

AUSFTA  
Submission No: 92

**Wilson, Frances (REPS)**

**From:** wek@unimelb.edu.au  
**Sent:** Tuesday, 13 April 2004 5:55 PM  
**To:** Committee, Treaties (REPS)  
**Subject:** Submission: AUSFTA Inquiry



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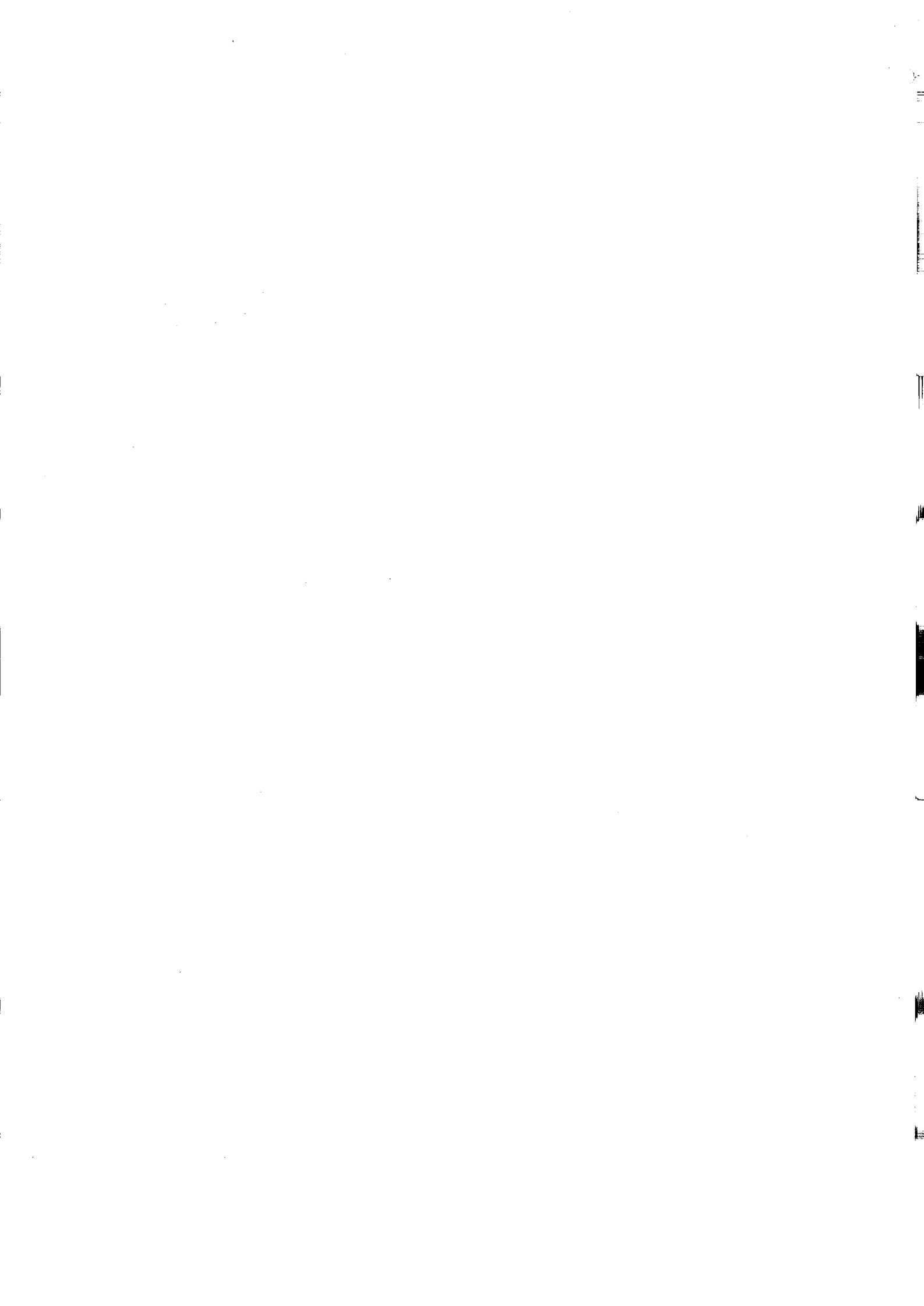
Dear Members of the Committee,

I attach to this email a submission in relation to the Australia-United States Free Trade Agreement. I am happy for the submission to be electronically published, and am happy to answer any questions relating to the substance of the submission. Please let me know if there is any further information you require.

Best regards,

Kimberlee Weatherall

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**Submission to the  
Joint Standing Committee on Treaties  
Hearing on the  
Australia-United States Free Trade Agreement**

**Submission of  
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**Table of Contents and Summary of this Submission**

<b>1</b>	<b>Introduction and Executive Summary .....</b>	<b>3</b>
1.1	The Author.....	3
1.2	Executive Summary of this Submission.....	3
<b>2</b>	<b>The process by which the IP Chapter was negotiated departed from the principles of transparency and accountability.....</b>	<b>5</b>
2.1	Negotiations for the AUSFTA bypassed established processes of public discussion and consultation on IP law .....	5
2.2	The adverse consequences of by-passing public consultation and review in IP law .....	6
<b>3</b>	<b>The highly prescriptive nature of the IP Chapter will unduly constrain Australian discretion to shape appropriate IP laws for Australian circumstances .....</b>	<b>8</b>
3.1	Intellectual property law is an important instrument of government economic and social policy, which should be shaped by the Australian Parliament for Australian circumstances.....	8
3.2	The highly prescriptive nature of the Australia-US FTA will unduly limit the Australian Parliament's freedom to shape intellectual property law in the future.....	9
<b>4</b>	<b>The provisions of the IP Chapter do not strike the appropriate balance.....</b>	<b>11</b>
<b>5</b>	<b>Particular problems will be caused by the "anti-circumvention" provisions of the AUSFTA (Article 17.4.7) .....</b>	<b>13</b>
5.1	The IP Chapter adopts a ban on use of circumvention devices, requiring a substantial change in existing Australian law.....	13
5.2	The ban required by the IP Chapter will catch even consumers and other individuals who are unaware they are circumventing .....	14
5.3	The definition of "technological measure" under Article 17.4.7(b) "circumvents" a pending appeal from the Full Federal Court and will	

	undermine Australia’s decision to allow parallel importing of music, computer games, and enhanced CDs.....	15
<b>6</b>	<b>Particular problems will be caused by the exceptions to the anti-circumvention provisions set out in 17.4.7(e) and (f) .....</b>	<b>17</b>
6.1	Article 17.4.7(e) creates a very narrow, unhelpful list of exceptions to the anti-circumvention provisions which will require a substantial re-write of Australian law .....	17
6.2	Article 17.4.7(e)(viii): the Quadrennial Review process: a costly process for Australia to adopt.....	18
<b>7</b>	<b>Particular problems will be caused by the ISP liability procedure (Article 17.11.29).....</b>	<b>20</b>
7.1	These provisions do not reflect ISP liability under existing Australian law	21
7.2	The provisions are technology-specific, contrary to Australian digital copyright policy.....	21
7.3	The provisions have imposed significant costs on ISPs in the United States .....	21
<b>8</b>	<b>Conclusion .....</b>	<b>22</b>

