

Commonwealth intellectual property management

This article reviews the development of policy relating to the Commonwealth's management of its intellectual property (IP), and briefly presents one way of structuring thinking about an IP management policy for an agency.

The Attorney-General has recently released *Intellectual Property Principles for Australian Government Agencies* (the 'Statement of Principles') regarding management of IP within the Commonwealth. FMA Act agencies are required to comply with the principles, and report on their compliance, by 1 July 2008. A guidebook, the *IP Better Practice Manual* is expected to be published by the Attorney-General's Department later this year to provide agencies with up-to-date information on implementing the principles, including the development of agency IP policies.



Canberra

Philip Crisp Special Counsel, Commercial
 T 02 6253 7159 F 02 6253 7306
philip.crisp@ags.gov.au

Background

The IT IP Guidelines

The first comprehensive attempt by the Commonwealth to articulate an approach to its management of IP was the *Commonwealth IT IP Guidelines* launched by the government in early 2001 as part of its *Innovation Package*.

The main messages of the *IT IP Guidelines* were as follows.

- Commonwealth agencies should be conscious of the significance of their role as a major producer, instigator and consumer of IT-related IP, and the value of that IP as a national strategic resource.
- It is desirable that IP be recorded, valued, managed and utilised to best effect, as with any other asset.
- There is some scope for greater use of IP inventories and valuations of IP within the Commonwealth; however, this may be cost-effectively undertaken on a selective rather than a comprehensive basis.
- IP management (like asset management and strategic IT planning) is an important aspect of accountability that should be addressed in agencies' annual reports.
- In contracts relating to IT-related IP, agencies should not automatically assume that all IP rights must be vested in the Commonwealth, but should consider whether vesting IP in, or granting a licence to, the supplier or contractor might yield savings and a product that in the long term more effectively meets agency objectives.
- As appropriate, IT contracting should take account of broader industry development and other policy objectives of the Commonwealth.

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- Relevant Commonwealth financial arrangements should allow incentives for agencies to acquire only the IP they really require, and to allow commercialisation of their IP if this is appropriate.
- Decision makers should be encouraged to develop an understanding of the issues, options and risks in management and commercialisation of IT-related IP. The guidelines are intended to promote this understanding.
- Agencies should take steps to ensure that suitable training in IP management, based on these guidelines, is made available to decision makers within the Commonwealth.
- Decision makers should obtain appropriate, early professional advice to assist in identification and resolution of IP planning and management issues.
- Commercialisation by government agencies is generally a peripheral activity; accordingly commercialisation needs should not be allowed to dominate to the extent that an agency's proper governmental objectives are jeopardised.
- The Commonwealth should seek to be a model citizen in respecting the IP rights of private individuals and organisations.

The *IT IP Guidelines* applied primarily to FMA Act agencies, and were expressed to be 'flexible, rather than prescriptive'. Whilst the guidelines principally concern IT-related IP materials, many of the observations and conclusions have equal relevance to other categories of material.

One conclusion given prominence was, in effect, that agencies should adopt a *flexible approach* to IP ownership in ICT contracts; and that in general IP was better vested in the party best able to use, improve and leverage it for the broad purposes of the agency and other stakeholders. Also of note was the recommendation that:

Individual agencies are encouraged to adopt the guidelines as a core part of the development of their own internal IP management policies. In doing so, each agency may develop complementary IP policies taking account of their corporate mission, the nature of their work, the characteristics of IP material produced, professional specialisations represented in its workforce, financial and other ways in which it seeks to recognise the work of its staff, [and the interests of relevant target groups and other stakeholders].²

First ANAO Audit Report, February 2004

The recommendation quoted above is consistent with later recommendations of the ANAO in its Audit Report of February 2004.³ The ANAO examined whether agencies have systems in place to efficiently, effectively and ethically manage their intellectual property assets in accordance with their obligations under the FMA Act⁴ or equivalent provisions of the CAC Act.⁵

The 2004 report made recommendations for policy formation at two levels:

- *An agency IP policy*: 'In order to ensure the effective and efficient management of intellectual property agencies should develop an intellectual property policy appropriate for agency circumstances and functions, and implement the required systems and procedures to support such a policy'.
- *Overarching IP policy for the Commonwealth*: 'In order to ensure the Commonwealth's interests are protected, the Attorney-General's Department, the Department of Communications, Information Technology and the Arts, and IP Australia⁶ (together with other relevant agencies), should work together to develop a whole-of-government approach and guidance for the management of the Commonwealth's intellectual property,

The ANAO examined whether agencies have systems in place to efficiently, effectively and ethically manage their intellectual property assets.

taking into account the different functions, circumstances and requirements of agencies across the Commonwealth, and the need for agency guidance and advice on intellectual property management.⁷

An 'overarching' IP policy for the Commonwealth

This recommendation was supported in quick succession by two further reports.

First, in April 2005 the then Copyright Law Review Committee (the CLRC) released its *Crown Copyright Report*.⁸ That report mainly concerned the provisions governing subsistence and ownership of Crown copyright in sections 176–179 of the Copyright Act. However it also recommended that:

[T]he Australian Government should develop and implement comprehensive intellectual property (IP) management guidelines to promote best practice and assist agencies to meet their responsibilities. Education and training of government employees must also be a high priority.

Second, the Joint Committee of Public Accounts and Audit (JCPAA) reported in November 2005 recommending:

... development of a whole-of-government approach to the management of the Commonwealth's intellectual property ... by May 2006 ...⁹

Implementation of the ANAO recommendations

Progress towards a whole-of-Commonwealth IP policy was initially delayed, largely due to the concentration by lead agencies on the negotiation of the *Australia – United States Free Trade Agreement*, which was heavily concerned with IP. In a follow-up report in February 2007 (the second ANAO Report) the ANAO recommended that the overarching approach to IP management be finalised as soon as practicable.¹⁰ The second ANAO Report noted that in the absence of the overarching guidance, a number of agencies had pressed ahead with the development of agency-specific policies.

The work of the 'lead agencies' to put in place an overarching IP framework was envisaged in two parts.

First, a *Statement of IP Principles* would provide 'a focal point for understanding legislation, policies and guidelines as they apply to the management of IP by Australian Government agencies'. A draft of the IP Principles was released for public comment in September 2005, together with an Issues Paper to inform targeted consultations which were conducted in October 2005.

Second, the Attorney-General's Department commissioned an *IP Better Practice Manual*, intended as 'a tool for agencies to implement the IP Principles in the context of their operations'.

Latest developments

Statement of IP Principles

On 11 May 2007 the Attorney-General released the final version of the *Intellectual Property Principles for Australian Government Agencies* (the IP Principles) regarding management of IP within the Commonwealth.

The IP Principles follow work undertaken over the last 2–3 years by the Attorney-General's Department and other lead agencies.

A headline theme of the Attorney-General's press release is that business should now be given more opportunities to commercialise IP developed under government contracts. This aspect reinforces similar policy messages in recent years, and on balance can be viewed as an incremental rather than a revolutionary change. Indeed the press release balances this message with the converse observation that '[s]ometimes it is appropriate for Government to maintain public ownership of IP such as crucial defence or national security IP'.

FMA Act agencies are required to comply with the IP Principles, and report on their compliance, by 1 July 2008.

Agencies should give careful thought to distinguish:

- cases in which IP should be retained in public ownership because of its strategic value, relevance to core functions or importance in setting standards
- cases in which procurement savings can appropriately be made by enabling the contractor to commercialise the IP they develop for the Commonwealth.

FMA Act agencies are required to comply with the IP Principles, and report on their compliance, by 1 July 2008. In particular agencies 'are encouraged to develop individual IP management frameworks that reflect their own needs and objectives, consistent with other relevant Australian Government policies and requirements'.

