

Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill 2018

Submission to the Senate Economics Legislation Committee

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Professor Robert Burrell, Melbourne Law School, University of Melbourne & School of Law, University of Sheffield*

Professor Michael Handler, Faculty of Law, University of New South Wales**

1. Introduction

We are grateful for this opportunity to make a submission to the Economics Legislation Committee on the Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill 2018. This submission is directed exclusively at Sch 1, item 2 of the Bill, which proposes to introduce a new defence to trade mark infringement in s 122A of the *Trade Marks Act 1995* (Cth).

It is our strongly held view that the draft provision goes a long way to fixing serious defects in the current law. Insofar as there is a problem with the current draft of s 122A, it lies in the fact that it fails to deal with one, relatively minor issue relating to the marketing of legitimate goods. We suggest that the Committee should recommend that the draft provision be amended to deal with this problem, in the manner we describe in Part 4 below.

Our position is therefore that the draft of s 122A is generally to be supported, but that the Committee might consider whether it should be *broadened*. As such, our submission runs in the opposite direction to suggestions the Committee is likely to receive from brand owners and their legal representatives. As two academics who have spent many years teaching and writing about trade mark law, our only concern is with the proper functioning of the trade mark system. We have at times been highly critical of IP Australia, but on this issue the agency has done a good job of dealing with an important and technically complex issue. We would also remind the Committee that the Government ran a public consultation exercise during which brand owners and their legal representatives had the opportunity to comment on the Government's proposals. IP Australia's response to the consultation was thoughtful and led to the proposed provision being altered in important respects.¹

* The author can be contacted at r.g.burrell@sheffield.ac.uk or +44 (0)114 222 6719.

** The author can be contacted at m.handler@unsw.edu.au or +61 (0)2 9385 2874.

¹ IP Australia Response to Public Consultation on Exposure Draft of Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Matters) Bill and Regulations 2017 (March 2018) at 1-6, https://www.ipaustralia.gov.au/sites/g/files/net856/f/ip_australia_response_to_consultation_on_draft_ip_la_ws_amendment_pc_response_part_1_legislation.pdf.

2. The need for s 122A

The proposed section is about the sale of *genuine* goods, that is, goods to which a trade mark has been applied by or with the consent of the owner. The idea that an action for trade mark infringement might ever lie in respect of the sale, resale or advertisement of genuine goods is counter-intuitive.² It would also hand trade mark owners an unnecessary and illegitimate degree of market power. For this reason, it has long been Australian policy to allow for the ‘parallel importation’ of trade marked products,³ that is, the practice of unauthorised importers bringing genuine goods into Australia from overseas. The Harper Review provides strong support for continuation of the policy of allowing parallel importation:

*Parallel import restrictions are similar to other import restrictions (such as tariffs) in that they benefit local producers by shielding them from international competition. They are effectively an implicit tax on Australian consumers and businesses ... Removing parallel import restrictions would promote competition and potentially lower prices of many consumer goods.*⁴

Broadly similar arguments as to the benefits for consumers (and a strong environmental case) can be made against allowing trade mark owners to prevent the resale of genuine goods in second-hand markets.

The Productivity Commission, and the Government in response, have rightly recognised that the provision that was supposed to protect parallel importers – s 123 of the *Trade Marks Act* – is deficient. That section, and the body of case law that has developed since 1995, have ended up *undermining* the government’s policy of facilitating the parallel importation of genuine goods. We would also note that while current debates over s 123 have been focused almost exclusively on parallel importation, the current law is inadequate to deal with the sale of repaired and reconditioned goods,⁵ and there have been a small number of cases in which trade mark owners have attempted to use their rights to interfere with the sale of such goods.⁶

The proposed addition of s 122A should therefore be welcomed. It reflects, rather than represents a change in, longstanding Australian policy. In particular, we consider that the broadening of the circumstances in which a trade mark will be taken to have been applied with ‘consent’ (in s 122A(1)(c) and (2)-(4)) for the purposes of the defence should overcome many of the problems caused by the current s 123.

It is imperative that any new defence provides clear and robust protection for brand owners, parallel importers and sellers of second-hand goods, if Australia’s policy goals are to be achieved. We recognise that brand owners and their legal representatives are likely to object to the ‘reasonable inquiry’ elements of the defence, based on submissions on the Exposure Draft. In Part 3 we show that concerns about the ‘reasonable inquiry’ elements are unfounded, and that the Committee

² *Scandinavian Tobacco Group Eersel BV v Trojan Trading Co Pty Ltd* [2015] FCA 1086 at [66] (Allsop CJ).

³ Mark Davison, ‘Parallel Importing in Australia: What Is the Objective and Is It Being Achieved?’ (2012) 38 *Monash University Law Review* 173 at 175-76.

⁴ Competition Policy Review, Final Report (March 2015) (‘Harper Review’) at 177.

⁵ As we explain in Robert Burrell and Michael Handler, ‘A Requiem for *Champagne Heidsieck*: Trade Mark Use and Parallel Importation’ (2016) 26 *Australian Intellectual Property Journal* 210.

⁶ *Wingate Marketing Pty Ltd v Levi Strauss & Co* (1994) 49 FCR 89.

should recommend retaining these elements. In Part 4, we suggest that s 122A should be amended to deal with a genuine problem that has not been mentioned in the consultation process to date.

