

The Senate

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Economics Legislation  
Committee

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Provisions of the Designs Bill 2002 and  
the Designs (Consequential Amendments)  
Bill 2002

May 2003

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## Senate Economics Legislation Committee

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# TABLE OF CONTENTS

Membership of Committee	iii
<b>CHAPTER ONE</b>	<b>1</b>
<b>INTRODUCTION</b>	<b>1</b>
Background	1
Purpose of the Bills	1
Reference of the Bills	1
Submissions	1
Hearing and evidence	2
Acknowledgment	2
<b>CHAPTER TWO</b>	<b>3</b>
<b>BACKGROUND TO THE BILLS</b>	<b>3</b>
The registered designs system	3
The ALRC's Report	4
Provisions of the Bills	4
<b>CHAPTER THREE</b>	<b>5</b>
<b>EVIDENCE PRESENTED TO THE INQUIRY</b>	<b>5</b>
Overview	5
Prior art base	5
Registration and examination process	6
Reduced maximum period of protection	8
Right of repair defence	9
Availability of Regulations	14
<b>CONCLUSION</b>	<b>14</b>
<b>APPENDIX 1</b>	<b>17</b>
<b>SUBMISSIONS AND FURTHER INFORMATION</b>	<b>17</b>
<b>APPENDIX 2</b>	<b>19</b>
<b>PUBLIC HEARING AND WITNESSES</b>	<b>19</b>
Friday, 2 May 2003 - Canberra	19



# CHAPTER ONE

## INTRODUCTION

### Background

1.1 The Designs Bill 2002 and the Designs (Consequential Amendments) Bill 2002 (the Bills) were introduced into the House of Representatives on 11 December 2002 by the Hon. Warren Entsch MP, Parliamentary Secretary to the Minister for Industry, Tourism and Resources. The second reading debate in the House of Representatives on these Bills was adjourned on 11 December 2002.

### Purpose of the Bills

1.2 The Bills propose a new registered designs system as set out in the Government's response to the Australian Law Reform Commission's 1995 report, *Report No 74, Designs*.

### Reference of the Bills

1.3 On 5 March 2003, the Senate adopted the Selection of Bills Committee Report No. 2 of 2003 and referred the Bills to the Senate Economics Legislation Committee for report by 27 March 2003. The Selection of Bills Committee noted the following issues for consideration:

- the reasonableness in reducing the design protection maximum time limit from 16 years to 10 years;
- the adequacy of the 'new and distinctive' definition;
- the cost and other implications of expanding the required prior art base to universal application;
- the robustness of the proposed registration process;
- the implications of spare parts provisions for consumers, insurers and car manufacturers; and
- the effectiveness of the proposed reforms to the *Copyright Act 1968*.

1.4 The reporting date was extended by the Senate to 28 May 2003.

### Submissions

1.5 The Committee advertised its inquiry in the *Australian* newspaper on 12 March 2003. It also wrote to a number of individuals and organisations, including the relevant government agency and Department, who were identified as possibly being interested in the Bills. They were alerted to the inquiry and invited to make a submission. A list of the parties from whom submissions were received appears at Appendix 1.

## **Hearing and evidence**

1.6 The Committee held one public hearing on this inquiry in Parliament House, Canberra on Friday, 2 May 2003. Witnesses who appeared before the Committee at that hearing are listed in Appendix 2.

1.7 Copies of the Hansard transcript are tabled for the information of the Senate. They are also available through the Internet at <http://aph.gov.au/hansard>.

## **Acknowledgment**

1.8 The Committee is grateful to, and wishes to thank, all those who assisted with its inquiry.



# CHAPTER TWO

## BACKGROUND TO THE BILLS

### The registered designs system

2.1 The registered designs system grants an intellectual property right in the form of a monopoly on the visual form of commercially produced articles. This system differs from other intellectual property rights such as copyright and patents—for example:

- copyright in a work is not dependant upon registration of the work and may not provide the same exclusivity as the design or patent systems;
- a grant of patent may not grant a monopoly on the visual appearance of an article as the monopoly is granted only in relation to a particular use or method.

