- In December 2016, the Government released the Productivity Commission's final report into Australia's intellectual property arrangements.
- The report recommends amendments be made in the copyright, patent and trade mark fields (amongst others).
- The Government is currently considering its response, which is expected by mid-2017.

BACKGROUND

The Productivity Commission generally noted that Australia's intellectual property arrangements fall short in many ways and improvements are needed across the spectrum of IP rights. The report examined Australia's balance between promoting innovation and protecting intellectual property.

The Productivity Commission considered that the IP system remains tipped in favour of rights holders. While any reform to address this issue is constrained by Australia's international obligations, the Productivity Commission sought to indentify a package of reforms that would go some way to strike a balance.

The key recommendations in each IP field are outlined below.

KEY RECOMMENDATIONS

Copyright

The Productivity Commission recommended that Australia should:

- replace the current fair dealing exceptions with a broad, principles-based US-style fair use exception. The Productivity Commission stated that this would allow Australia's copyright law to better adapt to new circumstances, technologies and uses over time, rather than requiring piecemeal amendments to "catch up" with existing community practices. This recommendation was made despite objections from rights holders that fair use is imprecise, would create legal uncertainty and would reduce incentives for creativity and investment in new works;
- amend the *Copyright Act 1968* (Cth) to make it clear that circumventing geoblocking technology is not a copyright infringement; and

- make it easier for users to access legitimate content in a timely and cost effective manner by:
  - allowing the Australian Competition and Consumer Commission (ACCC) to undertake a review of current arrangements for collecting societies to ensure best practice in governance, reporting and transparency; and
  - repealing parallel import restrictions for books which would have the practical effect of consumers having access to competitively priced books in Australian bookstores.

Despite confirming its stance in the draft report that the term of copyright is too long and skewed too far in favour of copyright owners, the Productivity Commission did not recommend a specific change to the term of copyright.

Patents

The Productivity Commission recommended that Australia should:

- raise the threshold for assessing the inventive step factor for patent eligibility, by increasing the required advance over the prior art and requiring that efforts are undertaken to better ensure that only technological inventions pass the inventive step threshold. The Productivity Commission stated that this would have the effect of reducing the proliferation of low-value patents;
- abolish the innovation patent system, which currently provides for a maximum 8 year patent term and only requires the lower threshold of "innovative step" be proven (rather than an inventive step), given that it has encouraged a multitude of low value patents and created uncertainty for other innovators who are unsure whether they are infringing another party's patent;
- add an "objects" clause to the *Patents Act 1990* (Cth) to give greater guidance to decision makers, and ensure that the legislation remains adaptable and fit for purpose as new technologies emerge. The Productivity Commission states that an objects clause should make it clear that the "principal purpose of the patent system is to enhance the wellbeing of Australians by promoting technological innovation and promoting the transfer and dissemination of technology";
- restructure patent fees to discourage rights holders from casting claims too widely or using the system strategically, including by increasing renewal fees with patent age (ensuring only valuable patents are maintained) and applying higher fees for applications with a large number of claims; and
- make reforms in relation to pharmaceutical patents in order to improve access to affordable medicines for consumers by:
  - confining extensions of term to cases where the action of the regulator has resulted in unreasonable delay (rather than rewarding firms for being slow to introduce drugs to the Australian market); and
  - improve monitoring of patent infringement settlements between originator and generic drug companies, by reducing opportunities for originators to pay generic manufacturers to keep their products off the market beyond the scope of a patent.

Trade Marks

The Productivity Commission recommended that Australia should:

- expedite the removal of unused marks from the Trade Mark Register by reducing the grace period for when new registrations can be challenged for non-use from 5 years to 3 years. The Productivity Commission suggested that trade mark applicants should be required to nominate whether they are using the mark applied for and, if not, to later provide evidence of use in order to retain trade mark rights;
- make it harder to register misleading marks by strengthening requirements for marks not to be misleading or confusing;
- link the trade mark and business name registers in order to reduce confusion experienced by businesses which frequently conflate trade mark protection with business name registration – it said this is expected to have the effect of reducing the number of companies that need to rename their businesses, and the subsequent rebranding costs caused by (unintentional) trade mark infringement; and
- amend the *Trade Marks Act 1995* (Cth) to make clear that parallel imports are allowed, in order to resolve uncertainty created by recent cases.

OTHER RECOMMENDATIONS

The Productivity Commission recommended that Australia should:

- repeal the IP exemption from Australia's competition law regime. The Productivity Commission recognises that there has been a shift so that IP and competition are not "at odds" and that the most appropriate enforcement mechanism is for the ACCC to address any anti-competitive conduct in IP transactions, which would minimise uncertainty for rights holders and licensees;
- enhance the role of the Federal Circuit Court by introducing a dedicated IP list with capped amounts of claimable costs and damages; and
- expand the safe harbour scheme to cover all online service providers, such as cloud computing firms, which would result in fewer impediments to establish operations in Australia.

WHAT'S NEXT?

The Government's response to these recommendations is expected in mid-2017, so this area is well and truly one to watch!

Jessica Norgard
Lawyer, Sydney
jessica.norgard@ashurst.com

Lisa Ritson
Partner, Sydney
lisa.ritson@ashurst.com

Ashurst Australia contact details

Sydney	Lisa Ritson	61 2 9258 6093
	Ben Miller	61 2 9258 6431
	Anita Cade	61 2 9258 6960
	Robert Todd	61 2 9258 6082
	Sophie Dawson	61 2 9258 6513
	Tim Brookes	61 2 9258 5770
Melbourne	Mary Padbury	61 3 9679 3262
	Grant Fisher	61 3 9679 3471
	Peter Chalk	61 3 9679 3106
	Kellech Smith	61 3 9679 3864
Brisbane	Amanda Ludlow	61 7 3259 7164

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