3. Why a 'reasonable inquiries' provision in s 122A is appropriate

The responses to the earlier consultation process suggest that the Committee is likely to be confronted with Cassandra-like predictions that the draft s 122A will lead to the Australian market being flooded with counterfeit goods, with brand owners left helpless in the face of the introduction of a new and unwarranted 'innocent infringer' defence. The proposed section is not, however, a Trojan horse and on closer inspection the concerns that have been expressed about the operation of this provision are unwarranted.

Most of the controversy turns on the proposed s 122A(1)(b) and (c). These paragraphs ensure that the defence to infringement turns on whether a person made 'reasonable inquiries in relation to the trade mark' and 'at the time of use, a reasonable person, after making those inquiries, would have concluded' that the goods were legitimate (ie, that the trade mark had been applied by or with the consent of one of the parties in (c)).

The problem that the 'reasonable inquiries' elements of subsection (1) seek to overcome is that it may be impossible for a parallel importer to be absolutely certain that the goods are, in fact, legitimate. All that the importer can do is make reasonable inquiries as to whether the trade mark had been applied by or with the consent of one of the parties listed in (c), and act on that information in a reasonable manner.⁷ As IP Australia has explained, without such a provision parallel importation would remain 'unacceptably risky' and the 'supply of parallel imports to the Australian market' would remain stifled.⁸

In the rare case where an importer makes a good faith mistake as to the legitimacy of the goods, brand owners are hardly left powerless. They can bring an action against the supplier of the infringing goods, and they can compel the parallel importer to disclose the name and location of this supplier using the ordinary machinery of civil actions ('third party discovery' or so-called *Norwich Pharmacal* orders). Moreover, and still more importantly, it is necessary to pay careful attention to the precise wording of the draft s 122A(1)(c). The new defence only applies where at the time of use it was reasonable to assume that the goods were legitimate. This extends beyond the time of importation of the goods. Every act of sale, every new advertisement and every new brochure promoting a product involves a 'use' of the mark. This is important. The proposed section does not set up a broad and prospective innocent infringer defence. It is not enough that a trader acquires the goods believing that they were legitimate. The trader must *continue* to reasonably hold this belief up to and beyond the point of initial sale. As soon as the brand owner puts the importer on notice that

⁷ Paragraph 15 of the Explanatory Memorandum to the Bill provides goes into further detail on what might constitute reasonable inquiries.

⁸ IP Australia Response to Public Consultation on Exposure Draft of Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Matters) Bill and Regulations 2017 (March 2018) at 3, https://www.ipaustralia.gov.au/sites/g/files/net856/f/ip_australia_response_to_consultation_on_draft_ip_la_ws_amendment_pc_response_part_1_legislation.pdf.

the goods are counterfeit, no ‘reasonable person’ in the importer’s position⁹ could conclude that the goods are legitimate, meaning that any sales or advertisements from that point in time will infringe.

To the extent that s 122A(1)(b) and (c) mean that an importer who makes reasonable inquiries and reaches the reasonable conclusion that the goods are legitimate, but who unwittingly imports counterfeit goods, will not be liable for damages up to the point in time it is notified that the goods are counterfeit, we believe that this is appropriate. Brand owners can still seek remedies against the supplier, as outlined above, and any other position would make it too risky for importers to consider importing genuine goods, thus thwarting the policy objective of ensuring that Australian law facilitates parallel importation.

For the above reasons, the approach taken in s 122A(1)(b) and (c) represents a sensible way forward. The Committee should recommend that it be retained.

4. The problem that s 122A fails to address

There is, however, a problem with the current law that is not addressed by the draft s 122A.

At present, s 123 significantly limits the way a retailer of legitimate parallel imported goods can engage in associated marketing in relation to those goods. Assume, for example, that a jeans manufacturer has a registered compound (or logo) mark consisting of the words “STOCKPORT Original Quality” rendered in a red cursive font and set inside a simple square device. Jeans to which that compound mark has been applied by the registered owner are acquired, imported into and sold in Australia – something that is clearly permitted by the current s 123 (and would be permitted by the draft s 122A). The importer/retailer also wishes to advertise them online and in flyers by saying that “We are now selling genuine Stockport jeans”. The difficulty is that this use on promotional material would be a use not of the registered compound mark, but rather of a deceptively similar mark. Currently, the s 123 defence applies only if the defendant uses ‘a registered trade mark’.¹⁰ By virtue of s 7(1), this extends to use by the defendant of a mark that is ‘substantially identical’ with the registered mark. The draft 122A(1) applies in exactly the same way. However, as soon as the defendant goes beyond this to use a ‘deceptively similar’ mark, the defence falls away.¹¹ Consequently, the use of “Stockport” alone in the advertisements, rather than the registered compound mark or a mark substantially identical to it, would fall outside the scope of the defence: both in its current form in s 123, and – more significantly – in the draft s 122A.

This problem could be overcome by amending s 122A(1) so that it starts: ‘In spite of section 120, a person who uses a registered trade mark, or a mark that is deceptively similar to a registered mark, in relation to goods does not infringe the trade mark if: ...’.

The Committee should recommend the amendment of s 122A in this form.

⁹ Paragraph 18 of the Explanatory Memorandum rightly notes that this would be determined by asking “what would a hypothetical reasonable person in the importer’s situation (with the information obtained from the reasonable inquiries) conclude?”

¹⁰ This was confirmed in *Transport Tyre Sales Pty Ltd v Montana Tyres Rims & Tubes Pty Ltd* (1999) 93 FCR 421 at [96] (Full Federal Court).

¹¹ This was made clear in *Facton Ltd v Toast Sales Group Pty Ltd* [2012] FCA 612 at [118] (Middleton J).