Summary of Intellectual Property Principles for Australian Government Agencies

General principles

Australian government agencies are responsible for managing IP in their control or custody in an effective, efficient and ethical manner.

Agencies should periodically evaluate the overall effectiveness, including cost, risks, and benefits of the policies and practices they have in place for the management and use of IP.

Corporate framework

Each agency should have an IP management policy which reflects its objectives and these IP Principles.

Implementation of the IP management policy should be supported by appropriate training and resources, including access to expert advice.

Agencies should maintain appropriate systems and processes to identify and record IP.

Agencies should have strategies and guidelines to ensure that IP is protected in an appropriate manner.

Agencies should have procedures in place to reduce the risk of infringement of the IP rights of others.

Creating and acquiring IP

Agencies should maintain a flexible approach in considering options for ownership, management and use of IP.

Agencies should recognise innovation and creativity in the development of IP in an appropriate manner which is consistent with agency objectives.

Contracts and other agreements must address IP issues where relevant.

Contracts in which IP might be created should address the identification of new and pre-existing IP and arrangements that apply to the ownership and use of the IP, including licensing arrangements. Agencies should ensure that IP rights secured are appropriate to identified needs and objectives and should only obtain those rights required taking into account questions of the efficient, effective, and ethical use of agency resources.

Sharing, commercialisation, disposal, and public access to IP

Agencies should encourage public use and easy access to copyright material that has been published for the purpose of:

- informing and advising the public of government policy and activities;
- providing information that will enable the public and organisations to understand their own obligations and responsibilities to government;
- enabling the public and organisations to understand their entitlements to government assistance;
- facilitating access to government services; or
- complying with public accountability requirements.

Australian government agencies should be mindful of opportunities to share IP for which they are responsible with other agencies.

Agencies should be responsive to opportunities for commercial use and exploitation of IP, including by the private sector.

Unless commercial activities are required as an integral part of an agency's objectives, commercialisation of IP by an agency should be no more than an ancillary part of its activities and should not become a core business activity.

Where IP is commercialised or disposed of, agencies must do so in an accountable manner consistent with Australian government legislation, policies and guidelines.

[Extracted from the complete statement of *Intellectual Property Principles for Australian Government Agencies* available on the Attorney-General's Department website: www.ag.gov.au.]

IP Better Practice Manual

To implement the second major strand of the overarching IP framework, it is expected that a guidebook, the *IP Better Practice Manual*, will be published by the Attorney-General's Department later this year to provide agencies with up-to-date information on implementing the IP Principles, including the development of agency IP policies.

It appears that the *IP Better Practice Manual* will absorb and update the material contained in the *IT IP Guidelines*, responding to concerns expressed by the ICT industry that the flexible approach to IP ownership recommended in the *IT IP Guidelines* was not in practice applied by government agencies.¹¹

The following is a draft outline for the *IP Better Practice Manual*, as presented in the second ANAO Report. When published the manual will be available at www.ag.gov.au/cca.

Overview of the Draft IP Better Practice Manual

<i>Chapter No.</i>	<i>Chapter title</i>	<i>Description of chapter content</i>
1	Introduction	Contains a copy of the IP Principles, along with a brief description of the purpose of the manual.
2	What is IP? Who owns it?	Introduces the concept of IP, provides detailed description of different types of IP. Covers assessment of IP ownership.
3	Creating an IP management framework	Guidelines to assist in development of an IP management framework.
4	Identifying, recording and managing IP	Guidance on identifying existing and newly created IP; reviewing IP; keeping appropriate records of IP; and monitoring and managing IP.
5	Making IP protection decisions	Outlines the decision making processes with respect to IP protection.
6	Assessing and valuing IP	Guidance on assessing the value of IP.
7	Dealing with IP in government contracts	Guidance on determining a preferred IP position in government procurement and funding contracts; and IP management during life of contract and upon contract termination or expiry.
8	Using the IP of another party	Guidance on how to identify IP of other parties and how to access identified IP ethically.
9	Sharing and granting public access to IP	Guidance on sharing IP and making IP publicly available.
10	Commercialisation of government IP	Step by step process for agency commercialisation of IP; describes forms of commercialisation and information on managing risks.
11	Enforcing IP rights	Outlines when, why and how to enforce IP rights, associated risks, and different forms of enforcement.
12	Further assistance and guidance	Brief list of further reading and information.

(Extracted from ANAO Report No. 22 of 2006–07.)

Current options for agencies

While the *IP Better Practice Manual* has not yet been issued, agencies can nonetheless be working towards developing their agency specific policies given that any guidance in the manual will be of necessity general and agencies will need to develop policies that address their specific needs. In addition, agencies have only 12 months in which to put in place a policy.

It is not yet clear what performance measures will apply in evaluating progress achieved by agencies by 1 July 2008. It may be that this will be clarified by the release of the *IP Better Practice Manual*.

Structure for an IP management review and policy

A well-structured IP review, and the resulting agency IP policy document, might encompass:

- program or organisational level at which the review is to be conducted¹²
- legislative and policy framework in which the agency (or program) operates, with particular reference to the purposes underlying dealings with IP
- specific contexts in which IP arises to be dealt with, including:
 - relationships (eg with stakeholders, clients, suppliers, business partners, staff, etc)
 - programs, projects and other activities
- types and instances of IP subject matter that arise in the above relationships and activities
- IP risks, opportunities and strategies
- standard contracting strategies
- links to *pro forma* documents such as standard contracts/clauses, a template for an IP register, etc.

Agencies can be working towards developing agency specific policies.

It is not the purpose of this paper to provide a comprehensive methodology for the conduct of an IP management review and development of an agency IP policy and procedures. AGS has previously offered guidance on a methodology based on the above outline.¹³

Instead we focus on just one way of structuring the task. The premise is a holistic one: that IP management is not a discrete area, but should be seen as integrally connected to every other important aspect of corporate governance:¹⁴

- people management
- image management
- knowledge management
- contract/financial/asset management
- risk management.

The following sections enumerate some of the ways in which an agency's IP strategies interact and overlap with corporate strategies in other key areas.

People management

- IP is generally the result of human creative effort; i.e. *people create IP* (see also under 'Knowledge management' below)
- a modern, knowledge- and service-based organisation should provide the intellectual inputs, tools and resources to support the creative efforts of its people

- agencies should show they value the results of those creative efforts, including by respecting moral rights where appropriate; a moral rights policy should form part of agency IP guidelines
- new employees could be asked to acknowledge the moral rights policy at the same time as they acknowledge/give undertakings re: privacy, confidentiality, conflict of interest, acceptable internet and email use, security, responsible (including non-infringing) use of software, etc
- similar acknowledgements/undertakings may be required from Contractor personnel engaged in the performance of services for an agency
- arrangements re study leave, leave without pay, staff exchanges, academic publications, etc, should clearly specify ownership of any IP created; and provide for licences as appropriate
- it is important for some agencies to recognise (by attribution and/or appropriate tangible rewards) the creative contribution of staff to the agency's intellectual capital or corporate image
- agencies should identify resources and promote availability of training to facilitate the role of agency staff in managing IP.

Image management

- some forms of IP are directly employed to promote the image of the agency or the Commonwealth, and/or to protect associated insignia or brands
- even where there is not a commercial purpose an agency may deploy its IP rights in order to protect the integrity of its publications, i.e. to prevent them being misrepresented or improperly attributed.