## 1 Introduction and Executive Summary

### 1.1 *The Author*

I am a lecturer in law at the University of Melbourne, a specialist in intellectual property law and the Associate Director (Law) of the Intellectual Property Research Institute of Australia (IPRIA). I have written and published on intellectual property generally, and on digital copyright issues in particular, in both European and United States journals, and am currently directing a number of research projects relating to intellectual property and intellectual property enforcement in particular. I make this submission in my own name, not in the name of IPRIA. I make this submission as an academic who is very interested in intellectual property law, and who seeks to provide a view which is not influenced by the interests of any particular body of "clients".

I am more than happy to answer any questions that arise from this submission. I can be contacted as follows:

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### 1.2 *Executive Summary of this Submission*

I appreciate the opportunity to make a submission on the very important issues raised by the US-Australia FTA ("AUSFTA"). I support the view that "parliamentary scrutiny of the treaty-making process and public accountability"<sup>1</sup> are critical to the democratic process and law-making in Australia.

This submission addresses only the IP Chapter of the AUSFTA. I seek to bring to the attention of the Committee certain concerns about that Chapter. I do not seek to address the broad balance of costs and benefits in the entire agreement.

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<sup>1</sup> Minister for Foreign Affairs, Alexander Downer, "Treaties and Community Debate: Towards Informed Consent", Canberra, 20 August 2002 (Speech delivered at the Launch of the Australian Treaties Database)

This submission does not address every current and future problem with the IP Chapter of the AUSFTA. The detailed nature of the provisions, and the difficulty of predicting the future, mean that it would be impossible to address all the problems with the Chapter.

Instead, this submission focuses on 6 key issues in relation to the IP Chapter:

1. **The process of negotiation of the IP Chapter:** I submit that the process by which the IP Chapter was negotiated departed from important principles of transparency and accountability in law-making, as it bypassed existing, important reviews of IP law that were occurring concurrently with the negotiations. As a result, I argue, the negotiators of the Agreement were **not fully or adequately informed of the consequences** of the contemplated Agreement. This departs from principles of sound policy-making, which require a proper analysis *prior* to new laws being made.
2. **The detailed and highly prescriptive nature of the IP Chapter of the AUSFTA:** I submit that the very detailed nature of this Agreement **undesirably constrains the policy and law-making power of the Australian Parliament**. In many cases, in order to comply with the obligations of the Agreement, the Australian Parliament will have no option but to directly, or almost directly enact provisions of this Agreement. I further argue that any appearance of flexibility that appears on the face of the Agreement is likely to prove illusory in practice.
3. **The “balance” struck by the Agreement:** The IP Chapter of the AUSFTA will require very significant changes in Australian IP law in favour of IP owners. This will tip the “balance” of IP law away from users of IP. This is particularly the case given that in several key respects, Australian law is currently *more* protective of IP owners than US law. The Agreement does not import into Australian law important user-protective defences available in US IP law;
4. **The anti-circumvention provisions:** Anti-circumvention provisions impose bans on devices and programs that might enable users to breach technological protections placed by IP owners to limit access to works, or infringement of copyright in works. The AUSFTA will require Australia to depart from its existing, carefully considered balance between owner and user rights in relation to digital copyright. Australia will be required to adopt a ban not only on *distribution* of such devices, but also on *use* of such devices: potentially catching individual consumers, and even those, I argue, who do not know they are infringing copyright owners’ rights.
5. **The exceptions to the anti-circumvention provisions:** Australian law currently provides for certain exceptions to allow some users to circumvent technological protections in circumstances where, it has been considered, an

important public interest requires that that be allowed. The AUSFTA will require Australia to **give up some of those current exceptions**, and will **severely limit the future freedom of the Australian Parliament to adopt new exceptions** as required by changing technological, economic and social circumstances. Most ludicrously, several of the specified exceptions, and any future exceptions created by the Australian government, will apply only to **users**, and not to the ban on *distributing devices*. In other words, there will be **some people left with a defence, or exception**, who may only be able to use that exception if **they are sufficiently technologically savvy**.

6. **The ISP Liability provisions (Article 17.11.29):** These provisions are highly detailed, and will require a substantial re-write of Australian law relating to the liability of ISPs for copyright infringement of their users and subscribers. The provisions are **inappropriately detailed** (over 2000 words and 4 pages just in the main text of the treaty) and **technology-specific**, contrary to Australian policy in favour of technology neutrality in regulation of digital copyright. Further, similar provisions in the United States have been criticised widely as too easily abused. It is not clear that the detailed nature of these provisions will allow either (a) sufficient flexibility to meet future technological developments, or (b) ways out to avoid abuses of the takedown procedures.

## 2 **The process by which the IP Chapter was negotiated departed from the principles of transparency and accountability**

### 2.1 *Negotiations for the AUSFTA bypassed established processes of public discussion and consultation on IP law*

At the same time as the AUSFTA negotiations were occurring, two major reviews of IP policy were occurring in Australia: the Digital Agenda Review, and the ALRC Gene Patenting Review.<sup>2</sup>

The Digital Agenda Review<sup>3</sup> was instituted in order to analyse the impact of the considerable changes made to digital copyright law in 2000, and to undertake:

*“an examination of whether the approach taken in the amendments ensures a reasonable balance between the competing interests of enabling copyright owners to protect their copyright material in digital form whilst allowing reasonable access to such material by copyright users”<sup>4</sup>*

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<sup>2</sup> See the information on the website of the ALRC, at <[www.alrc.gov.au](http://www.alrc.gov.au)>

<sup>3</sup> Attorney-General (Cth), “News Release: Review of Leading Edge Copyright Reforms”, 1 April 2003, available at <<http://www.ag.gov.au>> (last visited 3 April 2004)

<sup>4</sup> Terms of Reference, Digital Agenda Review

The ALRC review of *Gene Patenting and Human Health* has been going for some time, and released a Discussion Paper in March 2004, which is a very comprehensive, high quality document dealing with the appropriate balance of public and private interests in patent law, more generally but particularly in relation to biotechnology.