2.2 In relation to the purpose of the registered designs system, the Australian Law Reform Commission (ALRC) stated that:

The primary objective of designs law is to encourage innovation in Australian industry to Australia's net benefit. Innovation is one of the most important factors influencing Australia's future competitiveness and welfare. Design is a crucial element of innovation and is pivotal in commercialisation and marketing processes.<sup>1</sup>

2.3 The existing registered designs system is provided by the *Designs Act 1906*. Briefly, that Act provides that owners of a design may apply for registration of the visual appearance of an article's shape, configuration, pattern or ornamentation where it is 'new or original'. A registered design provides the owners with a grant of monopoly in the form of an exclusive and legally enforceable right to use, license or sell the design up to a maximum period of 16 years. A design must not be registered unless the Registrar is satisfied that the design is new or original. A design is not new or original where it has been used or published in Australia prior to an application for registration being lodged in respect of the design. Registration protects designs which have an industrial or commercial use. Designs which are primarily artistic works are not eligible for design registration. They may, however, be protected by copyright law. Where a person infringes the monopoly in the design, the owner of the design may immediately bring proceedings against the infringer.

2.4 When a drawing is applied to an article as a design there is a possibility of protection under both the designs and copyright law. Therefore, unless statutory provisions provide otherwise, a design that is protected by both the designs and copyright law will infringe the copyright in that design where it is applied to an article. Sections 74 to 77 of the *Copyright Act 1968* generally remove copyright protection for designs applied to industrial products. In relation to this overlap the underlying policy of sections 74 to 77 is that commercially exploited artistic works as three-dimensional designs—for example, articles, objects, etc.—be denied copyright protection but that commercially exploited artistic works as two-dimensional designs—for example, drawings—be provided copyright protection.

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<sup>1</sup> *Report No 74, Designs* (Sydney, 1995), paragraph 3.2.

## The ALRC's Report

2.5 On 18 August 1992, the Attorney-General, at the request of the Minister for Industry, Technology and Commerce, referred the *Designs Act 1906* to the ALRC for inquiry and report. In 1995, the ALRC released its report, *Report No 74, Designs* (the ALRC report) and concluded that the 'current system of registered design rights needs to be improved by clearer definitions, stricter eligibility and infringement tests, a more streamlined registration system and better enforcement and dispute resolution procedures.'<sup>2</sup> The ALRC also provided draft clauses necessary to modernise, simplify and remove difficulties that had arisen with the existing legislation.

2.6 The Government agreed with 188 of the recommendations in the ALRC's report. It did not accept 14 recommendations in the report. On 4 May 2001, IP Australia released an exposure draft of the *Designs Bill 2001* for comment and conducted consultations with interested parties. The exposure draft implemented the Government's response to the ALRC report. The Bills are derived from the exposure draft.<sup>3</sup>

## Provisions of the Bills

2.7 The main provisions of the Bills:

- provide that a design may be registered if it is new and distinctive when compared with the prior art base for the design—clause 15 of the *Designs Bill 2002*;
- provide for infringement of registered designs where, generally, certain actions are taken in relation to products which embody designs that are identical to, or substantially similar in overall impression to, registered designs—clause 71 of the *Designs Bill 2002*;
- shift the time at which the Registrar examines the design's novelty from the time of application for registration to the time at which the registered design owner's rights are sought to be enforced or challenged—clause 63 of the *Designs Bill 2002*;
- reduce the maximum period of design protection from 16 years to 10 years—clause 46 of the *Designs Bill 2002*;
- provide an exception to infringement where the registered design is used for the purpose of repairing a complex product and used in relation to a component part of the complex product—clause 72 of the *Designs Bill 2002*; and
- clarify the overlap between protection provided under the registered designs system and the *Copyright Act 1968*—schedule 1 of the *Designs (Consequential Amendments) Bill 2002*.

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<sup>2</sup> Overview.

<sup>3</sup> *Designs Bill 2002, Explanatory Memorandum*, p. 1.

# CHAPTER THREE

## EVIDENCE PRESENTED TO THE INQUIRY

### Overview

3.1 Subject to the issues noted below, the evidence presented to this inquiry has generally been supportive of the designs law reform embodied in the Bills. The ‘new and distinctive’ registrable design test<sup>4</sup>, infringement test<sup>5</sup> and clarification of the registered designs system’s overlap of the *Copyright Act 1968*<sup>6</sup> were generally accepted as increasing the value of design protection by providing stricter eligibility and infringement tests and providing clearer definitions.<sup>7</sup>

3.2 However, a number of submissions and witnesses raised concerns in respect of aspects of the legislation. Issues included:

- the prior art base (by Allens Arthur Robinson);
- the registration and examination process (by Allens Arthur Robinson and the Institute of Patent and Trade Mark Attorneys of Australia (IPTA));
- the reduced maximum period of protection (by Allens Arthur Robinson and the IPTA);
- the right of repair defence (by the Ford Motor Company of Australia Limited (Ford), Holden Ltd (Holden), IPTA and Allens Arthur Robinson); and
- the availability of draft regulations (by Allens Arthur Robinson).

