Submission on Draft Intellectual Property Laws Amendment (Raising the Bar) Bill 2011

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1. Summary

Our submission is limited to the issue of the proposed new s 41 of the *Trade Marks Act 1995* (Cth) contained in Sch 6, item 112 of the draft Intellectual Property Laws Amendment (Raising the Bar) Bill 2011 (Cth).

We welcome the fact that the government has sought to review s 41 of the *Trade Marks Act*. This section serves a crucial function in the Act, but has a number of deficiencies as currently drafted. Reform of this section is desirable. However, we consider that there are two overarching problems with the proposed new s 41:

1) The proposed s 41(2) is drafted in such a way that it is likely to make it significantly easier for non prima facie distinctive marks to be accepted for registration. In effect:
   - marks that currently fall to be considered under s 41(5) could be accepted for registration under the proposed s 41(2)(a) *without evidence of any actual or intended use*, and
   - marks that currently fall to be considered under s 41(6) could be accepted for registration under the proposed s 41(2)(b) *on the basis of intended use and/or ‘other circumstances’ only*.

This is undesirable and would be contrary to the government’s intentions as reflected in p 116 of the Draft Explanatory Memorandum (EM). If for no reason other than this, the proposed s 41 needs to be redrafted.

2) While the relationship between the current s 41 and the ‘presumption of registrability’ in s 33(1) is complicated, amending s 41 to deal with this issue is unlikely to bring about any practical change (and may create inadvertent problems, such as those outlined above). Focusing on this relatively minor issue draws attention away from the far more serious problems with the operation of s 41, both at the application for registration and the cancellation stages. Given the government’s willingness to reconsider the operation of s 41, we consider that this is an excellent opportunity for it to deal with these more pressing faults.

2. How the proposed s 41(2) would unjustifiably lower the standard of registrability

The EM (on p 116) states that the proposed new s 41 is

> not meant to alter the key concepts of ‘inherently adapted to distinguish’, ‘capable of distinguishing’, and ‘does or will distinguish’. The judicial tests for these terms are settled and the amendments are not intended to change the legal concept of a trade mark distinguishing the applicant’s good or services from others.

It appears that the sole reason for the proposed amendment is to clarify that the presumption of registrability in s 33(1) applies to s 41 (EM, p 115). However, as drafted, the proposed s 41(2) dramatically changes the way in which the distinctiveness of marks would be assessed. It does so by writing out of s 41 any assessment of the *extent* of a mark’s inherent adaptation to distinguish as a preliminary inquiry that the Registrar must undertake.

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2.1 Problems with the proposed s 41(2)(a)

The proposed s 41(2)(a) would allow a mark to be accepted for registration if it ‘is inherently adapted to distinguish’ the specified goods/services from those of other traders, without the need to consider any further factors. However, a mark that is ‘inherently adapted to distinguish’ is not coterminous with a mark that is ‘prima facie distinctive’ under the current s 41(3) (by ‘prima facie distinctive’, we mean a mark that is inherently adapted to distinguish to such an extent that, on that basis alone, it is capable of distinguishing the applicant’s goods/services from those of other traders). Rather, a mark that is ‘inherently adapted to distinguish’ is simply one that falls outside the scope of the current s 41(6), which applies to marks that are not to any extent inherently adapted to distinguish the applicant’s good/services from those of other traders. At present, a mark that is ‘inherently adapted to distinguish’ could either be accepted for registration under s 41(3) as ‘prima facie distinctive’, or it might fall to be considered under s 41(5), where evidence of use/intended use and/or other circumstances would also be needed for the mark to be accepted. Whether a mark can be accepted for registration under s 41(3) or falls for further consideration under (5) depends on the extent of its inherent adaptation to distinguish.

What is missing from the proposed s 41(2)(a) is any assessment of the extent to which the mark is inherently adapted to distinguish. This is a crucial omission, because it means that marks that are currently caught by s 41(5) (which includes almost entirely descriptive marks that have only a very slight degree of inherent adaptation to distinguish) could potentially be accepted for registration by way of the proposed s 41(2)(a) without evidence of use/intended use and/or other circumstances. There is no justification for this.

In short, the proposed s 41(2)(a) blurs the crucial distinction currently drawn between marks that can be accepted under the current s 41(3) and marks where further evidence going to factual distinctiveness is needed under s 41(5). If it is intended that the proposed s 41(2)(a) only cover ‘prima facie distinctive’ marks, clear language is needed to reflect this. Unfortunately, the current s 41(3) does not provide such language, and new terminology is needed to make clear the extent of inherent adaptation to distinguish needed for the mark to be considered to be capable of distinguishing on that basis alone.