The results of both inquiries have been pre-empted by the provisions of the IP Chapter of the AUSFTA.<sup>5</sup> Further, the Australian government did not undertake, to my knowledge, any alternative assessment of the costs and benefits of the changes to IP law proposed in the AUSFTA. This is particularly striking in the context of copyright term extension.<sup>6</sup> In September, 2000, the Intellectual Property and Competition Review Committee made the finding that:

*“The Committee is not convinced there is merit in proposals to extend the term of copyright protection, and recommends that the current term not be extended.*

*We also recommend that no extension of the copyright term be introduced in future without a prior thorough and independent review of the resulting costs and benefits.”<sup>7</sup>*

In 2001 the Australian government **accepted** this proposal, stating that it had “no plans to extend the general term for works.” No such review has been undertaken. The AUSFTA will require Australia to extend the copyright term.

## **2.2 *The adverse consequences of by-passing public consultation and review in IP law***

The consequences of pre-empting existing reviews, and not conducting proper cost-benefit analysis of changes to IP law as previously promised, are twofold.

First, democratic processes of consultation and review have been ignored.<sup>8</sup> Both the ALRC and the Consultant undertaking the Digital Agenda Review (law firm Phillips Fox) were specifically requested by the Australian government to

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<sup>5</sup> Many of the issues raised in the Digital Agenda Review Issues Paper have been “dealt with” in the copyright provisions of the AUSFTA, including, for example, the anti-circumvention provisions (Article 17.4.7), ISP liability for copyright infringement (Article 17.11.29 and the relevant Side Letter). In addition, aspects of the ALRC review will be rendered redundant if the AUSFTA is ratified and implemented. For example, the ALRC has asked whether the Commonwealth amend the *Patents Act* to require a patent holder to transfer ‘know-how’ relating to the patented product or process to the Crown when the Crown uses or acquires a patent under the Act: ALRC Discussion Paper 68, *Gene Patenting and Human Health*, Question 26-1. This would be precluded by the AUSFTA: Provision 17.9.7(b)(iii)

<sup>6</sup> Required under Article 17.4.4 of the AUSFTA.

<sup>7</sup> Ergas Committee, *Review of intellectual property legislation under the Competition Principles Agreement* (September 2000)

<sup>8</sup> This is true regardless of whether the actual processes of the Digital Agenda Review, of which I have been critical, or the ALRC Gene Patenting Review, were themselves ideally democratic.



undertake widespread public consultation and to consult with key stakeholders.<sup>9</sup> A large number of interested parties did expend considerable time and effort to make submissions and/or engage in consultations with these two reviews.<sup>10</sup> The implications of an AUSFTA, and the implications of adopting more US-style IP law, could and should have been included in the Terms of Reference for these inquiries, and thus more openly discussed.

Second, negotiators of the IP Chapter of the FTA were deprived of valuable information about the costs and benefits of existing Australian IP law, and the costs and benefits of moving to a more US-style model of IP law as envisaged under the IP Chapter of the AUSFTA.

It is a basic principle of good policy-making that it should *begin* with sound economic support for policy changes. Evidence in favour of changes should be provided *prior* to changes being made to law – not afterwards. In the negotiation of a comprehensive trade agreement, trade-offs will be made. It is **critical** that, if the interests of Australia are to be served by the outcome of such negotiations, negotiators must have as clear a picture as is possible of the costs to Australia of making concessions.

Because issues specifically relating to the AUSFTA were not dealt with in the two ongoing public reviews, in my view the Australian negotiators did not have a clear idea of the value of maintaining the current balance of Australian IP law, or the implications of moving to a US-style IP law as required by the AUSFTA. In short, the negotiators **were not sufficiently informed as to the value of what they were trading with, or potentially trading away, in relation to IP law.**

I therefore submit that the Australian Government ought not to have pre-empted, and rendered effectively redundant, the major reviews of IP policy in copyright law and patent law which were occurring at the time of these negotiations. I submit that by doing so, the Australian Government has departed from principles of sound policy-making, and its own commitment to an “open and transparent treaty-making process”.<sup>11</sup>

At the very least, the implications of the AUSFTA should have formed an integral part of both the ALRC and the Digital Agenda Review, so that issues of the costs

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<sup>9</sup> Attorney-General and Minister for Health and Ageing, ‘Inquiry into Human Genetic Property Issues’, *News Release*, 17 December 2002; see also in relation to the Copyright reforms, the News Release of the Attorney-General which states that “[t]he operation of the amendments will be compared against their objectives. Key copyright stakeholders will be consulted and a series of public forums will be held to encourage discussion of online copyright issues in the community.”: Attorney-General, ‘Review of Leading Edge Copyright Reforms’, *News Release*, 1 April 2003.

<sup>10</sup> The ALRC Discussion Paper, *Gene Patenting and Human Health*, notes that it received 65 submissions, and conducted face-to-face consultations (see Appendix 1). In relation to the Digital Agenda Review, Phillips Fox received over 70 submissions, and conducted 2 public forums (in Melbourne and Sydney) and an online consultation.

<sup>11</sup> See Commonwealth of Australia, *Review of the Treaty-Making Process*, August 1999.

and benefits of moving to the kinds of provisions found in Chapter 17 of the AUSFTA could be openly discussed by the full range of interested parties.

Finally, I note that while the Consultant provided their Report to the Australian Government in January,<sup>12</sup> that report has not yet been released for public comment. I submit that in assessing the economic, social and cultural effects of the proposed treaty, and the financial costs associated with implementing and complying with the terms of the treaty, JSCOT should seek a copy of the Consultant's Report on the Digital Agenda Review, and grant an opportunity for interested parties to comment on that Report.

It is worth noting that the concerns outlined above are not solved by the consultations listed by DFAT in the AUSFTA NIA. While I cannot speak for all consultations, I was present at one and did not find it a useful process. The consultation was characterised by a serious information gap: copies of proposed provisions were not supplied to "consultees," and we were, in effect, required to "guess" what might be important to discuss, or respond to questions from the negotiators on hypothetical issues deprived of context. Such one-sided "discussions" are not a substitute for the dialogue and deeper consideration of issues that can occur in the context of a public review such as that of the ALRC.

### **3 The highly prescriptive nature of the IP Chapter will unduly constrain Australian discretion to shape appropriate IP laws for Australian circumstances**

#### **3.1 *Intellectual property law is an important instrument of government economic and social policy, which should be shaped by the Australian Parliament for Australian circumstances***

IP law embodies a balancing of various competing interests: the need for private parties to receive rewards for innovation must be balanced against the public need for access to new works and new technologies. The crafting of Australian IP law necessarily involves an assessment of how these balances operate in an Australian context. This process is important to ensuring a sound economic policy for Australia. The Australian government has long recognised that "Australia's economic future will be shaped, in part, by how well it can manage its intellectual property assets."<sup>13</sup>

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<sup>12</sup> Comments of Matthew Hall at the ACIPA Conference: *Copyright: Unlucky for Some?* February 13, 2004.