Knowledge management

- This broad area includes IT strategic planning, document and record management and corporate know-how
- corporate know-how may 'crystallise' as a category of material under an 'IP regime' (e.g. copyright; confidential information)
 - however, some knowledge always remains 'informal': 'informal' know-how may be too commonplace or fluid to be captured as IP, so leveraging it depends on retention of staff
- a records and document management system (RDMS) is an important area of knowledge management; an RDMS may serve in part as an IP register
- an IT strategic plan is also an important area of knowledge management:
 - a lot of important IP is IT-related
 - some of the more complex IP issues arise in an IT context because of the capacity of computers to copy and communicate documents and to manipulate information to create derivatives, giving rise to complex layering of foreground and background
 - licences for software and digital data products must be managed carefully to lessen the risk of infringement
 - agencies may need to catalogue licences (perhaps part of an IP/assets register)
 - there are related issues of privacy, security, acceptable internet and email use, responsible (including non-infringing) use of software
 - IT managers may adopt 'open source' software, but IP and product warranties may be problematic.

IP management is not a discrete area, but should be seen as integrally connected to every other important aspect of corporate governance.

Contract/financial/asset management

- in dealing with contractors, clients and business partners, an agency should make sensible strategic decisions about the allocation of IP rights (including ownership and licence rights)
- IP is a form of property, albeit intangible
- thus it attracts accountability obligations as an asset under the FMA Act (s.44) and the CAC Act
- it has a value that can be quantified in some cases
- there is substantial overlap between IP and ‘intangible assets’; however, they are not completely congruent, because:
 - not all intangible assets crystallise as a form of IP. Notably, there is a layer of corporate know-how residing in personnel, which does not qualify as confidential information and does not fall under any IP regime
 - some IP subject matters are not counted as intangible assets under current accounting rules because of difficulties in valuation¹⁶
- any contract to procure a product or service or to develop a solution (e.g. an IT system) for the benefit of the agency will typically involve the acquisition or development of IP
- a decision not to claim all the IP rights may achieve favourable pricing; note that this is an *indirect* reflection of value
- where appropriate, an agency may make money by the sale of products embodying IP, or by incorporating IP as part of a service delivered to a client or customer
- for agencies engaged in commercialisation, IP is an important factor in distinguishing an agency’s products or services from those of competitors, and an important source of leverage to create competitive advantage.

Risk management

- loss of ‘IP’ (e.g. failure to register patent or leaking of confidential information into public domain)
- liability to third parties for infringement, especially in relation to software
- third party infringement of agency IP (e.g. ‘branding’ deceptively similar to agency programs)
- asserting control of IP unnecessarily or too closely so as to deprive industry and other target groups
- lack of guidance and encouragement of staff which may stifle innovation
- inability to properly identify and value IP
- possibility of disposing of IP without a sound process to assess value and ensure probity
- loss of control over IP assets that are central to the work of the agency
- failure (or delay) in achieving potential benefits from leveraging IP appropriately, including agency, industry and broader social benefits
- more generally: there are risks to an agency flowing from its actions, or failure to act, in relation to IP (including risk of lost opportunity, potential loss of certain IP from failure to register in time, and risks of litigation for infringement – either by the agency or by third parties using the agency’s materials improperly).

Some of the more complex IP issues arise in an IT context because of the capacity of computers to copy and communicate documents and to manipulate information to create derivatives.

Summary

In summary: our conception of an IP policy is of a policy organically connected to other major drivers of an agency's activities. Given that agencies routinely document their policies and practices in relation to HR management, public relations, information management, IT planning, financial management, contracting, risk management, etc, it seems entirely appropriate that they also put in place an IP policy, properly integrated with other core policies.

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Philip Crisp is the leader of AGS's national Technology and IP Network. He has extensive experience advising on Crown copyright, protection of software and databases, IT agreements, website legal issues, trademarks, confidential information, R&D joint ventures, commercialisation of IP, and moral rights. Philip is responsible for a number of standard IP contract forms used widely within the Commonwealth, and wrote the Commonwealth IT IP Guidelines. He is widely recognised for his conception and development of an innovative solution for web-based copyright management called AEShareNet. Philip has participated in copyright reform processes, including the 'digital agenda' review, reforms flowing from AUSFTA, the fair use review and the recent inquiry into technological protection measures.

Notes

- 1 The guidelines' full title is: *Commonwealth Guidelines relating to the Management and Commercialisation of Intellectual Property in the field of Information Technology*. Available at: http://www.dcita.gov.au/home/intellectual_property/commonwealth_it_ip_guidelines2.
- 2 The final words enclosed in brackets have been slightly re-phrased for clarity.
- 3 Audit Report on *Intellectual Property Policies and Practices in Commonwealth Agencies*, No. 25 of 2003–04, 5 February 2004, available on ANAO's website at <http://www.anao.gov.au>.
- 4 Section 44 of the *Financial Management and Accountability Act 1997* provides that Chief Executives must manage the affairs of their agencies in a way that promotes efficient, effective and ethical use of the Commonwealth resources for which the Chief Executive is responsible – Commonwealth resources would clearly include IP resources.
- 5 For example, an officer of a Commonwealth authority must exercise his or her powers and discharge his or her duties with care and diligence: see section 22 of the *Commonwealth Authorities and Companies Act 1997*. In addition statutory authorities are normally required by their enabling legislation to use money and other resources (including IP resources) for the purpose of properly carrying out their functions.
- 6 The group of 'lead agencies' was later enlarged to include the Department of Finance and Administration.
- 7 See paragraphs 2.24 and 2.26 of the ANAO Report (2004). It is of interest that the Auditor-General chose to put the recommendations in this order, suggesting perhaps that agencies should proceed with their IP policies in parallel with the development of an overarching Commonwealth policy.
- 8 The Report is available from the CLRC website, at: <http://www.ag.gov.au/agd/WWW/ClrHome.nsf/>.
- 9 Report 404, Review of Auditor-General's Reports 2003–2004 *Third & Fourth Quarters; and First and Second Quarters of 2004–2005*, JCPAA, Canberra, 2005. The report is available from the JCPAA's website: www.aph.gov.au/house/committee/jpaa/reports.htm.
- 10 Audit Report on *Management of intellectual property in the Australian government sector*, No. 22 of 2006–07, 6 February 2004, available on ANAO's website at <http://www.anao.gov.au>.
- 11 See '*Intellectual Property – Understanding our IP Potential*', subtitled 'Maximising the mutual benefits of Intellectual Property developed under ICT contracts', Australian Information Industry Association (AIIA), 2006.
- 12 An agency might consist of elements with significantly different policy drivers.
- 13 AGS has also published more general guidance on methodology for an IP review – see, for example: Philip Crisp: *Conducting a Strategic IP Management Review*, in proceedings of the *First AGS IP Policy and Practice Seminar*, 20 July 2004. The paper may be requested from the author.

- 14 The analysis presented here is adapted from the AGS case study: *'Bird Flu and the Da Vinci Code'*, included in proceedings of the *Third AGS IP Law, Policy and Practice Seminar*, 27 July 2006. The case study may be downloaded from AGS's website, www.ags.gov.au – see 'Areas of Law': Intellectual Property).
- 15 That is, it resides in the techniques, skills and know-how of people. Where possible it should be converted to a recognisable form of intellectual *property*. But so long as it remains intangible it can only be leveraged by retaining those people, and by encouraging them to share their knowledge within the agency and to use it for the agency's purposes, whatever they might be.
- 16 Australian Standard AASB 138 *'Intangible Assets'* excludes certain things, such as 'internally developed mastheads, publishing titles and customer lists'. The standard provides that an intangible asset will be recognised only if: (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and (b) the cost of the asset can be measured reliably.

Commercialisation of technology in the Commonwealth context: some issues

Commonwealth agencies are often involved in the development of new technology – while there are obvious candidates (such as CSIRO or DSTO), new technology can often be created as a result of the activities of a 'less obvious' agency. Having found itself in the possession of this new technology, an agency may turn its mind to the best way to exploit the new technology. The purpose of this paper is to identify and briefly discuss some of the issues that an agency would need to consider as part of any decision to exploit new technology.

The Constitution, enabling legislation and the FMA Act

As with any activity undertaken by an agency, the threshold question is whether the agency has the 'power' to undertake the relevant activity.