2.2 Problems with the proposed s 41(2)(b)-(c)

The second, related problem with the proposed s 41(2) relates to the drafting of and relationship between proposed paras (b) and (c). Under the proposed s 41(2)(b), a mark can be accepted for registration based on the ‘combined effect’ of:

(i) the extent to which the trade mark is inherently adapted to distinguish the goods or services from the goods or services of other persons;
(ii) the use, or intended use, of the trade mark by the applicant;
(iii) any other circumstances...

However, para (b) does not map on to the existing s 41(5). This is because there is no indication of the degree of inherent adaptation to distinguish a mark must have for para (b) to apply. The effect of this is that a mark that has no inherent adaptation to distinguish, which can currently only be considered under s 41(6), could potentially be assessed under the

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1 For two striking recent examples, see The Warehouse Ltd v B & B Warehouse Sales Pty Ltd [2004] ATMO 72, [20]-[21] (‘The Warehouse’ with minimal stylisation, for retail services) and Freelite International Holdings LLC [2009] ATMO 45, [18]-[20] (‘Goji Juice’ with minimal stylisation, for beverages).
proposed s 41(2)(b), with the answer to the question posed by para (b)(i) simply being ‘not at all’. As such, there is nothing stopping such a mark from being accepted for registration on the basis of post filing date use, intended use and/or other circumstances (para (b)(ii) and (iii)). In other words, the proposed s 41(2)(b) would make it significantly easier for marks currently falling to be considered under s 41(6) to be accepted for registration. Again, there is no justification for this.

A further effect of the drafting of para (b) is that it is not clear what role para (c) would have to play. When would the Registrar consider (c) but not (b) (or vice versa)? Why would a trader wish to have its mark assessed under para (c), where only pre filing date use can be considered, when it could have it assessed under (b)?

Again, if the intention of the proposed s 41(2)(b) and (c) is to maintain the distinction currently drawn between s 41(5) and (6), clear language is needed to reflect this. That is, it needs to be made clear that the new s 41(2)(b) applies where the trade mark is to some extent inherently adapted to distinguish the designated goods or services, and does or will distinguish because of the combined effect of the factors set out in the proposed s 41(2)(b). Similarly, it needs to be made clear the new s 41(2)(c) only applies where the mark is not to any extent inherently adapted to distinguish the designated goods or services.

3. The application of the ‘presumption of registrability’ to s 41 is not the main problem with the section

3.1 What is sought to be gained by amending s 41 in the way proposed?

We appreciate that the relationship between s 41 and s 33(1) is complicated, and that s 41 puts the Registrar in the position of having to be satisfied as to certain states of affairs for a ground of rejection not to be made out. Whether this justifies amending s 41 is, however, a different issue. We would suggest that despite the concerns raised in p 115 of the EM, the presumption in s 33(1) in fact has almost no practical significance. Given that the relevant standard the Registrar must apply in examination is the balance of probabilities, and that the Registrar is obliged to reach a point where she is either satisfied or not satisfied that a ground of rejection has been made out (see s 33(3) and (1) respectively), the only situation where a ‘presumption of registrability’ ever has work to do is if the Registrar initially reaches a point of being somewhere between being satisfied and not satisfied, on the balance of probabilities, as to a state of affairs. That is, only if the Registrar believes the question under consideration to be absolutely in the balance would the Registrar then be obliged to find that because she cannot be satisfied that the ground of rejection has been made out the application should be

2 A positive and most likely unintended consequence of this drafting, however, is that it would make it easier for registered owners of descriptive/generic marks that have become factually distinctive post-filing date to avoid cancellation proceedings under s 88(2)(a) / 41. We discuss the problems of distinctiveness at the cancellation stage under the current Act, and how these ought to be overcome, in 3.2(b) below.


4 See Blount Inc v Registrar of Trade Marks (1998) 83 FCR 50, 56; Chocolaterie Guylian NV v Registrar of Trade Marks [2009] FCA 891, [17], [21]. We are pleased to see some recognition in the EM that the proposed amendments to s 41 are ‘not intended to require that Registrar be certain that the mark is incapable of distinguishing before they can reject’ (p 115) and that the presumption not intended to operate so that ‘any doubt is to be resolved in favour of the applicant’ (p 116). If the government wishes to proceed with amending s 41 to clarify the application of the ‘presumption of registrability’, it is desirable that these comments be retained in the final EM, to overcome lingering doubt as to the standard of proof that applies in examination. See further Burrell and Handler, ibid, p 36.
accepted for registration (subject to any other grounds of rejection). We would suggest that this possibility is more theoretical than real. Any amendment to s 41 that is designed to account for such a possibility barely seems worth the effort, particularly when any such amendment might inadvertently generate additional problems with the section (as set out in 2. above).