<sup>13</sup> The Hon. Mark Vaile MP, Minister for Trade, "Introduction: Intellectual Property: A Vital Asset for Australia", (DFAT, June 2000)

It has been widely recognised that the balance of interests embodied in IP law can and should vary between countries with different economic interests.<sup>14</sup> Simply following the policies of American, or European IPRs is not necessary, nor is it desirable.<sup>15</sup> Furthermore, as economist Keith Maskus has pointed out, for countries to maximise their gains from stronger IP rights, their IP systems must interact coherently with other national policies.<sup>16</sup>

Further, if one thing is clear from the last few years, it is that IP law must adjust in response to changing technological circumstances. It is crucial that the Australian government retains the freedom to make those adjustments according to the needs of the Australian people. Much of that freedom will be lost under the IP Chapter of the AUSFTA.

**3.2 *The highly prescriptive nature of the Australia-US FTA will unduly limit the Australian Parliament's freedom to shape intellectual property law in the future***

As the Coalition Law and Justice Policy stated, back in 1996:

*"Australian laws, whether relating to human rights or other areas, should first and foremost be made by Australians, for Australians ... [W]hen Australian laws are to be changed, Australians and the Australian political process should be at the beginning of the process, not at the end."*<sup>17</sup>

The IP Chapter of the AUSFTA will both:

- (a) require extensive changes to existing Australian IP law; and
- (b) prevent the Australian Parliament from amending Australian IP law to accommodate Australian interests in the future.

Because any changes to IP law will involve the Australian Parliament, if the provisions of the AUSFTA were stated at a general level, like those in the Australia-Singapore FTA, then we could be confident that Australian Parliament would have the power to ensure that implementation of the AUSFTA was shaped to fit Australia's own circumstances. The negotiators of the Agreement have in fact claimed<sup>18</sup> that the provisions allow for some flexibility: and, indeed, it is true that there is some language which could be interpreted by Australia in its implementation of the AUSFTA in the future.

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<sup>14</sup> Keith E. Maskus, "Implications of Regional and Multilateral Agreements for Intellectual Property Rights" (1997) 20 *The World Economy* 681

<sup>15</sup> Keith E. Maskus, "Strengthening Intellectual Property Rights in Asia: Implications for Australia", 46<sup>th</sup> Joseph Fisher Lecture in Commerce, University of Adelaide, 19 November 1997, at page 16; see also Jerome H. Reichman, "Intellectual Property Rights and the Dissemination of Technical Knowledge: A Pro-Competitive Strategy for Compliance with the TRIPS Agreement" (1996, Geneva, UNCTAD)

<sup>16</sup> Keith E. Maskus, "Strengthening Intellectual Property Rights in Asia: Implications for Australia", 46<sup>th</sup> Joseph Fisher Lecture in Commerce, University of Adelaide, 19 November 1997, at page 16

<sup>17</sup> 1996 Coalition Law and Justice Policy, quoted in the Senate Legal and Constitutional Legislation Committee, *Report on the Administrative Decisions (Effect of International Instruments) Bill 1997* (1997).

<sup>18</sup> Comments of Stephen Fox, delivered at the ACIPA Conference: *Copyright: Unlucky for Some?* February 13, 2004

However, it would be naïve to suggest that Australia will have significant flexibility in its interpretation of the provisions of the AUSFTA, for two reasons.

First, many, although by no means all of the obligations in the IP Chapter are so particularised, and the flexibility in those provisions so limited, that the reality is that the Australian Parliament will have little room to move without breaching international obligations in its implementation of any provisions.

The IP Chapter consists of 29 close-typed pages,<sup>19</sup> several of which contain exhaustive lists. For example, there is an exhaustive list of exceptions which Australia may provide to the ban on circulating devices that allow users to break technological protection of copyright works.<sup>20</sup> This means that, **regardless of what happens in the future**, and regardless of any problems that arise in the future in the operation of the copyright law, Australia will **not be able to add an exception** to deal with that issue without breaching its agreement with the United States.

A particularly notable example of the particularity of the obligations is Article 17.11.29, which deals with online service provider liability for copyright infringement. This provision is 1,288 words in total, and extends to 3½ - 4 pages in the currently available version of the AUSFTA. This provision operates in *conjunction with* a side letter dealing with the same issue, which extends to another 2 pages and another 931 words. That's a total of (approximately) **2219 words** (approaching the length of a university undergraduate essay) **and 6 pages dealing solely with ISP liability for copyright infringement**. Compare this to the current Australian Act, which if you count the two provisions dealing with the issue,<sup>21</sup> extends to 252 words and half a page. It is not seriously arguable that there is much "flexibility" in the AUSFTA provision.

Second, there is no reason to be confident that any apparent flexibility in the Agreement will be fully available to Australia in the future. The industry representatives which advise the US Trade Representative have, in their report on the AUSFTA, already signalled their willingness to encourage use of the dispute settlement provisions of the AUSFTA should they see Australia as not implementing its obligations in good faith.<sup>22</sup> Given that the same industry bodies *already* characterise Australia's digital copyright laws as ones which "stray" from "what industry and the U.S. government considered to be full and correct

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<sup>19</sup> Some comparisons are apposite. The IP provisions of the North American Free Trade Agreement, concluded in 1992, are only approximately 2½ pages long. The IP provisions of the US-Jordan FTA (concluded 2000) are more like 8 pages plus an MOU.

<sup>20</sup> Article 17.4.7(e)

<sup>21</sup> ss36 and 39B. Even if the repetitive provisions in ss112E and 101 are included, it jumps to about 589 words: still only a quarter the length.

<sup>22</sup> Industry Functional Advisory Committee on Intellectual Property Rights for Trade Policy Matters (IFAC-3), *Report on the U.S.-Australia Free Trade Agreement (FTA): The Intellectual Property Provisions*, March 12, 2004, at pages 3-4

implementation of the obligations” in international treaties, their view of “good faith” implementation is not likely to be very generous, or flexible.<sup>23</sup>

#### **4 The provisions of the IP Chapter do not strike the appropriate balance**

As already noted, in order to comply with the obligations in the IP chapter of the AUSFTA, Australia will need to enact significant changes to IP law. These changes will significantly “recalibrate” the existing balance of interests in both copyright law and patent law, an issue which is explored in more detail later in this submission. A very important question arises whether these changes are appropriate to Australian circumstances, and appropriately balance the interests of Australian IP users and owners (as well as the rights of foreign entities in Australia). I submit that certain provisions of the IP chapter of the AUSFTA do not strike an appropriate balance of interests.

One important reason why the provisions do not strike an appropriate balance of interests is that the Australia-US FTA seeks to introduce IP-protective US laws but does not “harmonise” aspects of US law protective of the interests of members of the public. The result of introducing these provisions in Australia without making appropriate adjustments to strengthen users’ interests may be to skew IP law in Australia to be even more protective of IP owners than American law.