3.3 Much of the evidence focused on the automotive industry and on Ford and Holden’s opposition to the right of repair defence. Although a representative of the IPTA pointed out that a maximum of 8.4 per cent of registered designs were registered by the automotive industry,<sup>8</sup> a representative from IP Australia pointed out that the consultation process of the Bill ‘has gone well beyond the motor vehicle industry, but for obvious reasons of commercial importance and consumer interest, that area is where the spare parts issue is focussed.’<sup>9</sup>

### Prior art base

3.4 Sub-clause 15(2) of the Designs Bill 2002 (the Bill) will expand the prior art base to incorporate designs published overseas. The Explanatory Memorandum states the expansion

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<sup>4</sup> Sub-clause 15(1) of the Designs Bill 2002, which implements the ALRC report recommendations 29 to 34, 36 and 37.

<sup>5</sup> Sub-clause 71(1) of the Designs Bill 2002, which implements the ALRC report recommendation 45.

<sup>6</sup> Schedule 1 to the Designs (Consequential Amendments) Bill 2002, which implements the ALRC report recommendations 170 to 181.

<sup>7</sup> Senate Economics Legislation Committee, *Proof Committee Hansard*, 2 May 2003, pp. 3, 20-21; Ford Motor Company of Australia Limited, *Submission 2*, p. 1; IP Australia, *Submission 7*, pp. 7 and 18.

<sup>8</sup> *Proof Committee Hansard*, p. 19

<sup>9</sup> *Proof Committee Hansard*, p. 26

aims to increase the likelihood that a design is both new and distinctive by comparing the design against more information.<sup>10</sup> IP Australia elaborated on this reason by stating that:

Technological developments, including the widespread use of the Internet, necessitate this broader approach to publication. Publication is no longer merely a national phenomenon, particularly when design details are disseminated electronically. The new prior art base provisions of the Bill bring the Australian designs system into line with these modern technological developments.<sup>11</sup>

3.5 A representative from Allens Arthur Robinson indicated that this expansion of prior art may affect a design owner's ability to enforce their rights. She stated that not only would the costs for searches in the expanded prior art base would likely be borne by the applicants<sup>12</sup> but that it may affect the availability of timely interlocutory relief.<sup>13</sup>

3.6 However, IP Australia stated that only approximately 0.04% of registered designs have applications filed in the Federal Court and this 'suggests that it is only rare cases that substantive examinations become matters of contention between parties.'<sup>14</sup> It is noted that searches of overseas publication of the registered design will only be carried out where a design owner's rights are sought to be enforced or challenged.

#### Committee view

3.7 The Committee considers that expanding the prior art base will improve the likelihood of protecting only those designs that are truly innovative.

### **Registration and examination process**

3.8 The Bill seeks to streamline the registration process by registering designs before they are substantively examined for novelty or distinctiveness. The features of this provision are as follows:

- Clauses 39 and 40 of the Bill require the Registrar to register a design if the Registrar is satisfied that, amongst other things, the application for registration fulfills a 'formalities check specified in the regulations'.
- Sub-clause 73(3) provides that infringement proceedings may not be brought against another person until the design has been examined under Chapter 5 of the Bill and a certificate of examination issued.
- The Registrar must examine a registered design on the request of any person and may examine a registered design on its own initiative.
- Chapter 5 provides for the examination of a registered design's newness and distinctiveness, amongst other things, and requires the Registrar to consider whether any grounds for revocation are made out.

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<sup>10</sup> Paragraph 13.

<sup>11</sup> *Submission 7*, p. 9.

<sup>12</sup> *Submission 6*, p. 2.

<sup>13</sup> *Proof Committee Hansard*, p. 21.

<sup>14</sup> *Submission 7*, p. 10.

- Clause 67 provides for the issuing of a certificate of examination.

3.9 The Explanatory Memorandum states that this process will allow design owners ‘to put their claims on the public record without the need to go through the costly substantive process’.<sup>15</sup> The purpose and intended effect of postponing substantive examination of a design until either registration is challenged or enforcement sought is to restrict administrative costs to those cases where the design monopoly is in question. As noted above only a very small proportion of registered designs have been the subject of litigation.

