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Senate Standing Committees on Economics
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Parliament House
CANBERRA ACT 2600

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Dear Sirs and Mesdames,

SUBMISSION – CHANGES TO THE PARALLEL IMPORTATION LAWS

Macpherson Kelley welcomes the opportunity to comment on the *Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill 2018* (**Amendment Bill**) introduced to the House of Representatives on 28 March 2018.

We frequently advise businesses on their Australian Consumer Law (**ACL**), labelling and product safety obligations and their distribution and intellectual property strategies. We act for local Australian distributors, subsidiaries of multi-national companies and local Australian developers and manufacturers of products.

We wish to highlight concerns with some of the likely consequences of the proposed changes to parallel importation laws under the *Trade Marks Act* (**TM Act**).

We acknowledge the Australian Government's policy position that parallel importation increases domestic competition and that the TM Act was intended to allow for the parallel importation of legitimately trade-marked goods. We also appreciate the desire to implement adequate legislative means to prevent the circumvention of such intention through the use of various contractual arrangements.

However, while respecting the Australian Government's policy position, we note that the Amendment Bill is drafted heavily in favour of open borders, at the expense of the rights of registered trade mark owners and authorised users. The interests of trade mark owners and parallel importers are often misaligned, particularly when it comes to the preservation of consumer safety, consumer support, brand reputation and managing trade channels.

We have framed our submission below from the perspectives of both the trade mark owners and consumers. While our client have valid concerns in relation to parallel

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importers profiting from and appropriating the investments made by them developing products and markets, this submission focusses on the impacts to contractual and consumer rights and protection.

Proposed Changes

We understand that the proposed changes to the TM Act seek to replace section 123 with a new section 122A, which clarifies the circumstances in which the parallel importation of trade marked goods does not infringe a registered trade mark. In doing so, the Amendment Bill implements the principle of "international exhaustion", whereby the rights of a trade mark owner are "exhausted" after the goods have been put on the market anywhere in the world.

In our view, international exhaustion may cause consumers and the owners of registered trade marks significant commercial and public detriment. We summarise these in the following sections.

1. Consumer safety – labelling, design and instructions

Even when not defective, many products have the ability to cause illness, death or injury, if misused. Products made for sale in Australia, may have aspects that are specifically designed or marked utilising Australian terminology, metric units, and suitability of materials. Their instructions are drafted for an Australian audience, utilising terms that are understood by Australians.

Products designated for Australia would refer to metric volumes, weights and sizes. Australians have the understandable expectation that any product specifications, capacities and strengths are stated in metric. When they are not, consumers may not pick up the nuance of differing units.

Where similar goods are made for other markets, utilising the configurations, language, units or instructions suitable for those markets then, when those goods are parallel imported, they may not be suitable for or used suitably by Australians. For example:

(a) Australian kitchen appliances will refer to degrees centigrade. If an Australian consumer used those products on the mistaken assumption that a stated temperature of 400 is centigrade, when in fact it was Fahrenheit, then the failure of that product could be catastrophic if overheated to 400 centigrade.

(b) the strength capacities of children's toys, bikes, vehicle jacks and support stands, furniture, etc are likely to cause injury if pounds or mistaken for kilograms.

(c) a vehicle "jack" in Australia is obviously the device used to lift a vehicle and substantial Australian standards apply in relation to them. However, in America a "jack" is what is known in Australia as a "jockey wheel" which has no Australian mandatory standards. If an American "jack" is imported into Australia, it need not comply with any standards, but Australians buying it may wrongly assume it can perform the job of a vehicle jack. Given the lack of strength and instability of a jockey wheel, the results of this misuse could also be catastrophic.

While we appreciate that the parallel importer bears the legal risk of compliance and of injury, it is the brand owner that, in reality, is hit with the fallout, adverse publicity and potential litigation. The consumer only looks at the brand and considers that it is the brand owner (or local subsidiary or distributor) who has produced and allowed the sale of a product that has caused them injury.

While it has carefully developed, labelled and drafted instructions for the Australian market, the actions of a parallel importer can undo this, to the consumer's detriment.

2. Consumer safety - recalls

A parallel importer may import goods of the same brand as a local distributor or subsidiary, however, those goods may be from different batches, factories or slightly different configuration.

Those parallel imported goods may become the subject of a recall in the originally designated jurisdiction. The overseas manufacturer and the local distributor/importer will have no knowledge that those goods have been imported into Australia, and would not extend the recall to protect Australian consumers.

It is very unlikely that a parallel importer, especially one who opportunistically sells a variety of different goods would know or care what happens post-sale.

Accordingly, Australians could be at risk of injury or death posed by defective goods. Again, if any issues do arise, it is the local distributor or subsidiary that is impacted by it.

3. Fit for purpose

While differences in products intended for different markets may not cause injury or death, they may still fall short of consumer expectations.

Again, it is the reputation of the brand, and the Australian manufacturer, importer or subsidiary that is impacted, not the parallel importer.

4. Supply chain issues

Local authorised distributors and importers, or local manufacturers who export overseas will lose significant control over their domestic distribution channels. The ability of parallel importers to freely import outside of the authorised distribution channels may:

- affect the trade mark owner's existing contractual arrangements with authorised retailers/distributors, especially if they have been granted exclusive ranges;
- cause authorised retailers/distributors to breach their contractual obligations (such as key performance indicators);
- cause a loss of confidence in the integrity of the authorised local wholesaler;
- undermine the investments made into the product development, marketing, pricing and distribution strategies; and

- deter any future investment into the supply and distribution of goods in Australia.

While parallel importers seek to exploit the differences in price at which the goods are sold in different countries, we emphasise that such pricing decisions are already influenced by competitive forces and legitimate commercial and regulatory considerations unique each jurisdiction. These include differences in environmental and safety standards, labour costs and government taxes.

International exhaustion will cause trade mark owners to bear the costs associated with developing a product and entering a geographical market, while diminishing their confidence in the robustness of their supply chain.

Ultimately, this may cause Australia to be perceived to the perception as an unattractive market for higher specification or locally bespoked goods. Australia may become a marketplace with only generic, poor performing products being available.

Solution – "Material Differences" Exception

The above concerns could be managed if a "material difference" exception was introduced into the proposed changes, to prevent parallel importers from relying on the proposed section 122A where there is a material difference between the imported goods and the goods put on the Australian market by the trade mark owner's authorised distribution channels.

This is the case for other leading jurisdictions.

According to a 2015 resolution of the Parallel Imports Committee of the International Trademark Association (**INTA**):

> "*Materiality should not be determined solely according to objective criteria (in particular non-compliance with product safety laws, labelling regulations and other national laws), but also from a consumer's perspective. Anything that could affect the consumer's willingness to purchase a product, or that could create consumer dissatisfaction after the purchase, should be considered material.*"

Accordingly, we believe the following differences should be "material":

- regulatory standards (e.g. safety, environmental, product quality standards etc.);
- consumer warranties;
- the extent of after-sales support;
- product ranges offered exclusively through certain distributors/retailers;
- packaging and labelling applied on the goods; and
- languages (e.g. colloquial term for the goods, instructions, etc.);

Further input

We look forward to any opportunity of discussing our submission with you in further detail. In the interim, if you have any questions please do not hesitate to contact our office.

Yours faithfully

[redacted]

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PAUL KIRTON
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