In some important respects, Australian law currently provides *more* protection to IP owners than US IP law. In copyright law, the Australian standard of originality is, following the decision of the Full Federal Court in *Desktop Marketing Systems v Telstra Corporation*,<sup>24</sup> lower than in the United States. In Australia it appears that copyright protection will be granted on the basis of the expenditure of effort alone; in the United States some degree of creativity will be required.<sup>25</sup> This means that collections of factual information which would not be protected by copyright law in the United States (or which would have only limited protection) *are* protected by relatively strong copyright in Australia. The effect of adopting the AUSFTA without addressing this difference would be to tip the balance too far in favour of copyright owners, and in particular, in favour of the compilers of collections of fact, at the expense of the interests of users.

Furthermore, the fair use defence to copyright infringement in the United States<sup>26</sup> is more broadly stated than the ‘equivalent’ fair dealing defences to copyright infringement in Australia. In Australia, to gain the benefit of the defence, the

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<sup>23</sup> Above n22, at page 8

<sup>24</sup> *Desktop Marketing Systems v Telstra Corporation* (2002) 119 FCR 491 (“the White Pages decision”), concerning Telstra’s copyright in the White Pages and Yellow Pages.

<sup>25</sup> *Feist Publications, Inc. v. Rural Telephone Service Company, Inc.* 499 US 340 (1991)

<sup>26</sup> 17 U.S.C. §107

alleged infringer is required to show that the purpose of their use falls within one of those enumerated in the Australian legislation: criticism and review,<sup>27</sup> research and study,<sup>28</sup> news reporting,<sup>29</sup> or judicial proceedings.<sup>30</sup> In the United States, a non-exhaustive list of purposes is provided.<sup>31</sup> This has allowed US courts to find “fair use” for uses such as parody or other transformative use,<sup>32</sup> where it is by no means clear that an Australian court would find a fair dealing,<sup>33</sup> and for time-shifting. There is currently no defence for time-shifting in Australian law: it is one of the great ironies (or rather, problems) of current Australian copyright law that Australian citizens are almost certainly infringing copyright without realising it every time they record a TV show or movie to watch later.<sup>34</sup> This is not the case in many countries: including, most importantly, the United States, where caselaw allows for “timeshifting”<sup>35</sup> as well as shifting of works from one device to another.<sup>36</sup> In 1998 the CLRC recommended “the expansion of fair dealing to an open-ended model”.<sup>37</sup> This approach has not, however, yet been adopted in Australian law.

I submit that it is not appropriate to take on extensive obligations to enact further laws protective of IP interests without a full analysis of how these provisions will operate in the context of Australian law, which is – and under the AUSFTA provisions, will remain – different from US law in certain key respects. Any Australian government considering acceding to such a treaty should undertake to review those areas of Australian IP law is stronger than that provided elsewhere in the world, and undertake to redress that imbalance.

I will move now to comment directly on a number of particular provisions of the AUSFTA. It should be noted, however, that I consider there are quite a number of provisions which I am *not* commenting on here, which are problematic in an Australian context. In particular, I am not going to comment on copyright term extension. Generally, I am generally opposed to such extension, considering it contrary to Australian interests. It provides few benefits and will impose

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<sup>27</sup> *Copyright Act 1968* (Cth) ss 41, 103A

<sup>28</sup> *Copyright Act 1968* (Cth) ss 40, 103C

<sup>29</sup> *Copyright Act 1968* (Cth) ss 42, 103B

<sup>30</sup> *Copyright Act 1968* (Cth) ss 43, 104

<sup>31</sup> 17 U.S.C. §107

<sup>32</sup> *Campbell v Acuff-Rose Music, Inc* 510 US 569 (1994) (the “Pretty Woman” case); *Suntrust Bank v Houghton Mifflin Co* 268 F.3d 1257 (2001) (the “Wind Done Gone” case)

<sup>33</sup> In the recent case regarding the television show *The Panel*, *TCN Channel Nine Pty Ltd v Network Ten Pty Ltd* (2002) 118 FCR 417, the Federal Court upheld a fair dealing defence for only some of a number of satirical uses of television footage.

<sup>34</sup> Attorney-General’s Department, *A Short Guide to Copyright*, FAQs, Paragraph 16.4, available online.

<sup>35</sup> Home recording to watch later is allowed in the United States as a result of the *Betamax* decision (*Sony Corp of America v Universal Studios, Inc* 464 US 417 (1984)); exceptions for use by a natural person for private use are also specifically allowed under Article 5.2(b) of the European Union *Directive on the Harmonisation of Certain Aspects of Copyright and Related Rights in the Information Society*, Directive 2001/29/EC of 22 May 2004 (OJ L. 167/10, 22.6.2001)

<sup>36</sup> *Recording Industry Association of America v Diamond Multimedia Sys., Inc* (1999) 180 F.3d 1072

<sup>37</sup> Copyright Law Review Committee, *Simplification of the Copyright Act 1968 Part 1: Exceptions to the Exclusive Rights of Copyright Owners* (September 1998), Recommendations 2.01 and 2.02.

considerable costs on Australian users; a majority of the benefits are likely to go to overseas copyright owners. However, I have no particular evidence to submit on this point, and will not make detailed arguments here. There are other provisions which are problematic, including the patent provisions, but the short timetable for submissions prevents me from commenting here on those issues.

## **5 Particular problems will be caused by the “anti-circumvention” provisions of the AUSFTA (Article 17.4.7)**

I submit that Article 17.4.7 will require significant rewriting of Australian copyright law and does not strike an appropriate balance between the interests of users and owners of copyright.

### **5.1 *The IP Chapter adopts a ban on use of circumvention devices, requiring a substantial change in existing Australian law***

Article 17.4.7(a) of the AUSFTA will require Australia to change its law by providing for a ban, not only on *distribution* of devices for circumventing technological protection measures, but also *use* of such devices.