3.10 Allens Arthur Robinson opposed the proposed design registration process. They stated:

The ‘formalities only’ initial examination of designs is unsatisfactory as it provides certainty neither to design owners nor to people wanting to know if a design is free to use. It ought to be replaced with a substantive examination procedure upon initial application. The proposed system means there will be ‘rubber stamping’ of designs that are not actually deserving of design protection and threats made in respect of those. This is an abuse of the system in that it gives ‘design owners’ rights that they should not otherwise have and it is not to the point to say that an action for unjustified threats may be brought: litigation is often a far more onerous undertaking than simply backing off and allowing the ‘design owners’ to exercise rights they do not in fact have.<sup>16</sup>

3.11 However, IP Australia states that this change in the registration system implements recommendation 82 in the ALRC report.<sup>17</sup> They also state that:

While some interest groups have claimed that the streamlined administrative system may lead to uncertainty, the Government’s view is that this is the best way of realising a cost-effective and timely system for users.

...

An indication of the acceptability to Australian users of this type of streamlined registration system, particularly within the small business community, is the recently introduced innovation patent system which, like the proposed new designs system, provides for grant without substantive examination. Despite criticism at the time about the uncertainty of the new system, the introduction of the innovation patent system has been successful. Since the introduction of the new innovation patent system in May 2001, IP Australia has been closely monitoring the reaction to the patent in the business community and has put in place procedures to collect feedback and data in relation to the patent. Data collected to date indicates a very positive response. The innovation patent was intended to be used particularly by individuals and small to medium enterprises (SMEs) and the data suggest that applicants are predominantly in these categories.

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<sup>15</sup> Paragraph 15.

<sup>16</sup> *Submission 6*, p. 2.

<sup>17</sup> *Submission 7*, p. 10.

Over 1000 applications for innovation patents were made in the year since its introduction (to 30 April 2002). Following consultation with users of the system, the main reasons identified for using the system were cost-effectiveness, the lower level of inventive step required to gain protection, speed and simplicity of the application process.<sup>18</sup>

### Committee view

3.12 The Committee supports the proposed registration system and considers that this system offers the advantages of reduced administrative costs for applicants, and limits uncertainty by requiring substantive examination only in those cases involving dispute.

## **Reduced maximum period of protection**

3.13 Under the current legislation, design protection is initially granted for a period of 1 year, with the possibility of extension for a further 15 years. Clauses 46 and 47 of the Bill provide an initial period of protection of 5 years, with the possibility of extension for a further 5 years. The Explanatory Memorandum states that ‘TRIPS [the Agreement on Trade-Related Aspects of Intellectual Property Rights<sup>19</sup>] provides a minimum registration for industrial designs of 10 years. As such it would not be in Australia’s interest to provide a period of registration in excess of its international obligations as Australia is a net importer of intellectual property.’<sup>20</sup> Evidence was divided on this issue.

3.14 The IPTA claimed that Australian designers would suffer because of this reduced term. It argued that whilst Australia is a net importer of intellectual property generally, in the case of registered designs, the position is reversed:

Australian residents register about twice as many designs as non-residents – this is very different from the Australian patent system where 91% of patent approvals in 1991 went to non residents compared to only 34% of registered designs.<sup>21</sup>

3.15 Representatives of the IPTA asserted that Australia was going against international trends in reducing its term for maximum design protection.<sup>22</sup> They also noted that the ALRC report did not favour reducing the period of protection.<sup>23</sup> However, the ALRC report confirmed that the predecessor to IP Australia, AIPO, had voiced support for reducing the maximum period of protection to 10 years, and had reported that only around 5% of designs were extended to their full term.<sup>24</sup>

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<sup>18</sup> *Submission 7*, pp. 11-12.

<sup>19</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights – Annex 1C of the Marrakesh Agreement Establishing the World Trade Organisation, 15 April 1994.

<sup>20</sup> Paragraph 16.

<sup>21</sup> *Submission 3A*, p. 1 (quoting the ALRC’s report, *Report No.74, Designs* (Sydney, 1995), paragraph 3.15).

<sup>22</sup> *Proof Committee Hansard*, p. 23.

<sup>23</sup> *Proof Committee Hansard*, p. 19.

<sup>24</sup> Paragraph 10.4.