The Constitution does not contain a 'general' power for the Commonwealth to engage in commercial activities. It is therefore necessary to consider whether the proposed activity falls within the scope of one of the general heads of power' or is otherwise 'ancillary' to the exercise of a constitutional power.

Where an entity has been created by legislation (which is the case for many FMA and CAC bodies), the enabling legislation will also need to be considered. Usually, the enabling legislation will contain a list of 'powers' and 'functions'. The entity will need to ensure that any proposed commercialisation activity falls within the scope of these provisions. Often, there is a 'catch-all' provision, referring to anything else 'necessary or convenient' to enable the entity to carry out its functions. While this is a broad statement, it is nonetheless linked back to the entity's other functions and needs to be interpreted in this context. It is also important to remember that the enabling legislation itself is subject to the constitutional limitations referred to above. It is not possible for legislation to 'confer' on a statutory body a function or power that is outside the scope of the Commonwealth's legislative power – therefore the entity's powers and functions, including any 'catch-all' provision, need to be considered in the context of the constitutional power that underpins the relevant legislation.

Intellectual property rights are an asset or a Commonwealth resource – they have 'value' and are able to be bought, sold and licensed. Therefore the general rules that apply to the use and management of Commonwealth assets also apply to intellectual property. The *Financial Management and Accountability Act 1997* (FMA Act) requires Chief Executives to manage agencies in a way that



Melbourne

Kenneth Eagle Senior Executive Lawyer
T 03 9242 1290 F 03 9242 1481
kenneth.eagle@ags.gov.au

Broadly speaking, any commercialisation of technology by an agency will involve either the sale or the licensing of the relevant intellectual property rights.

'promotes proper use of ... Commonwealth resources'.² The FMA Act also makes it an offence to 'misapply public property or improperly dispose of, or improperly use, public property'.³ The definition of 'public property' is sufficiently broad to capture intangible property, such as intellectual property.⁴

Broadly speaking, any commercialisation of technology by an agency will involve either the sale or the licensing of the relevant intellectual property rights. While it may be theoretically possible for an agency to fully develop a product and market and support it itself (notwithstanding the issues regarding 'power' identified above), it is not always the case that the agency would have the necessary skills or resources to do this effectively and efficiently. Query also whether such 'commercial' activity would fall within the scope of the agency's core business.

The sale or assignment of intellectual property rights involves the disposal of Commonwealth property – bringing into play the FMA Act. An agency's own Chief Executive Instructions may also be relevant – these CEIs may deal generally with the disposal of 'property'. As noted above, intellectual property is a form of property.

The licensing of intellectual property involves entering into a contract. As with any contract, the licence will create rights and obligations on both parties. The licence will need to be managed. The licence will also potentially create an 'asset' – a contractual obligation on the licensee to pay a licence fee to the agency. This income stream has value and would need to be accounted for like any other agency asset. It will also need to be appropriately audited. Valuation of this asset can be quite difficult. Licence fees are often calculated as a percentage of sales revenue. Where the licence involves 'new' technology, the potential revenue may not be known and may be difficult to estimate, particularly in the early years of any licence.

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Expectations: commercial entity vs the Commonwealth

What the commercial entity wants

Any commercial entity who takes on the technology will be looking to obtain a financial return. It will also be looking for some certainty regarding its rights in relation to the intellectual property. It is likely that a commercial entity will have a preference for ownership – that is, that the agency will assign or transfer the intellectual property rights in the technology to the commercial entity. This will give the commercial entity greater control over the technology, particularly other people's use – including the agency and any other Commonwealth entities. Ownership of any improvements to the technology developed by the commercial entity will also need to be considered.

The commercial entity may also want to see what, if any, steps the agency has taken to protect the intellectual property in the technology – for example, whether any patents have been obtained or designs registered. The commercial entity would not want to invest significant resources in preparing products for the market, only to find that the technology has already found its way on to the market via other means.

In many cases, the technology will comprise a number of different pieces or layers of technology, potentially with different 'owners' of the relevant intellectual property rights. The commercial entity will be seeking some certainty of ownership and its right to use not just the 'new' technology, but also any of the underlying layers of technology that support or are otherwise necessary to 'exploit' the technology. This is often referred to as a 'third party intellectual property warranty'. The agency may not be in a position to provide such a warranty – possibly due to uncertainty as to the ownership of all the underlying

technology. In a situation where the 'owner' of the underlying technology is known, the agency may not want to get involved in commercial negotiations between two commercial entities in relation to the use of this technology.

Obviously, the commercial entity will want to be certain that the technology 'works' – that is does what it is supposed to do. The commercial entity is likely to be seeking 'fitness for purpose' or similar warranties from the agency. It may also seek indemnities from the agency in relation to any loss it suffers, in the event the technology does not operate as intended. The commercial entity may also be seeking some form of ongoing support of the technology by the agency, as well as access to any improvements or upgrades of the technology that are subsequently developed by the agency. Similarly, the agency may wish to have access to any improvements developed by the commercial entity where the ownership arrangements provide for these to vest in the commercial entity.

Obviously any warranty (whether in relation to third party intellectual property infringement or fitness for purpose) and any related indemnity raises policy considerations. In particular, FMA Regs 13 and 10 will need to be considered.⁵

And finally, and probably most importantly, the commercial entity wants to be assured that there is a market for the technology. While the extent or scope of any potential market is largely something for the commercial entity to satisfy itself about, in many instances, the most 'obvious' market, at least in the initial stages, is possibly going to be Commonwealth agencies – and in many cases, the agency itself. The extent to which the commercial entity has access to this market – or conversely, the extent to which the Commonwealth market enjoys access to the technology other than through the commercial entity – may be a significant issue when the commercial entity is 'valuing' the technology and the commercialisation opportunity.

In many situations, the agency will want to have ongoing access to and use of the technology.

What the Commonwealth agency wants

In some situations, the technology will no longer be of any interest to the agency, in which case an assignment may be acceptable. However, in many situations, the agency will want to have ongoing access to and use of the technology – whether as part of its operations (eg, for the purpose that it was originally created) or for further research and development. Where the technology is to be assigned to the commercial entity, this would require a licence back to the agency from the commercial entity.

As noted above, often, the commercial entity will be further developing the technology. This will be the case particularly where the technology is licensed or assigned to the commercial entity in a 'not market ready' state. In this situation, the agency itself may not yet have reaped significant benefit from the technology and may be the commercial entity's most obvious 'first customer'. The agency may seek to incorporate favourable terms for its own use of any product as part of any licence or assignment. This could cover the 'base' product and also extend to any improvements or upgrades subsequently developed by the commercial entity. The agency could seek to extend these 'favoured customer' terms to other Commonwealth agencies. As noted above, this could have the effect of reducing the 'value' of the technology in the eyes of potential commercial entities, particular where the technology is most obviously applicable to a Commonwealth or public sector setting.

In many situations, the agency will not want any ongoing role or responsibilities in relation to the technology, other than to collect the royalties. As noted above, a commercial entity may seek to obtain warranties or indemnities regarding the technology and its use, or seek to require the agency to rectify any 'defects' in the

technology. A relevant consideration here is the fact that, while the technology remained 'within' the agency, its use could be closely controlled. Once it is out 'on the market', a commercial entity could identify any number of possible applications for the technology, possibly well beyond those originally envisaged by the agency. In this context, it is important that any proposed warranties and indemnities are carefully considered (noting also the requirements of the FMA Act and regulations). A strong argument could be made that as the commercial entity has 'control' of the technology, and will derive most of the benefit of the commercialisation of the technology, it should bear this risk.

And finally, the agency will be looking to obtain a reasonable return on its own, sometimes sizeable, investment in the development of the technology.⁶

Who is the commercial entity?