This is a significant change to the current position: s116A of the *Copyright Act* 1968 currently bans only acts of *distributing* circumvention devices. The decision *not* to proscribe acts of circumvention resulted from a very extensive review and consultation process which occurred over a number of years.<sup>38</sup> The legislative provisions which resulted from this process represented, according to the Australian government, an attempt to strike an appropriate balance between the interests of copyright owners and copyright “users” and members of the public. The basis for that decision was the following view expressed by the Australian government:

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38 As Senator Alston put it in his 2<sup>nd</sup> Reading Speech, “[i]n developing the legislation, the government has given all relevant interests extensive opportunities to put their views and comment on the proposed reforms. The bill represents the culmination of that exhaustive consultation process”: Senator Richard Alston, *Copyright Amendment (Digital Agenda) Bill* (2000), Second Reading Speech, *Hansard*, 17 October 2000, page 16592. This is borne out by the facts of this consultation process. The Discussion Paper Copyright Reform and the Digital Agenda was released by the Attorney-General’s Department in July 1997. The Government conducted 13 face-to-face consultations and received 71 written responses to this Discussion Paper, from a large variety of stakeholders including copyright industry associations, copyright collecting societies, educational institutions, libraries, archives, carriers, broadcasters, ISPs, academics and others. Following this process, an exposure draft of the *Copyright Amendment (Digital Agenda) Bill* 1999 that implemented the Government’s decision was released for public comment on 26 February 1999. Over 80 submissions were received, and numerous meetings held on this draft. The *Copyright Amendment (Digital Agenda) Bill* 1999 was introduced into the House of Representatives on 2 September 1999 and referred to the House of Representatives Standing Committee on Legal and Constitutional Affairs. That Committee received some 100 written submissions on the Bill in addition to undertaking a number of public hearings. Following the Committee’s report, further amendments were made to the legislation which was eventually passed in October, 2000.

*“The government believes that the most significant threat to copyright owners' rights lies in preparatory acts for circumvention, such as manufacture, importation, making available online, and sale of devices, rather than individual acts of circumvention”*<sup>39</sup>

Not only is the move to a ban on use under the AUSFTA a departure from stated Australian policy, but it is not desirable. It is not good policy to impose ever-increasing obligations under the highly technical *Copyright Act* on individual Australian citizens. In doing so, we risk increasing the already clear “disconnect” between what the copyright law in fact says, and what people think the law should be, and what they should have to do to avoid liability. Consumers are very unlikely to believe it is reasonable to make them liable if they use a “region-free” DVD player. That could, however, be the effect of the AUSFTA.

## **5.2 *The ban required by the IP Chapter will catch even consumers and other individuals who are unaware they are circumventing***

Article 17.4.7(a) requires Australia to impose liability on those who “knowingly, or **having reasonable grounds to know**” circumvent a technological protection measure.

In other words, individual consumers who use a device which they do not subjectively realise circumvents a TPM may incur liability for a breach of the *Copyright Act*.<sup>40</sup> Many consumers do not understand how the technology they use works. By requiring an objective standard of knowledge, rather than a subjective standard that only imposes liability where the consumer **knew what they were doing**, the AUSFTA would put Australian consumers at unnecessary and undesirable risk of breaking the law. It is worth noting that at least one other Free Trade Agreement negotiated by the United States has a *subjective* standard of knowledge.<sup>41</sup>

Article 17.4.7(a) will also render those who *distribute* devices liable, even if they did not subjectively realise that the devices or programs they are distributing may be used for circumvention. There is no requirement of knowledge in the relevant provision. Again, this is a departure from existing Australian law, which requires

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<sup>39</sup> Submissions of the Attorney-General's Department and Department of Communications to the House of Representatives Standing Committee on Legal and Constitutional Affairs on the *Digital Agenda Act*, quoted in Standing Committee Report, *Advisory Report on the Copyright Amendment (Digital Agenda) Bill 1999*, Chapter 4, page 66, paragraph 4.38.

<sup>40</sup> I note that the US motion picture industry takes the view that playback of a non-region 1 DVD on a multiregion DVD player is a violation of the Copyright Act, *even where* the person who put the DVD in has no knowledge that they have allegedly circumvented a TPM: see Gwen Hinze, “*Getting the Balance Right: Seven Lessons from a Comparison of the Technological Protection Measure Provisions of the FTAA, the DMCA, and the US-Singapore and US-Chile Free Trade Agreements*”, available at <[http://www.eff.org/IP/FTAA/tpm\\_implementation.php](http://www.eff.org/IP/FTAA/tpm_implementation.php)>

<sup>41</sup> Free Trade Agreement between the United States and Chile, Article 17.7.5(a), which provides liability only where a person **knowingly** circumvents any effective technological measure.



that, for there to be infringement, the person circulating the device “knew, or ought reasonably to have known, that the device or service would be used to circumvent” the TPM.<sup>42</sup>

Given that circumvention devices can include all sorts of computer programs, as well as physical devices used for many purposes, making people liable in the absence of **subjective knowledge** of their breach is not appropriate.

**5.3 *The definition of “technological measure” under Article 17.4.7(b) “circumvents” a pending appeal from the Full Federal Court and will undermine Australia’s decision to allow parallel importing of music, computer games, and enhanced CDs.***

Article 17.4.7(b) requires Australia to adopt a definition of technological measure as a device (etc) which *controls access* to a protected work, or protects any copyright.

This effectively settles, by mandate in treaty, rather than mandate of the Australian Parliament, a long-standing debate about whether the law should protect only those technological measures (or TPMs) which actually prevent copyright infringement, or whether **access controls** put in place by copyright owners should also be protected.<sup>43</sup> The concern expressed by many in this debate was that provisions relating to TPMs should be clearly, unequivocally tied to copyright infringement, and that mere access controls – which prevent actions by users which do not infringe copyright – should not be banned.

This question is a point of difference between the judgments of the Federal Court and Full Federal Court in the *Sony v Stevens* litigation: litigation which, I understand, is currently on appeal to the High Court. In other words, the AUSFTA has, it appears, pre-empted any decision of the High Court in that case.

Even more importantly, the provision has the potential to entrench – indeed, legally protect – anti-competitive and market segmentation practices of copyright owners, and undermine Australia’s policies in favour of competition in the supply of legitimate copyright works, as implemented through Australia’s parallel importation laws: to the detriment of Australian consumers.

Some technological devices that are used to control access to copyright works are also used to implement market segmentation policies of copyright owners. In relation to DVDs, for example, region coding, enforced via technological access controls, divides the global DVD market into six technically distinct markets,

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<sup>42</sup> *Copyright Act 1968 (Cth) s116A(1)(c)*

<sup>43</sup> This issue was the subject of considerable debate before the House of Representatives Standing Committee which considered the Digital Agenda Bill back in 1999; it has also been a subject of debate in the recent Digital Agenda Review.

roughly but not completely on the basis of physical divisions. Australia and New Zealand occupy region 4. North America is region 1. As a result of this partitioning, Australians who buy DVDs from retailers in the US (region 1) or Britain (region 2), cannot watch the films in Australia - unless they buy DVD players that are compatible with region 1 or region 2. A similar system has been used in relation to Sony Playstation consoles. As Henry Ergas has noted, the regional coding system acts as a potentially substantial barrier to trade. This might benefit producers, but it would be at great detriment to consumers.<sup>44</sup>

The Australian government since 1998 has enacted several laws to allow parallel importation of some copyright items: that is, the importation of *legitimately produced copies* (copies made with the consent of the copyright owner) in other countries. If parallel importation is not allowed, the copyright owner can be the only supplier of a good in the market, leading to higher prices for consumers. The Australian government has allowed parallel importation on the basis that this would benefit Australian consumers by reducing prices and increasing availability of copyright material.<sup>45</sup> This position has been strongly supported by the Australian Competition and Consumer Commission (ACCC).