3.16 The Committee raised the concern that a reduced period of protection may preclude Australia from signing the instrument creating an international registration system for designs, the Hague Agreement Concerning the International Deposit of Industrial Designs. This instrument requires a maximum protection period of at least 15 years. This point was also noted in the ALRC report.<sup>25</sup> However, the IPTA, who opposed the reduction in the protection period, did not believe it would be in Australia's interest to sign the instrument as it would represent a step backwards for design rights in Australia.<sup>26</sup> This view was shared by IP Australia.<sup>27</sup>

3.17 In supporting the reduced period of protection for registered designs, IP Australia stated that if 'the term is too long, Australian consumers and other manufacturers are potentially disadvantaged'.<sup>28</sup> They also compared the period of protection of registered designs with that of innovation patents which they state are closer in nature than standard patents.<sup>29</sup> The Insurance Australia Group (IAG) and Ford also supported the reduced protection period.<sup>30</sup>

#### Committee view

3.18 The Committee considers that a maximum protection period of 10 years will provide a reasonable balance between encouraging design innovation, protecting consumer interests, and meeting international obligations.

### **Right of repair defence**

3.19 Sub-clause 72(1) provides for a right of repair defence to infringement (the defence). It states that a person will not infringe a registered design where:

- a person, or another authorised by the person, uses a product in relation to which the design is registered;
- the product embodies a design that is identical or substantially similar in overall impression to the registered design;
- that product is a component part of a complex product; and
- the purpose for the use or authorisation is for the repair of the complex product.

3.20 Sub-clause 72(2) provides that the registered owner of the design bears the burden of proving that the person knew, or ought reasonably to have known, that the use or authorisation was not for the purpose of repair of the complex product.

3.21 The Explanatory Memorandum states that the policy ground of the defence is to ensure 'effective competition in the spare parts market' and 'seeks to strike a balance

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<sup>25</sup> Paragraph 10.7.

<sup>26</sup> *Proof Committee Hansard*, p. 23.

<sup>27</sup> *Proof Committee Hansard*, p. 29.

<sup>28</sup> *Submission 7*, p. 13.

<sup>29</sup> *Submission 7*, p. 13. Innovation patents are lower level inventions not involving an inventive step sufficient to attract full patent protection. Innovation patents receive a maximum of 8 years protection.

<sup>30</sup> *Submission 4*, p. 4; *Submission 2*, p. 1.

between providing an incentive for creative activity in design and enabling competition in the spare parts market.<sup>31</sup>

3.22 Evidence was divided on the need for the defence. Issues raised in relation to the defence were:

- whether the defence would provide the anticipated reduction in spare parts prices;
- whether a design protection of spare parts was appropriate;
- whether the defence would affect investment in Australian design innovation and consumer safety;
- the alternatives to the right of repair defence; and
- the details of the right of repair defence.

3.23 In essence, the dispute was between the interests of the principal automotive manufacturers, in seeking to protect their intellectual property in the design of their spare parts, and the efficiencies and cost reductions which would result from a free market in automotive spare parts. The evidence raised in relation to the issues above is outlined below.

*Anticipated reduction in prices for spare parts*

3.24 Ford opposed the defence on the basis that there is no supporting empirical evidence of any demonstrable need or net consumer benefit in providing the defence. They said that it would not lower prices for spare parts in the automotive spare parts market as those produced by registered design owners are amongst the cheapest available.<sup>32</sup> Ford also asserted that the arguments in favour of the defence were misconceived because they use economic models based on the United Kingdom and American markets. Those markets are far larger than the Australian market and do not require amortised costs of design innovation<sup>33</sup> or internal transfer pricing between spare parts sales and new products to ensure business viability<sup>34</sup>. They noted that one of the effects of the defence would be higher new vehicle or parts prices as design costs would need to be amortised over a smaller volume base.<sup>35</sup>

3.25 However, the Australian Consumers' Association stated that design protection for spare parts is economically adverse for consumers.<sup>36</sup> The Australian Automotive Aftermarket Association Ltd added that design protection for spare parts is economically adverse for local retail and manufacturing businesses.<sup>37</sup> In the Australian Competition and Consumer Commission's view, firms who have market power in the primary market for the original equipment which embodies the design may be able to leverage this market power into the market for the repair of the original equipment.<sup>38</sup> The Commission added that if the defence were provided, it would encourage small, innovative firms to enter the spare parts market.<sup>39</sup>

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<sup>31</sup> p. 1.

<sup>32</sup> *Submission 2*, p. 1; *Proof Committee Hansard*, p. 3.

<sup>33</sup> *Proof Committee Hansard*, p. 3.

<sup>34</sup> *Proof Committee Hansard*, p. 13.

<sup>35</sup> *Submission 2A*, p. 3.

<sup>36</sup> *Submission 1*, p. 1.

<sup>37</sup> *Proof Committee Hansard*, p. 16.

<sup>38</sup> *Submission 5*, p. 3.

<sup>39</sup> *Submission 5*, p. 3.