3.2 Greater problems with s 41

We also believe that the Bill represents a missed opportunity to deal with some of the far more significant, practical problems with s 41. We have addressed these problems in greater detail elsewhere. The following is a brief overview of some of them.

(a) Problems with the current structure of s 41, and in particular the distinction between s 41(5) and (6)

Australia is highly unusual in maintaining a tripartite structure for the initial assessment of a mark’s distinctiveness. That is, the Registrar is required to assess whether:

- the mark is prima facie distinctive (s 41(3)); or
- the mark has some degree of inherent adaptation to distinguish but not enough to make the mark prima facie distinctive (s 41(5)); or
- the mark has no inherent adaptation to distinguish (s 41(6)),

with significantly different consequences flowing from whether a mark falls to be considered under (5) or (6) as to the evidence of factual distinctiveness needed. This approach is quite different from that taken elsewhere. In many other systems the first question is, in essence, whether or not the mark is prima facie distinctive. If not, the next issue is simply whether acquired distinctiveness (through pre filing date use) can be shown.

We suggest that serious thought needs to be given to whether there is any reason to maintain the distinction currently drawn between s 41(5) and (6). This is not only because removing the distinction would lead to a more streamlined assessment of a mark’s distinctiveness. It is also because there are serious problems with:

1) allowing an applicant to put forward evidence of post filing date and/or intended use, in order to attempt to show that its mark will become distinctive under s 41(5). It appears that the registration of non prima facie distinctive marks that had not acquired distinctiveness was only contemplated at the time of the Trade Marks Act 1955 (Cth) because registration in some foreign countries depended on the applicant’s mark being registered in Australia. Such historical reasons have now disappeared, and there would seem to be little justification in allowing non prima facie distinctive marks to proceed to registration on the basis of speculation that the mark will come to acquire distinctiveness. This is particularly the case in light of the limited nature of the rectification grounds that would allow the registration of such marks to be challenged (discussed in 3.2(b) below).

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5 Burrell and Handler, above n 3, chapter 4 and pp 268-269.
6 Under European law, see Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to approximate the laws of the Member States relating to trade marks (codified version), Art 3(1)(b)-(d) and (3), and Council Regulation (EC) No 207/2009 of 26 February 2009 on the Community trade mark (codified version), Art 7(1)(b)-(d) and (3); under US law, see 15 USC §1052(e)(1), (2), (4) and (f); under Japanese law, see Trademark Act No 127 of 1959, Art 3(1)(iii)-(v) and (2); under New Zealand law, see Trade Marks Act 2002 (NZ), s 18(1)(b)-(d) and (2). The drafting of many of these provisions is less than ideal, and none should be used as a model for a new Australian provision.
2) the vagueness of the ‘other circumstances’ ground in s 41(5)(a)(iii), which has been interpreted so as to allow third party trade mark use of the applicant’s mark to be taken into account.\(^7\) This interpretation not only makes little sense in the context of s 41 as a whole but also has the potential to undermine the operation of other provisions, such as ss 44 and 60, that are designed specifically to deal with conflicts between marks.

In light of these problems, we suggest that serious thought should be given to abolishing the distinction between s 41(5) and (6). The first question under an amended s 41 would therefore be whether the mark is prima facie distinctive or not. If not, then in assessing whether non prima facie distinctive marks should be accepted for registration, the Registrar should only be able to take into account:

- the extent, if any, of the mark’s inherent adaptation to distinguish; and
- the applicant and/or any predecessor in title’s pre filing date use of the mark.

(b) Problems at the cancellation stage

A related problem with the treatment of non prima facie distinctive marks under the Trade Marks Act relates to the operation of the cancellation grounds under s 88(2).