In accordance with Australia's strongly adopted policy in favour of parallel importation, it is important that Australia retains the freedom to decide whether region-coding is undesirably undermining competition, and take appropriate action to ensure genuine competition.<sup>46</sup> Australia may, in the future, depending on any harm arising from region-coding, need to amend the definition of a TPM or introduce an appropriate exception to the legal protection accorded to TPMs.

The AUSFTA will prevent Australia from taking any such action, even if region-coding proves to be very harmful to the interests of Australian consumers. The AUSFTA will lock Australia in to a system where we must prohibit circumvention of access controls – which will, it seems, include region-coding mechanisms. This completely undermines the stated aims of the Australian government in allowing parallel importation: that competition in the provision of legitimate copies of copyright works is a boon to Australian consumers. It should be noted that there is no way, under the exceptions provisions of the AUSFTA (Article 17.4.7(e)) that the Australian government could introduce an exception to allow parallel importing or ameliorate the anti-competitive effects of such region coding.

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<sup>44</sup> Henry Ergas, *Destroy the DVD Divide*, BRW Outfront Opinion, January 17, 2002.

<sup>45</sup> *Explanatory Memorandum to the Parallel Importation Bill 2001* (Cth)

<sup>46</sup> Whether such access controls are TPMs has been considered in the case of *Sony v Stevens*. The ACCC intervened in the case owing to their concern about the anti-competitive effects of such access controls. Justice Sackville at first instance held that such access controls were not TPMs, because they did not operate to prevent copyright infringement by any physical means. This approach was overturned by the Full Federal Court. For the moment, the interpretation of the Full Federal Court covers access controls – but the case is currently on appeal to the High Court of Australia.

## 6 Particular problems will be caused by the exceptions to the anti-circumvention provisions set out in 17.4.7(e) and (f)

### 6.1 *Article 17.4.7(e) creates a very narrow, unhelpful list of exceptions to the anti-circumvention provisions which will require a substantial re-write of Australian law*

As noted above, Australian law currently bans only *distributing* circumvention devices. As a result, persons or companies circumventing TPMs do not require their own defences. Certain exceptions are provided to the ban on *distribution* in order to ensure that certain **qualified persons** who have a right or defence under copyright law to access copyright works are allowed to do so.

This whole system, adopted by the Australian Parliament in 2000 after extensive consultation, will have to be overturned if the AUSFTA is implemented.

In essence, the exceptions to the bans on *using* and *distributing* circumvention devices in the AUSFTA work as follows:

- In relation to the **ban on use of circumvention devices**:
  - There are **7 specified exceptions** which Australia may adopt, for such purposes as security testing, encryption research, and for the creation of interoperable computer programs;
  - Australia may, in the future, create new exceptions, but only subject to the limitations set out in Article 17.4.7(e)(viii), which requires a “credible demonstration” of “actual or likely adverse impact”, and a quadriennial review of such exceptions.
- In relation to the **ban on distribution of circumvention devices**:
  - There is a **shorter list** of specified exceptions (ie, some of the exceptions in Article 17.4.7(e) apply *only* to use); and
  - Australia is **not allowed to create new exceptions** under the quadriennial process set out in Article 17.4.7(e)(viii).

Several consequences of this system should be noted.

First, the list of specified exceptions models that in the *Digital Millennium Copyright Act* 1998 in the United States. There have been numerous controversial issues that have arisen in relation to the abuse of the anti-circumvention provisions. These include threats of suit issued to computer science researchers and anti-competitive conduct. In the US, the DMCA has been used to hinder efforts of legitimate competitors to create interoperable products. For example, Vivendi-Universal’s Blizzard Video Game Division invoked the DMCA to intimidate the developers of software products derived from reverse engineering. Sony has used the DMCA to threaten hobbyists who created competing software for Sony’s Aibo robot dog. And Lexmark, a large printer vendor, employed the DMCA to prevent other companies from offering printer

cartridges for Lexmark printers.<sup>47</sup> There is no reason to think Australia will be immune from such attempts to use our own anti-circumvention provisions.

Second, there is no provision for an exception which would allow circumvention to avoid anti-competitive conduct on the part of copyright owners. I have discussed in Part 5.3 above the potential for anti-competitive or market segmentation behaviour by copyright owners; behaviour which has been criticised by the ACCC.

Third, in some cases, there is an exception for the user, but no exception which will allow someone else to supply them with the necessary device to implement their exception. This is a nonsense, if it means that an individual will only be able to use the defence if they are technologically savvy. For example, under Article 17.4.7(v), users may protect their privacy: they may circumvent TPMs to prevent their equipment collecting or disseminating personal information. But there is no exception under Article 17.4.7(e) and (f) to allow any party to supply circumvention devices to users for that purpose. Only technologically savvy users, it appears, can protect their privacy.

Fourth, exceptions which currently provide some protection for Australian libraries will have to be removed. At present, under Australian law, Australian libraries may circumvent TPMs for a number of purposes, including providing copies of works to clients of the library. The only “library” exception under the AUSFTA is Article 17.4.7(e)(vii), which allows *access* by a library, “for the sole purpose of making acquisition decisions”. Notably, too, this is another exception which does not extend to the distribution of circumvention devices – meaning, once more, that it appears the library will have to find a way to circumvent itself, rather than being provided with the necessary device by a commercial provider.

Finally, Australia will be required to implement a quadrennial review process. This is addressed further below.

## **6.2 *Article 17.4.7(e)(viii): the Quadrennial Review process: a costly process for Australia to adopt***

The AUSFTA allows Australia to create new exceptions to the anti-circumvention provisions beyond those specifically listed *only* if an “actual or likely adverse impact” is “credibly demonstrated” in “a legislative or administrative review or proceeding”, which must be held at least once every four years.

The first, most fundamental problem with this process, as required by the AUSFTA, is that it **will only be able to create exceptions for users: it will not be able to create exceptions for those who might supply the necessary means**

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<sup>47</sup> These examples are explored in further detail in a document by the Electronic Frontier Foundation, “Unintended Consequences: Five Years under the DMCA” (September 24, 2003).

**to give effect to those exceptions.** This is, quite simply, an illogical and indefensible limitation, since it renders any exception likely to be close to useless except for competent computer programmers – ie not the majority of consumers and members of the Australian public.