The Australian Consumers' Association and the IAG believed that this would result in quality parts at lower prices<sup>40</sup> and delayed reduction in insurance premiums<sup>41</sup>, respectively.

*Appropriateness for design protection of spare parts*

3.26 In opposing the defence, the IPTA also stated that the defence severely restricts the monopoly granted to the design owner.<sup>42</sup> Ford indicated that it would provide competitors with an unfair advantage by reducing the competitor's cost in design innovation investment.<sup>43</sup>

3.27 However, as the IAG pointed out, four independent inquiries have concluded that:

registered designs have been used to monopolise the supply of spare parts, despite this being contrary to the intention of the legislation and economically inefficient for consumers and businesses.<sup>44</sup>

3.28 The IAG argued that 'monopoly rights should not be available on replacement parts because no design innovation is possible on spare parts which must fit and match other parts in complex manufactured goods.'<sup>45</sup> Further, the ALRC report recommended an exclusion, albeit in a different form.<sup>46</sup> They queried why all other car manufacturers than those providing evidence to the Committee register the design of the whole car and not the parts.<sup>47</sup> IP Australia stated that design owners in other industries had been approached but had not shown any interest in the proposed changes.<sup>48</sup>

*Investment in Australian design innovation and consumer safety*

3.29 Both Ford and Holden stated that the defence will adversely affect investment in Australian design innovation and consumer safety. They indicated that design innovation in the automotive industry may be re-located to other countries. Holden employs 570 staff in relation to design and in 2002 invested \$227 million in product development and innovation.<sup>49</sup> Holden estimates that the short-term impact of the defence on their business plans would be around \$15 million per annum amounting to \$120 million over the life of a

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<sup>40</sup> Australian Consumers' Association, *Submission 1*, p. 1.

<sup>41</sup> *Proof Committee Hansard*, p. 13; see also Letter dated 6 May 2003 and attachments, Dean Smith, Manager, Government Relations and Policy, Insurance Australia Group—this letter which demonstrates the link between car design and car insurance premiums.

<sup>42</sup> *Submission 3*, p. 2.

<sup>43</sup> *Proof Committee Hansard*, p. 1.

<sup>44</sup> *Submission 4*, p. 2.

<sup>45</sup> *Submission 4*, p. 2.

<sup>46</sup> Referral to the Australian Competition and Consumer Commission on competition policy grounds: Australian Law Reform Commission, *Report No. 74, Designs* (Sydney, 1995), recommendations 165 to 169.

<sup>47</sup> *Proof Committee Hansard*, p. 11.

<sup>48</sup> *Proof Committee Hansard*, p. 26.

<sup>49</sup> *Submission 10*, Attachment A, p. 1.

vehicle.<sup>50</sup> Holden stated that alternative spare parts are not required to meet the Australian safety standards that original parts are required to meet.<sup>51</sup>

3.30 The IAG asserted that the defence would not adversely affect investment in Australian design innovation. They pointed to investment in design innovation forming only a small proportion of the overall cost of bringing a product to market—for example, approximately 2 per cent in the automotive industry in 1995—and that three-quarters of all registered designs are subsequently manufactured overseas.<sup>52</sup> They claimed that the location of a business' design innovation areas are not affected by the proposed registered designs system as the system does not discriminate between different sources of the design innovation. They are of the view that the defence is unlikely to substantially impact on the incentives for innovation in the original equipment market as design innovation is a business imperative and a design right is not a necessity.<sup>53</sup> The Australian Competition and Consumer Commission agree that the defence is unlikely to have a substantial effect.<sup>54</sup>

3.31 A representative of the Australian Automotive Aftermarket Association Ltd, told the Committee that in relation to alternative spare parts 'there are a range of product standards that are already developed under the Standards Australia regime ... and there actually are very few recalls of spare parts in any one year.'<sup>55</sup> In relation to overseas manufactured alternative parts, the representative stated 'some aftermarket parts far exceed the requirements in Australia because they have to meet European quality and performance requirements that are stricter than what Australia provides for.'<sup>56</sup> That representative also told the Committee that he sits on the Committee Advising on Recall and Safety.