Often, the technology will have been created by a contractor for the agency under a contract, the terms of which vest all intellectual property rights in material created under the contract in the agency. In other situations, the technology may have been created by the agency's own personnel (this would often be the case where the agency is a body with research functions). It is also possible that the technology has been developed as part of a collaboration between the agency and other public or private entities.

Where the development of the technology has involved a contractor, the contractor itself may approach the agency with a commercialisation proposal. In other situations, an existing contractor or supplier to the agency may express an interest in the technology. In these situations, the agency will need to consider whether this initial proposal is necessarily the 'best option' for the agency, or whether a more competitive selection process should be undertaken, again, to ensure that Commonwealth resources are used 'properly'.

Depending on the nature of the technology, the most likely commercial entities may be foreign companies, or Australian subsidiaries of multinationals. Dealing with overseas companies and 'foreign parents' can add significantly to the time and resources required to negotiate a commercialisation arrangement. Foreign companies will often seek to contract under foreign law – this can add to the cost of both negotiating the agreement (as the advice of foreign lawyers may be required) and of contract management (as any disputes will again require the input of foreign lawyers and may also result in any proceedings being conducted in a foreign jurisdiction).

The commercial entity may also suggest an arrangement involving sub-licensing of the technology (either to its own customers or to other members of its corporate group). A difficulty with sub-licensing is that it can increase the complexity in contract management and also the agency's 'control' of the use and dissemination of the technology, as the agency will be one further step removed from the action.

Where the technology has been developed in-house, it is possible that the agency's own personnel will seek to be involved in the commercialisation by way of a 'spin-off'. There are two main ways in which a 'spin-off' could occur. In one, the 'parent' (in this case the agency) would incorporate a subsidiary, assign or license to it the intellectual property rights in the relevant technology and then allow the subsidiary to exploit the technology. Even if an agency were able to undertake such an activity (noting the possible constitutional and legislative barriers referred to above), in setting up a company the agency would need to comply with all applicable Commonwealth policy and administrative requirements.

A relevant consideration is the fact that, while the technology remained 'within' the agency, its use could be closely controlled. Once it is out 'on the market', a commercial entity could identify any number of possible applications for the technology, possibly well beyond those originally envisaged by the agency.

A second scenario involves the personnel leaving the agency and setting up their own entity (usually a company), which would become the licensee/ assignee and commercialise the technology. This raises a number of issues – many of which relate to the fact that the personnel most likely to be involved in the spin-off will be those who were most closely involved in the development of the technology in the first place. This raises complex issues concerning such matters as confidentiality, conflict of interest, probity, and ‘value for money’ under the FMA Act.

Another problem with ‘spin-offs’ in the Commonwealth context is that, unlike in the private sector, the Commonwealth agency is unlikely to be able to provide any ‘seed capital’ to the spin-off to help it get started. This will usually mean that the individuals concerned will need to source this capital from elsewhere. While providers of venture capital do exist, once this third level is involved, negotiations of the commercial terms can become more difficult. There may also be additional tensions and difficulties during the term of the licence and with contract management, particularly if the ‘spin-off’ is not as successful as initially envisaged.

Any proposal to commercialise via a ‘spin off’ should therefore be approached with caution and should be carefully considered with appropriate financial and legal advice prior to any action being taken.

Spin-offs can raise complex issues concerning such matters as confidentiality, conflict of interest, probity, and ‘value for money’ under the FMA Act.

Some commercial considerations

The commercialisation will involve the transfer of rights in the technology from the agency to the commercial entity. As noted above, this could be an assignment (with or without a licence back to the agency) or a licence. Where the technology is licensed, the following issues would need to be considered and clearly set out in the agreement:

- **term:** how long is the licence to run? It will need to be long enough for the commercial entity to obtain a proper return on its investment
- **field:** does the licence cover the entire market, or only particular sectors? Will there be different licensees for different sectors of the market?
- **territory:** does the licence only relate to Australia, or is it world-wide? Will there be more than one licensee, with different territories?
- **exclusivity:** will the commercial entity be the only licensee, or will the agency license the technology to a number of commercial entities?

An important issue will be the setting of the licence fees.

An important issue will be the setting of the licence fees. While it is common for royalties to be used – that is, a set dollar amount per sale, or percentage of total sales revenue, from products incorporating the technology, this is not the only possible approach. A flat, one-off licence fee could be charged, or a stepped fee could be imposed, where the amount of the fee increases as specified sales are achieved. Regardless of the method that is adopted, the agency will need to ensure that it is in a position to effectively monitor the commercial entity’s performance and compliance, to ensure that the appropriate fees are being paid.

The agency will also need to ensure that the commercial entity is ‘encouraged’ to maximise sales – via minimum performance levels and performance against a marketing or business plan. And consequences will need to flow from a failure on the part of the commercial entity to meet these levels – these could include termination of the licence or conversion of the licence from an exclusive arrangement to a non-exclusive arrangement.

A commercial entity may wish to take the technology to the world. Depending on the technology, export controls may become relevant. The commercial entity may incorrectly assume that, because the originator of the technology is a Commonwealth agency, there is a blanket approval for any exports.

Summary

Commercialisation in the Commonwealth context raises a number of issues that need to be carefully considered before embarking on a commercialisation project. As with any significant undertaking, taking the time to carefully scope and analyse the project before commencing will assist in ensuring that issues are identified and dealt with effectively and, should problems arise, the agency is well-placed to respond to them.

Commercialisation of an agency's technology is a way of 'transferring' technology to the market. It can be seen as a way to encourage the development and maintenance of an industrial 'critical mass'. In some sectors, it can be an important tool in ensuring that industry is developing and in a position to assist in relation to the Commonwealth's future needs.

Kenneth Eagle practises in the areas of commercial law, including competitive tendering and contracting, contract drafting, risk allocation and management, as well as intellectual property, including technology development and licensing agreements. In addition, he has gained expertise in the handling of complex legal issues and processes through his involvement in major privatisation and corporatisation projects.

Taking the time to carefully scope and analyse the project will assist in ensuring that issues are identified.

Notes

- 1 For example, one of the heads of power set out in section 51 of the Constitution.
- 2 See FMA Act section 44 – 'proper' is defined to mean 'efficient, effective and ethical'.
- 3 See FMA Act section 41.
- 4 See also the Explanatory Memorandum to the FMA Bill 1996, at page 4.
- 5 See also Finance Circular 2003/02 and Financial Management Guidance No. 6 – Guidelines for Issuing and Managing Indemnities, Guarantees, Warranties and Letters of Comfort. These issues are discussed in detail in AGS *Legal Briefing* 79.
- 6 Again, FMA Act considerations will be relevant here, particularly the requirement in section 44 to promote the 'proper' use of Commonwealth resources.

What's in a domain name? Domain name issues for agencies

Domain names are highly prized resources and are essential to an entity's online presence and marketing success. Because of their intrinsic value, so-called 'internet entrepreneurs' commonly register domain names containing well-known names and marks in order to sell them, or more commonly in recent times, to divert internet traffic to their own websites.

These types of activities have been increasingly directed towards government agencies and the programs they deliver. For instance, internet entrepreneurs have sought to capitalise on the high profile of Australian government agencies by registering agency names as domain names in popular domain name spaces, such as .com and .com.au, and setting up websites under these names in an attempt to capture internet traffic intended for the official sites. In recent times, agencies such as the Australian Taxation Office (ATO) have been targeted.¹

However, there are 'preventative' and 'curative' measures that agencies can take against such third party activities.

What is a domain name?

In simple terms, a domain name functions as an address on the World Wide Web. Domain names are easy-to-remember alphanumeric equivalents of IP addresses that ultimately correspond to websites. However, domain names are far more than mere web addresses. A name that is intuitively linked to an entity – because it contains the entity's name or mark – will clearly function more effectively as that entity's web address.