First, if it is found in cancellation proceedings under s 88(2)(a) based on s 41 that the mark falls to be considered under s 41(5), then the registered owner can point to evidence of its use of the mark since the filing date (which is likely to be a period of many years) to demonstrate that its mark should be taken to be capable of distinguishing, and thus remain on the Register. If, however, the mark falls under s 41(6), then the registered owner can only save its registration by showing that its mark had acquired distinctiveness by the filing date. This is so even if the mark has clearly become factually distinctive in light of the owner’s many years of post filing date use. In this way s 88(2)(a) has the potential to operate unfairly against such registered owners. We would recommend an amendment to s 88 to ensure that marks that are distinctive at the time of the cancellation proceedings should not be able to be cancelled on the basis of non-compliance with s 41(6)\(^8\) (or, if the distinction between s 41(5) and (6) is abolished as we recommend in 3.2(a) above, on the basis of non-compliance with the particular subsection of s 41 that requires acquired distinctiveness to be shown).

A second problem, which is something of the opposite of the above, is that there is no longer a ground of cancellation that applies where a mark was accepted for registration under s 41(5)(b) where the Registrar was satisfied only that it would (but did not at that time) distinguish the specified goods and services but where that mark has not in fact come to distinguish such goods or services after registration. If the distinction between s 41(5) and (6) is to be maintained, we would recommend the reintroduction of a provision along the lines of the repealed s 88(2)(d), which allowed for the cancellation of marks that had not become distinctive post-registration.\(^9\)

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\(^7\) See *Colorado Group Ltd v Strandbags Group Pty Ltd* [2007] FCAFC 184.

\(^8\) Cf. *Trade Marks Act 1994* (UK), s 47(1); *Trade Marks Act 2002* (NZ), s 73(2). See also Working Party to Review the Trade Marks Legislation, *Recommended Changes to the Australian Trade Marks Legislation* (AGPS, 1992), Recommendation 36C.

\(^9\) On p 1 of the EM to the Trade Marks and Other Legislation Amendment Bill 2001 (Cth), it was stated that under s 88(2)(d) ‘the court would be obliged to apply stricter criteria than would have been applied by the Registrar of Trade Marks when accepting the trade mark for registration’ and that ‘[t]he repeal of this provision will remove the uncertainty inherent in this difference’. However, merely identifying this difference as potentially causing uncertainty hardly seems sufficient to justify outright repeal of the cancellation ground.
(c) Problems raised by the lack of a functionality exclusion

As a final point, we suggest that it would be worth considering whether the registration of functional trade marks ought explicitly to be prevented, irrespective of whether such marks are distinctive. Despite the Full Federal Court in *Koninklijke Philips Electronics NV v Remington Products Australia Pty Ltd*\(^{10}\) and *Kenman Kandy Australia Pty Ltd v Registrar of Trade Marks*\(^{11}\) taking a sanguine view of this issue, the absence of a specific functionality exclusion in the *Trade Marks Act* raises the real spectre of functional features of goods, such as shapes, colours and scents, being able to be registered on the basis of acquired distinctiveness under s 41(6).\(^{12}\) The potential for perpetual monopolisation of functional product features, even if it could be said that consumers have come to associate them with particular traders, raises serious competition concerns. This is particularly the case given that patent and design laws are predicated on competitors being able to copy and exploit formerly protected features on the expiry of those forms of protection.

US law prevents the registration of a mark which ‘comprises any matter that, as a whole, is functional’.\(^{13}\) This ground has been used to exclude from protection colours, sounds, scents, tastes and product designs and packaging designs that raise particular competition concerns. Whether Australia should adopt a similarly broad functionality exclusion (for example, in a new s 41A) is something that merits serious consideration.

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\(^{10}\) [2000] FCA 876, [15]-[17].

\(^{11}\) [2002] FCAFC 273, especially Stone J’s judgment.

\(^{12}\) The shape marks in *Mayne Industries Pty Ltd v Advanced Engineering Group Pty Ltd* [2008] FCA 27 and *Sebel Furniture Ltd v Acoustic & Felts Pty Ltd* [2009] FCA 6 being two such examples. This prospect is something that has been recognised by a number of commentators in relation to shape marks: see, eg, Julia Baird, ‘The Registrability of Functional Shape Marks’ (2002) 13 AIPJ 218, 225–6; Jani McCutcheon, ‘Monopolised Product Shapes and Factual Distinctiveness under s 41(6) of the Trade Marks Act 1995 (Cth)’ (2004) 15 AIPJ 18; Mark Davison, ‘Shape Trade Marks: The Role and Relevance of Functionality and Aesthetics in Determining Their Registrability’ (2004) 15 AIPJ 106, 108–9; Craig Smith, ‘Trade Mark Protection for Product Shape—Where Does the Public Interest Lie?’ (2005) 63 IP Forum 32, 41. The issue, however, extends well beyond three-dimensional signs.

\(^{13}\) 15 USC §1052(e)(5).