#### *Alternatives to the right of repair defence*

3.32 Holden suggested that licensed production of spare parts using clause 96 of the Bill was an alternative solution. Under clause 96 the Commonwealth could compulsorily acquire the registered design and license certain manufacturers to produce alternative parts. A representative of the IPTA recommended a 'must fit or must match' exclusion when considering infringement—'any features which either must fit or must match in a design registration' would be not be taken into account when determining whether the registered design owner's rights had been infringed.<sup>57</sup> The Committee notes that prior to December 2001, it was generally not possible to register designs for 'must fit, must match' parts under the United Kingdom's *Registered Designs Act 1949*. However, this exclusion was repealed in December 2001 and replaced with a right to repair defence.<sup>58</sup>

3.33 The IAG stated that the clause 96 would not effectively address the issue of use of design registration to prevent third party manufacturers of parts for repair as it would be both

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<sup>50</sup> Holden, Letter dated 6 May 2003, p. 2.

<sup>51</sup> *Proof Committee Hansard*, p. 2.

<sup>52</sup> *Submission 4*, pp. 3 and 5; *Proof Committee Hansard*, p. 12.

<sup>53</sup> *Proof Committee Hansard*, p. 12.

<sup>54</sup> *Submission 5*, p. 4.

<sup>55</sup> *Proof Committee Hansard*, p. 10.

<sup>56</sup> *Proof Committee Hansard*, p. 15.

<sup>57</sup> *Proof Committee Hansard*, p. 20.

<sup>58</sup> *Proof Committee Hansard*, p. 27; Pieshold, A., *New UK Registered Design Law* in *Intellectual Property Today*, October 2002, pp. 50-51, 53.

expensive to administer and difficult to determine a reasonable royalty.<sup>59</sup> This point is also made in the Explanatory Memorandum.<sup>60</sup> The Australian Competition and Consumer Commission is of the view that the right of repair defence is the ‘most appropriate way to balance the need to provide incentives for innovation against the interests of consumers in greater competition in the spare parts market.’<sup>61</sup> It additionally commented that section 46 of the *Trade Practices Act 1974* was an inappropriate alternative in the circumstances as there are only a few limited circumstances where section 46 would provide appropriate protection.<sup>62</sup> Additionally, the Explanatory memorandum canvasses 4 alternative options and rejects them in favour of the right of repair defence.<sup>63</sup>

#### *Detail of the right of repair defence*

3.34 Allens Arthur Robinson argued that the defence could be more clearly defined in the Bill: the term ‘repair’ is of uncertain scope and the term ‘complex product’ is potentially broad and may lead to unintended widespread unauthorised use. They also pointed to significant practical difficulties in demonstrating whether design registered component was in fact made for the purpose of repair.<sup>64</sup> Ford and Holden have expressed concerns around the practical difficulties with the defence.

3.35 However, IP Australia stated that the context is that the registered designs system was moving from a system where the protection is not very effective to one where the protection should be worth somewhat more.<sup>65</sup> Under the current system designs are more easily registered and may be easier to infringe.

#### Committee view

3.36 The Committee notes that although a majority of evidence focused on the automotive industry, other industries could also be affected also by the right of repair defence.

3.37 The Committee notes Ford and Holden’s concerns in relation to the possibility that alternative spare parts are not required to meet the same safety standards that original parts are required to meet. The Committee considers that this issue warrants closer examination and is more appropriately addressed by the Government examining the need to amend existing legislation to ensure that the same safety standards apply to both original parts manufacturers and alternative spare parts manufacturers.

3.38 The Committee considers that an appropriate balance between encouraging an economically optimal level of design in Australia and the impact on consumers of price and choice, as well as the opportunity for other third-party suppliers to enter the market has been struck with the right of repair defence as currently drafted.

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<sup>59</sup> *Proof Committee Hansard*, p. 12.

<sup>60</sup> Paragraph 54.

<sup>61</sup> *Submission 5*, p. 3.

<sup>62</sup> *Submission 5*, p. 4.

<sup>63</sup> Paragraphs 51-67.

<sup>64</sup> Ford Motor Company of Australia Ltd, *Submission 2*, p. 2; Institute of Patent and Trade Mark Attorneys of Australia, *Submission 3*, p. 2; Allens Arthur Robinson, *Submission 6*, p. 2.

<sup>65</sup> *Proof Committee Hansard*, p. 27.

3.39 In any event, the requirement for a formal review of the Bill before 2005 is a sensible and fair means of monitoring the operation of the right of repair defence.

### **Availability of Regulations**

3.40 The Designs Bill provides that many things may be authorised or prescribed by the regulations, including grounds for revoking registration and procedures for examining a design. Arthur Allens Robinson expressed concern that the regulations have not been made publicly available as they will be of great importance to the operation of the new designs regime.<sup>66</sup>

#### Committee view

3.41 The Committee considers that the draft Regulations should be published as a matter of urgency.

## **CONCLUSION**

3.42 The evidence received by the Committee during its inquiry generally supported the proposed reforms of the registered designs system. Witnesses before the Committee emphasised the importance of these Bills and the need to reform the existing registered designs system. The speedy passage through Parliament will provide industry with certainty about the protection provided under the new scheme.