Domain names are registered on a 'first come, first served' basis – subject to meeting any relevant eligibility criteria. Perhaps most critically, only one person or entity can register and use a particular domain name at a given time.

The registration of a domain name does not confer ownership rights in the name. Rather, the domain name registrant becomes the 'licensee' of the name under a licence agreement with the relevant domain name registrar. The licence permits the registrant to use the domain name exclusively for a period and requires compliance with the relevant policies.

The licence agreement normally also includes warranties, exclusions of liability and indemnities in favour of the registrar and the registry operator or auDA.² In view of this, agencies seeking to register domain names may need to have regard to their financial management and accountability obligations in agreeing to such provisions.³ In some circumstances, agencies may be able to successfully negotiate the removal of some of these provisions from domain name licence agreements.

Entrepreneurial domain name practices

Internet entrepreneurs commonly register domain names containing other parties' valuable names and marks, which has led to an increasing number of domain name disputes.⁴ Such domain name practices include:

- 'cybersquatting' or 'domain name trafficking' involving the speculative acquisition of domain names for the purpose of selling the domain name registrations to the trade mark owners or their competitors for a profit
- 'cyberjacking' which involves registering and using a domain name containing another party's name or mark in order to divert internet traffic to a website. This may be done for commercial gain or for non-commercial purposes such as operating a criticism website



Canberra

Rachel Chua Senior Executive Lawyer

T 02 6253 7086 F 02 6253 7306

rachel.chua@ags.gov.au

Internet entrepreneurs have sought to capitalise on the high profile of Australian government agencies by registering agency names as domain names.

There are preventative and curative measures agencies can take against such activities.

- ‘typosquatting’ which is a form of cyberjacking and relies on internet users making a common error or spelling mistake in entering a web address.

In recent times, these types of practices have been increasingly directed towards government agencies. For example, third parties have registered agency names in popular domain name spaces, such as .com and .com.au, and used those names in web addresses to divert traffic intended for agencies’ official websites to their own.

Typosquatting example

A few years ago, a business called ‘All Too Often’⁵ registered the domain name ato.com.au and set up a corresponding website under the name.⁶ The website boasted 1,000 ‘hits’ per day and sold website advertising space on that basis.⁷ It seems likely that the site was mainly getting ‘hits’ from people attempting to locate the ATO’s official website.

The ato.com.au website boasted 1,000 ‘hits’ per day.

The material on the ato.com.au website reinforced any misconceptions by users that the site was the official ATO website. The website contained a ‘map of Australia’ device which was reminiscent of the map of Australia logo then used by the ATO.⁸ The website also supplied a link to the etax.com.au website. This is the website of an accounting practice that specialises in preparing tax returns from information supplied via its website, but which has no relationship with the ATO or its e-tax software product.

Disgruntled members of the public contacted the ATO after being charged for using ‘e-tax’ services accessed via the link on the ato.com.au website.

The ATO successfully took remedial action against the website.⁹

What action can agencies take against such activities?

There are ‘preventative’ and ‘curative’ measures that agencies can take against such third party activities.

Preventative measures

The main preventative measure that agencies should consider is ‘defensive registration’ of their names and valuable marks (and similar names and marks) as domain names in a number of popular domain name spaces – such as .com, .com.au, .net and .org – in addition to the .gov.au domain name space. This will assist in preventing the opportunistic and potentially abusive registration and use of these domain names by third parties. Clearly, defensive registration of domain names should be undertaken prior to the public announcement of any high profile agency, program or initiative.

The main preventative measure is ‘defensive registration’ of names and valuable marks.

If agencies register their names and marks in multiple domain name spaces, the resulting domain names can also be ‘set up’ to automatically redirect users to the agencies’ preferred web addresses, which will assist users in locating these sites.

Defensive registration strategies for domain names should also be reflected in agencies’ IP policies relating to, amongst other things, protection of their valuable names and marks. This is particularly the case given the recent release by the Attorney-General of the *Intellectual Property Principles for Australian Government Agencies*,¹⁰ which agencies must comply with by 1 July 2008.

Curative measures

When internet entrepreneurs have registered and are using agency names and marks as domain names, the main curative measures for agencies include:

- taking action under domain name dispute resolution policies
- instituting legal proceedings for misleading or deceptive conduct under section 52 of the *Trade Practices Act* (the TPA), the common law tort of ‘passing off’ and/or trade mark infringement

— informal measures involving auDA or the relevant registrars.

Dispute resolution policies

Agencies may seek to challenge domain name registration of their names and marks under dispute resolution policies such as the Uniform Dispute Resolution Policy (UDRP) and the .au Dispute Resolution Policy (auDRP). Where such proceedings are instituted, domain name registrants must submit to the relevant dispute resolution processes in accordance with their domain name licence agreements.¹¹

In order to take action under a dispute resolution policy, it is generally necessary to demonstrate that the domain name registrant has engaged in abusive or 'bad faith' registration of the complainant's name or mark as a domain name.¹²

The key benefit of attempting to resolve a domain name conflict under a dispute resolution policy is that the corresponding process is generally quicker and cheaper than court proceedings. There is no formal 'hearing' to attend – the process is conducted on the basis of written material submitted to a panellist (or panel). A decision is usually made within six weeks of filing the complaint.

However, the remedies available to a successful complainant are limited to the cancellation or transfer of the offending domain name. There is also no ability to recover costs under the UDRP or the auDRP.

It is notable that panellists deciding disputes under the UDRP or the auDRP are not bound by precedent established in earlier decisions. Rather, they are only required to adjudicate such disputes on the basis of the documents submitted, the relevant dispute resolution policy and associated procedural rules, and any other rules and/or principles of law they deem applicable.¹³ This means that the outcome of any given dispute resolution process can be unpredictable.

However, if the outcome of any such process is unsatisfactory to either party, that party may still have recourse to court proceedings.¹⁴

Legal proceedings

The legal grounds on which action could be taken against 'entrepreneurial' use and registration of agency names and marks as domain names include misleading or deceptive conduct in breach of section 52 of the TPA, passing off and/or trade mark infringement. The remedies available for succeeding under these causes of action would include orders for cancellation or transfer of the domain names and damages or an account of profits.

For example, in *Architects (Australia) Pty Ltd v Witty Consultants Pty Ltd*¹⁵ the court held that the registration and use of the domain name *architectsaustralia.com.au* by the defendant (in respect of an internet directory of architects) constituted passing off and contravened section 52 of the TPA. The plaintiff had traded under the name 'Architects Australia' for 20 years. In the circumstances, the court considered that the domain name was used as an 'instrument of fraud'. The similarity between the plaintiff's trading name and the defendant's domain name gave rise to an inherent risk that reasonable consumers may be misled or deceived.¹⁶

However, where a web address containing an agency's name or mark is not being used 'in the course of trade' or in relation to goods or services in respect of which an agency's trade mark is registered – or alternatively, where it is clear from the web address (or the website itself) that the site is a criticism website, rather than the official agency website – it may be difficult to establish contravention of section 52 of the TPA, passing off and/or trade mark infringement.

Informal measures

It would seem that auDA may occasionally take pre-emptive action to deregister domain names that appear to have been registered in contravention of the

Agencies may challenge domain name registrations under dispute resolution policies.

auDA or registrars may take pre-emptive action to deregister domain names that contravene eligibility policies.

relevant .au domain name eligibility policies. For example, auDA reported that the domain names brantwebb.com.au and toddrussell.com.au were registered hours after the two miners emerged from the Beaconsfield Goldmine in Tasmania.¹⁷

While auDA considered it possible that the domain names were 'legitimate', its initial reaction was that the registrations were 'more likely to be an attempt to cash in'. It sent the registrant a notice asking them to explain within 24 hours why they were eligible to register the names – as no satisfactory response was received, auDA proceeded to delete the domain names.¹⁸

Given this precedent, agencies whose names or trade marks have been 'illegitimately' registered by third parties in contravention of domain name eligibility policies may wish to contact auDA or the registrars concerned in an attempt to obtain deregistration of the corresponding domain names on this basis.