Furthermore, there are procedural problems with such a process. The provision is modelled on the processes used in the United States, where reviews under the DMCA are held by the Register of Copyrights every 3 years.<sup>48</sup> How this process may work in practice may be assessed by looking at the experience of the United States, which has now had 2 such reviews.

The United States process has been heavily criticised. The following problems have been experienced:

- Consumers find the process inaccessible without legal representation, owing to its complexity and the burdens of proof applied;
- The process is costly and time-consuming: this effect is *most* likely to impact on the *non profit* sector, who are likely to be those *most* in need of exceptions to stringent copyright laws and copyright protection;
- A high burden of proof has been applied, which has made it extremely difficult to obtain an exception: this in an area where it is *notoriously* hard to provide actual evidence of harm arising from copyright. Historically, copyright owners have constantly complained of the difficulties of proving damage resulting from infringements, and have been given procedural advantages to mitigate that difficulty. Users are likely to experience, under the quadrennial review process, as many problems (if not more), and yet the reference to “credible” demonstration of adverse effect suggests a high burden;
- The vast costs of the procedure are likely to outweigh its meagre benefits: this can be demonstrated by the US experience. In the 2000 rulemaking, 235 initial comments were received, and 129 reply comments. 34 witnesses representing 50 groups testified at 5 days of hearings, and 28 post-hearing comments were subsequently filed. Two exemptions were ultimately granted. In the 2003 rulemaking, 51 initial comments requesting exemptions were filed, and 337 reply comments were filed, of which 254 were by consumers in support of a consumer exemption request filed by two public interest non-profit organisations (the Electronic Frontier Foundation and Public Knowledge). 44 witnesses representing 60 groups testified at 6 days of hearing, and 24 post-hearing comments were later filed. Four limited exemptions were ultimately granted.

It should also be noted that in the past in Australia, processes for review of

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<sup>48</sup> 17 U.S.C. §1201(a)(1)(C)

digital copyright issues have elicited similar levels of comments and engagement by the policy community.<sup>49</sup>

Participation in such processes is in the United States extremely costly in particular for non-profit organisations, and individual consumers who may experience particular issues, as well as libraries and other bodies with important public interest roles.

It may be the case that some of the worst problems experienced in the US process can be avoided in Australia. However, even if some of the issues can be overcome, two fundamental problems will inevitably remain:

- The process will be expensive, and difficult for Australian consumers who are affected by TPMs, and
- As the AUSFTA is drafted, only exceptions to *use* may be provided. This means that, even if the Australian Parliament decided that a new exception should be created, it could not ensure that circumvention devices could be provided.

## **7 Particular problems will be caused by the ISP liability procedure (Article 17.11.29)**

Article 17.11.29 of the AUSFTA sets out a framework regulating the liability of Internet Service Providers for copyright infringement by their end-users. I have noted in Part 3.2 above the very extensive detail in this particular provisions relating to ISP liability. The level of detail is, in itself, very concerning, and allows little flexibility in implementation. They constitute a substantial re-write of existing Australian law.

It is, perhaps, arguable that more certainty in the area of ISP liability is a good idea, although I do not speak as a stakeholder in this issue and so would defer to the Internet Industry on whether existing Australian law is too uncertain. However, there is a gulf between “uncertainty” in the Australian provisions, and over-determination under the provisions of the AUSFTA.

The provisions are apparently modelled on those in the United States Digital Millennium Copyright Act (DMCA). While the harmonisation with US law will benefit US rightsholders who will be able to use a familiar set of laws and procedures, certain problems exist with these provisions in an Australian context. Briefly, these problems are outlined below.

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<sup>49</sup> See the process of consultation on the Digital Agenda review, outlined above n38

**7.1 *These provisions do not reflect ISP liability under existing Australian law***

Secondary liability for copyright infringement in Australian law is based on a different jurisprudential basis from that in the United States: an intermediary's "authorization" of direct copyright infringement. It is not at all clear therefore how these new provisions "fit" with existing notions in Australian law which rest on a different foundation.

**7.2 *The provisions are technology-specific, contrary to Australian digital copyright policy***

The policy of the *Digital Agenda* legislation in Australia was that copyright legislation should be technology neutral. The provisions of the AUSFTA are highly technology specific. In the United States, the technology-specificity of the DMCA has been criticised as leading to problems when the principles are applied to new technologies, such as peer-to-peer filesharing. For instance, in the United States, ISP Pacific Bell Internet Services has brought a lawsuit against the enforcement agent of the Recording Industry Association of America, MediaForce, which sent the ISP over 16,700 arguably invalid takedown notices, requesting it to "remove" material which the ISP's subscribers had allegedly downloaded onto their personal computers.<sup>50</sup> Given the rapid pace of technological development, it is manifestly not good treaty-making policy to have technology-specific provisions set at the level of international obligations, hampering the Parliament's ability to make adjustments in light of technological development.

**7.3 *The provisions have imposed significant costs on ISPs in the United States***

The Side Letter on ISP liability sets out a procedure for copyright owners to give notice to an ISP requesting it to remove or block access to identified allegedly infringing material residing on the ISP's network or system. In the United States, I understand that tens of thousands of such notices have been sent to ISPs (as these procedures can be and are automated), requiring the expenditure of considerable resources by ISPs on processing the notices. Unfortunately I do not have specific figures for these costs, but it is notable that the apparent misuse of takedown notices recently led a US Congressman to call for a Congressional investigation into the practice.<sup>51</sup>

Once again, it may well be that implementation in Australia will avoid some of these issues; however it is at least possible that such costs will also be imposed on

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<sup>50</sup> *Pacific Bell Internet Services v Recording Industry Association of America, Inc et al* (US District Court, Northern District of California, San Francisco Division, Case No. C03-3560 SI)

<sup>51</sup> Letter from Rep. Dennis Kucinich to House Judiciary Committee, 21 November 2003, requesting an investigation of abuse of 17 USC §512 notices: <<http://www.house.gov/kucinich/issues/Jud-Cmte-Invstgn.pdf>>

Australian ISPs; the likely costs have not been investigated prior to agreeing to this system.

## **8 Conclusion**

As noted at the outset, it has not been possible to address all of the issues relating to the AUSFTA. I hope that the examples that are considered in detail in this submission, as well as other submissions made to JSCOT, will alert JSCOT to the problems presented by this chapter for Australian policy-making in the future.

It should be noted that the Chapter is “not all bad”. But the problems seriously outweigh the advantages.

More generally, I appreciate that compromises in IP may well have been necessary to get an agreement. Even accepting this point, I remain concerned that the Australian negotiators were not fully, properly informed as to all the costs and benefits of what they were trading away, because of the process which was adopted, and that public law reviews and law reforms with a high level of involvement from the Australian IP policy community were significantly pre-empted.

I thank the Committee for the opportunity to make this submission, and am more than happy to answer any questions arising from the arguments set out above.