3.43 The Committee considers that the Bills provide clearer definitions, stricter eligibility and infringement tests, a more streamlined registration system and better enforcement and dispute resolution procedures as currently drafted.

3.44 With respect to the right of repair defence, the Committee considers that an appropriate balance has been struck between encouraging an economically optimal level of design in Australia, beneficial impact on consumers in relation to price and choice of parts and opportunity for other third-party suppliers to enter the market. Alternatives to this defence are likely to lead to complex and arcane legislation, and consequent commercial uncertainty, which may in fact limit innovation, consumer benefit and competition.

3.45 The Committee also considers that concerns raised in relation to alternative spare parts meeting Australian safety standards are more appropriately addressed by the Government examining the need to amend existing legislation to ensure that the same safety standards apply to both original parts manufacturers and alternative spare parts manufacturers.

3.46 Concerns were raised with the Committee's inquiry that the regulations which will be required to complete the process of implementing the new registration system have not been made available in draft form. It is desirable that the draft regulations be published as soon as possible.

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<sup>66</sup> *Submission 6*, p. 1.

## **Recommendations**

**The Committee recommends that:**

- 1. the Government examine whether the Bills will give rise to any adverse effect on the safety standards for spare parts;**
- 2. the draft regulations be published as soon as possible; and**
- 3. the Bills be passed.**

SENATOR GEORGE BRANDIS  
Chairman



# Appendix 1

## Submissions and further information

- 1 Australian Consumers' Association
- 2 Ford Motor Company of Australia Limited
- 2a Ford Motor Company of Australia Limited
- 3 Institute of Patent and Trade Mark Attorneys of Australia (IPTA)
- 3a Institute of Patent and Trade Mark Attorneys of Australia (IPTA)
- 3b Institute of Patent and Trade Mark Attorneys of Australia (IPTA)
- 4 Insurance Australia Group
- 5 Australian Competition and Consumer Commission
- 6 Allens Arthur Robinson
- 7 IP Australia
- 8 Australian Automotive Aftermarket Association Ltd (AAAA)
- 9 Australian Automobile Association (AAA)
- 10 Holden Ltd
- 11 Insurance Council of Australia
- 12 Mr Warwick Rothnie

### Further information

Further information accepted as public evidence of the inquiry:

The Patent Office (Britain), Designs Practice Notice (DPN) 1/03, published 7 January 2003.

Article from *Intellectual Property Today*, October 2002, New UK Registered Design Law, by Alex Piesold of Frank B. Dehn and Co.

Letter dated 6 May 2003 and attachments, Dean Smith, Manager, Government Relations and Policy, Insurance Australia Group providing additional information in response to queries raised by members of the Committee.

Letter dated 6 May 2003 and attachments, Ruth Linnane, Corporate Lawyer, Holden Ltd providing additional information in response to queries raised by members of the Committee (At the request of Holden, the Committee has classified part of this response as in camera material).





## **Appendix 2**

### **Public hearing and witnesses**

#### **Friday, 2 May 2003 - Canberra**

##### **Holden Ltd**

Ms Ruth Linnane, Corporate Lawyer

##### **Ford Motor Company of Australia**

Mr Russell Scoular, Government Affairs Manager

##### **Australian Consumers' Association**

Mr Norm Crothers, General Manager, Content & Publishing

##### **Insurance Australia Group**

Mr Dean Smith, Manager, Government Relations and Policy

Mr Anthony Boddy, Manager, Parts Research

##### **Australian Automotive Aftermarket Association Ltd**

Mr Kim Elliott, Executive Director

##### **Institute of Patent and Trade Mark Attorneys of Australia**

Mr Colin Macauley, Convenor, Designs Committee

Mr Lee Pippard, Designs Committee, and Fellow

##### **Allens Arthur Robinson**

Ms Susan McMaster, Senior Associate

##### **IP Australia**

Ms Caroline McCarthy, Acting Director, Development and Legislation Section,  
Corporate Strategy Business Unit

Mr Richard Gould, Deputy Director-General, Corporate Strategy Business Unit

Mr Victor Portelli, Deputy Registrar

Ms Jessica Wyers, Assistant Director, Development and Legislation Section,  
Corporate Strategy Business Unit