Conclusion

Domain names continue to be an important resource for agencies. While opportunistic and abusive registration of agency names and marks as domain names is increasing, agencies have a range of measures available to them in dealing with such activities. However, preventative measures often provide the most effective form of protection, and these measures should be reflected in agencies' IP policies and implemented where appropriate.

Protective measures for domain names should be reflected in agencies' IP policies and implemented where appropriate.

Rachel Chua is a Senior Executive Lawyer specialising in the areas of IP, IT and commercial law. She regularly advises agencies on complex legal issues relating to protection and management of IP. Rachel also acts for agencies in significant IT procurement and contracting matters. She has a particular interest in strategic IP management and technology-related legal issues.

Notes

- 1 Sam Varghese, 'ATO Seeks to Stop Web of Confusion', *The Sydney Morning Herald*, 26 July 2002, available at <<http://www.smh.com.au/articles/2002/07/26/1027497405586.html>>.
- 2 au Domain Administration Ltd (auDA) is the policy authority and industry self-regulatory body for the .au domain name space: <<http://www.auda.org.au>>.
- 3 See, for example, Regulations 9 and 10 of the *Financial Management and Accountability Regulations 1997*.
- 4 See generally <<http://www.wipo.org>>.
- 5 The business name was registered in Victoria in respect of 'health advice on ageing'.
- 6 Sam Varghese, 'ATO Seeks to Stop Web of Confusion', *Sydney Morning Herald*, 26 July 2002.
- 7 See <<http://web.archive.org/web/20020604052820/ato.com.au/advertising/intro.htm>>.
- 8 See <<http://web.archive.org/web/20020119175352/http://ato.com.au>>.
- 9 The ato.com.au website is now owned and operated by a different party following the 'take down' of the original website. In the week ending 21 April 2006, it was the 11th most visited accounting portal: Ben Woodhead, 'Cybersquatter Taxes officials', *Australian Financial Review*, 28 April 2006, p 3.
- 10 The principles can be accessed at <<http://www.ag.gov.au/cca>>.
- 11 The UDRP is the dispute resolution policy for global top level domain names such as .com, .net, .org, .biz, .info and .name. The auDRP is the dispute resolution policy for domain names in the .au domain name space. It was modelled on the UDRP and is therefore substantially similar in its terms.
- 12 See paragraph 4(a) of each of the UDRP and the auDRP for details of the disputes to which these policies apply.
- 13 See paragraph 15(a) of each of the UDRP and auDRP Rules.
- 14 However, that would clearly depend upon whether the party had a valid cause of action.
- 15 [2002] QSC 139.
- 16 [2002] QSC 139, para 47.
- 17 Ben Woodhead, 'Squatter Kicked Off Miners' Names', *Australian Financial Review*, 12 May 2006, p 73.
- 18 Ibid.

Issues in trade mark infringements

This article offers an overview of two recent and important trade mark matters that demonstrate the diversity of trade marks that are available for registration, the practical commercial issues that arise for enforcing such trade marks – including the importance of good drafting in technology based agreements – and the public policy issues involved with the use of trade marks.

The two matters examined are the Cadbury litigation in which Cadbury Limited attempted to register the colour purple, and *Apple v Apple*, a dispute between the recording label founded by the Beatles (Apple Corps) and Apple Computer.

Cadbury litigation

This matter involved a series of attempts by Cadbury beginning in 1998 to register several shades of the colour purple as a trade mark for chocolate. A trade mark is a sign used, or intended to be used, to distinguish goods or services dealt with or provided in the course of trade by one person from goods or services dealt with by another. Since the passing of the *Trade Marks Act 1995*, both shapes and colours can be registered as trade marks.

A primary issue considered in determining whether a colour-based trade mark should be registered is whether the colour is inherently adapted to distinguish the goods or services of one person from another. Key to this consideration is determination of whether there is a competitive need for the colour by other players in the industry or whether the colour is essential to the functionality or utility of the product.

In the initial trade marks hearing,¹ the examining officer found that the colour purple could reasonably be expected to be used by other chocolate manufacturers and the colour could have a functional purpose – for example, to indicate the chocolate-covered, berry-flavoured filling. The officer also determined that the colour purple was associated with luxury or richness and was thus a colour that other manufacturers may want to use in relation to chocolate on the basis that chocolate was a luxury product rather than an essential food item.

As a result of this determination Cadbury was required to prove that the relevant shades of purple were associated exclusively with its chocolate. This requires more than just the simple use of a colour in relation to certain goods – instead it needs to raise in the public mind a connection with those goods – an education of the public that the colour is a trade mark. Cadbury produced evidence of the use of purple on its products dating back to the 1920s. However, this was not deemed sufficient as Cadbury needed to show that its purple packaging had acquired a secondary meaning (that is to say an indicator of the supplier) in addition to its ordinary meaning of being an attractive packaging for chocolate.

The examiner decided that the marketing surveys put forward by Cadbury to demonstrate how well the public was educated to its colour mark were not conclusive, particularly because the surveys were conducted 18 months after the trade mark application had been made and Cadbury had therefore had further time to educate the public – thereby ‘colouring’ the results of the survey. In conclusion, the trade mark examiner found that the colour purple as an aspect of packaging for chocolate is not inherently adapted to distinguish Cadbury’s product from that of other traders and that there had not been sufficient evidence with respect to use of the colour by Cadbury to distinguish its chocolate prior to the application being made.



Canberra

Adrian Snooks Senior Lawyer

T 02 6253 7192 F 02 6253 7306

adrian.snooks@ags.gov.au

The trade mark examiner found that the colour purple as an aspect of packaging for chocolate is not inherently adapted to distinguish Cadbury’s product.

Cadbury appealed to the Federal Court and the matter settled by consent with the Registrar of Trade Marks, accepting Cadbury's trade mark application in 2003. This was then opposed by Darrell Lea and Nestlé. Darrell Lea had for a number of years used purple and copper colouring for its Christmas promotions, and Nestlé also used purple in relation to chocolate bars such as Violet Crumble.

The decision of the trade mark hearings officer in Darrell Lea's opposition to the trade mark was handed down in 2006.² The hearings officer agreed with the earlier decision to the extent that the colour purple lacks any inherent capacity to distinguish Cadbury's chocolates. However, the hearings officer appeared to disagree with the previous decision in relation to the use of the colour being customary within the chocolate industry to signify a particular filling or to denote richness or luxury. The hearings officer also found that the use of purple by Cadbury had achieved a certain distinctiveness in the public mind but only in relation to one shade of purple and only in relation to moulded block chocolate and the Cadbury Milk Tray product. The Cadbury trade mark application was therefore rejected unless amended in line with the officer's decision.

Cadbury was also simultaneously running an action against Darrell Lea in the Federal Court³ for passing off and contravention of the Trade Practices Act in respect to Darrell Lea's purple packaging.⁴ The court found that the passing off/trade practices action by Cadbury could only succeed if the colour purple when used in relation to chocolate would lead consumers to conclude that the chocolate must be Cadbury's. Because of the existence of bars such as Violet Crumble and the Darrell Lea products, this could not be substantiated, and Cadbury lost the case.

This appears likely to be a bitter fight as Darrell Lea has indicated that it will appeal the decision of the hearings officer in the trade mark opposition hearing and Cadbury has appealed the Federal Court decision.⁵

Darrell Lea has indicated that it will appeal the decision.

Apple vs Apple

This recent court action in the UK involved Apple Corps (the music publisher founded by the Beatles) suing Apple Computer.⁶ The case revolved around an agreement that the two parties made in 1991 to settle a series of court battles. The agreement allowed Apple Computer to keep its name and logo in return for not entering into the music business or conducting any record sales or distribution.

It is interesting to note that Steve Jobs when he set up Apple Computer reportedly chose the name because of his love of the Beatles' music. But as the Beatles were to show in 1980 when the two parties settled their first dispute for \$80,000, contrary to their own song lyrics, money can buy you love. The later 1991 settlement further demonstrated that love is expensive when Apple Computer paid a further \$26.5m including the promise to stay out of the music business.

The problem then was the creation by Apple Computer of the iTunes music store – the online store where songs can be bought and downloaded for use with the Apple iPod. The point at issue in the case was whether the computer firm had the right to attach its apple logo to the iTunes music store, and what damage that might have caused to Apple Corps. Given that Apple Computer has made more than \$1 billion in revenue from iTunes, there was the potential for a significant damages award.

The 1991 Agreement essentially created two fields of use for the trade marks of each company. Apple Computer's field of use for its trade marks was defined as the computer, data processing and telecommunications area while Apple Corps field of use for its trade marks was defined as the record business, the Beatles and other recording artists signed to the label.

Apple Corps alleged that the appearance of the apple logo during the use of the music store breached the agreement on the use of their respective trade marks.

When using the iTunes software required to access the music site, the Apple Computer logo can plainly be seen in the middle upper panel of the screen. The logo also appears when using the iTunes music store site. Apple Corps alleged that the appearance of the logo during the use of the music store breached the agreement on the use of their respective trade marks, specifically because it was (using the wording of the agreement) ‘a use on or in connection with musical content’ which was squarely within Apple Corps field of use.

Apple Computer relied upon the fact that the information included with song tracks identified the owners of the song and thus indicated that Apple Computer was not the owner of the music on the store. In other words, the contention of Apple Computer was that its trade mark franks the iTunes software and not the musical content of the store.

So the case essentially turned on the correct interpretation of the legal agreement between the two parties. Of course the interpretation of the agreement by each party differed, and as the trial judge said: ‘Both parties submitted that the position is simple and straightforward, which is a pretty good indication that it is not’,⁷ demonstrating the importance in any contractual matter of ensuring that the drafting of the relevant agreement is clear, and free from ambiguity.

The construction of the words ‘on or in connection with musical content’ were critical. The court decided that Apple Computer was transmitting music and that its use of its trade mark was associated with this transmission. The transmission of music was a service rather than musical content and the way in which the relevant clauses of the agreement were drafted suggested that this would not be a breach.

In particular, the reference in the key clause of the agreement to ‘physical media (i.e CDs) delivering content’ created a problem for Apple Corps and the judge considered that even though the agreement could apply to technology that was not developed at the time the agreement was drafted it was necessary for the agreement to actually contemplate this – which in this case it did not. This is an important lesson for government agencies as well – when drafting long-term agreements relating to technology it is necessary to ensure agreements also contemplate and encompass the possibility of future technological change.

In the end the court decided that it was necessary to consider whether users of the iTunes music store would consider that the music store was more than just a retailer of music. The court found that use of the Apple Computer logo in the iTunes music store merely denotes the service provided by the store and not any particular connection with the content. That is, the use of the Apple Computer trade mark does not go beyond the retail connection. The incorporation of ownership details in relation to songs on the iTunes music site was taken by the judge to also be consistent with this conclusion. In other words, Apple Computer won.

In early February 2007 it was announced by both Apple Corps and Apple Computer (now Apple Inc) that the parties have come to a commercial settlement of their trade mark dispute. The settlement allows Apple Inc to have ownership of the ‘Apple’ brand and logo in return for a licence back of those trade marks to Apple Corps and a payment of a reported \$50–100 million. In an interesting postscript, the Beatles complete collection will reportedly soon be available on iTunes. So perhaps in the end the apples have decided that, to borrow from a Beatles song, ‘we can work it out’.

The parties have come to a commercial settlement of their trade mark dispute.

What we can learn from the cases

The Cadbury and Apple litigation, in addition to showing the breadth of potential trade mark claims, also demonstrates how concerned organisations are to protect elements of their branding. Agencies should be aware of this motivation when dealing with trade-mark-related issues. Agencies may need to consider the legitimacy of trade mark claims in light of the relevant law and be cautious in order to avoid acquiescing to conduct that could improperly reduce competition in the private sector.

Finally the Apple case demonstrates the importance, when entering long-term agreements in relation to intellectual property, of anticipating possible future circumstances that may arise in relation to technological developments, and catering for those possibilities. This may mean, for example, ensuring that references to a particular technology (e.g. CDs) are not limited solely to that technology, but extend to 'other data storage and transmission technologies'.

Adrian Snooks has considerable experience in intellectual property law and commercial drafting. He has advised on some of the largest procurements of technology by the Australian government and has worked in the field of intellectual property and technology law both in the UK and Australia.

The Apple case demonstrates the importance of anticipating possible future circumstances that may arise in relation to technological developments.

Notes

- 1 *Cadbury Limited* [2002] ATMO 56; (2002) 55 IPR 561.
- 2 A full transcript of the decision is available at: http://www.ipaustralia.gov.au/pdfs/trademarks/hearings/779336_0406.pdf.
- 3 *Cadbury Schweppes Pty Ltd v Darrell Lea Chocolate Shops Pty Ltd* (No. 4) [2006] FCA 446.
- 4 In a remarkable coincidence the court handed down its decision on the same day as the officer's decision on the opposition to the trade mark.
- 5 In response to this appeal by Cadbury, the Federal Court of Appeal found on 21 May 2007 that the trial judge had incorrectly ruled on the admissibility of key evidence and have directed that the matter be reheard.
- 6 *Apple Corps Ltd. v Apple Computer, Inc* [2006] EWHC 996 (Ch).
- 7 Mann J in *Apple Corps Ltd. v Apple Computer, Inc* [2006] EWHC 996 (Ch) at para. 58.

AGS contacts

AGS has a national team of lawyers specialising in advising agencies on a wide range of intellectual property (IP) and technology matters including establishing agency specific IP policies, managing IP in connection with specific transactions and initiatives and handling IP disputes. For assistance with any intellectual property matters, please contact our national IP network leader, Phil Crisp, or one of our specialist IP lawyers:



Canberra

Philip Crisp *Special Counsel, Commercial*

T 02 6253 7159 F 02 6253 7306 philip.crisp@ags.gov.au

Canberra	Rachel Chua	02 6253 7086
	Tony Beal	02 6253 7231
	Adrian Snooks	02 6253 7192
Sydney	John Berg	02 9581 7624
	Kate Brophy	02 9581 7678
Melbourne	Kenneth Eagle	03 9242 1290
	Paul Lang	03 9242 1322
Brisbane	Peter Blennerhassett	07 3360 5767
Hobart	Peter Bowen	03 6210 2104
Adelaide/Darwin	Andrew Schatz	08 8205 4201
Perth	Scott Slater	08 9268 1789

Offices

Canberra

50 Blackall Street Barton ACT 2600

Sydney

Level 42, 19 Martin Place Sydney NSW 2000

Melbourne

Level 21, 200 Queen Street Melbourne VIC 3000

Brisbane

Level 12, 340 Adelaide Street Brisbane QLD 4000

Perth

Level 19, 2 The Esplanade Perth WA 6000

Adelaide

Level 18, 25 Grenfell Street Adelaide SA 5000

Hobart

Level 8, 188 Collins Street Hobart TAS 7000

Darwin

Level 3, 9–11 Cavenagh Street Darwin NT 0800

The AGS 2007 IP Law, Policy and Practice forum will be held in Canberra on 9 August 2007.

Topics for discussion will include the new IP Principles and practical strategies for conduct of an IP management review and development of an agency IP policy.

Enquiries: michelle.easte@ags.gov.au

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T 02 6253 7052 F 02 6253 7313
E ags@ags.gov.au

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