Copyright: The Last Trade Barrier in a Globalised World?

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Even while many of the world's trading nations enjoy and actively vaunt the advantages of trade liberalisation and globalisation, they remain reluctant to lift restrictions on parallel importation of copyrighted products, continuing to single out copyright owners for affirmative action by allowing them to prevent the parallel importation of products that they have already put (or allowed others to put) on the market in another country. This paper takes up the question whether this form of state intervention creates artificial barriers to free trade in copyrighted goods, discriminates against businesses not reliant on copyrighted products, cuts across antitrust policy and is becoming increasingly unwarranted (if it ever was) as states further assist copyright owners by enacting paracopyright rules allowing them to enforce their cross border market segmentation and price discrimination practices by code as well as contract. It is true that competition law generally does not preclude copyright owners without market power from erecting market segmentation and price discrimination systems by establishing vertical exclusive dealing arrangements or imposing contractual restrictions on the secondary disposition of legitimate copies of their products but this does not mean that similar actions by those with market power should be free from regulatory scrutiny. Parallel importing restrictions distort the inquiry by privileging some forms of price discrimination over others. These themes are explored in the context of the increasingly convergent New Zealand and Australian parallel importation regimes, two economies which provide interesting examples that the sky need not fall for copyright owners when parallel importing restrictions on copyrighted products are lifted.

I. INTRODUCTION

Having opened themselves up to world markets an increasing number of the world's trading nations now enjoy and indeed vaunt the advantages of globalisation. These advantages are generally held to be the promotion of competition, generation of new business opportunities and widened consu mer/user choice. In pursuit of this free trade nirvana they have (albeit often under pressure from bilateral or multilateral trade agreements) abolished or eased state backed protectionist measures such as quotas, tariffs and anti-dumping duties which provided differential treatment for imported and internally produced products and exposed in the process some of their home industries to the spectre, if not always the reality, of economic collapse in the event that their own products are unable to compete with cheaper imports from lower cost economies.[1] It is therefore somewhat perverse that more

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[1] Such a collapse was heralded in New Zealand, the writer's own country, when tariffs began to be reduced or removed on imported clothing and footwear. Indeed noticeable changes occurred in the relative share of these industries in total manufacturing, as measured by employment shares which translated into observable effects by region, ethnic group, gender and household type according to the *Review of Import Tariffs Beyond 2005* commissioned by the Ministry of Economic Development and researched and produced by Infometrics (released under the Freedom of Information Act 1982). However, apart from these industries,

trading nations have not taken one further deregulatory step made possible by the Trade Related Aspects of Intellectual Property Rights Agreement (TRIPS)[2] which (in Articles 6,[3] 8(2)[4] and 40(2)[5] taken together) leaves them plenty of wriggle room to determine for themselves whether or not to continue to shape their copyright and competition regimes in ways that allow owners to prevent the importation of legitimate copies of products that they have already put, or allowed others to put, on the market in another country. The hands off approach came as no surprise to commentators and TRIPS watchers. The question of under what circumstances intellectual property rights are to be treated as "exhausted" after "first sale" and what to do about parallel importing of copyrighted products remain issues of considerable commercial significance to the world's trading nations and continue to be deeply divisive within and between them whenever, and wherever, price differences exist between countries (or trading blocs) in relation to the same products.[6] Some of the issues that arise include questions that can only be answered by asking other questions and to which countries have provided very different answers even in relation to the same kind of intellectual property right.[7]

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there was found little evidence of a consistent relationship between tariff changes and changes in industry employment and the *Review* concluded that the effects of other economic events such as changes in monetary policy and the terms of trade were likely to have outweighed the effects of tariff changes.

[2] The TRIPS Agreement of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) is set out in Annex 1C to the Marrakesh Agreement signed on 15 April 1994. TRIPS, which entered into force with the World Trade Organisation (WTO) replacing GATT on 1 January 1995, stipulates minimum standards relating to the form, scope, duration and enforcement of intellectual property rights for all WTO members.

[3] Art 6 of TRIPS states: "For the purposes of dispute settlement under this Agreement…nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights."

[4] Art 8(2) of TRIPS provides: "Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade …."

[5]This provides that nothing prevents states from specifying in their legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market. It also provides that appropriate action can be taken to restrain abuses of intellectual property on a case-by -case basis.

[6] When these issues were subsequently revisited after TRIPS in relation to copyright, the framers of the *World Intellectual Property Organisation* (WIPO) *Copyright Treaty* (WCT) in 1996 again left Contracting Parties with an unfettered discretion to decide whether or not it lies in their interest to opt for national or international exhaustion of rights. The *WIPO Performers and Phonograms Treaty* (WPPT) also preserves the freedom of Contracting Parties to determine the conditions under which the exclusive right to distribute phonograms and performances recorded in phonograms will be exhausted.

[7]As one commentator has rightly pointed out, in relation to whether or not owners in the import country in question can exercise their exclusive rights to prevent importation, the answer may hinge on whether the owner is the same in both countries or whether there are different owners. He also noted, in asking whether it makes a difference, if the rights are exploited in one or both countries by licensees rather than owners, that a further question

Custom and habit are not useful guides to any debate over whether parallel importing restrictions should be retained or whether owners of copyrighted goods should continue to be favoured over other traders by having the state police their distribution networks for them. Nor should the starting point in this debate be the all too obviously self interested assertion by copyright owners that state affirmative action on their behalf is imperative to restrict the proliferation and distribution of pirated or counterfeit versions of their products. Indeed it cannot be said that copyright owners (particularly those in the audio-visual and software industries) are running short on legal protection since TRIPS and the coming into force, in now almost sixty countries, of the two 1996 World Intellectual Property Organisation (WIPO) Treaties. Indeed far from crumbling, the walls of Fortress Copyright are becoming higher and stronger as more and more countries enact paracopyright provisions to put Articles 11 and 12 of the WIPO Copyright Treaty (WCT) into effect.[8] These two provisions require contracting states to provide adequate legal protection and effective legal remedies against, respectively: circumvention of effective technological protection mechanisms which copyright owners are increasingly developing to a high level of sophistication and using to lock up access to, and copying of, their works in digital form; and knowing and unauthorised removal or interference with rights management information[9] which copyright owners may apply to, or incorporate in, their works, again particularly those works exploited in electronic form. With rights management information protected on, or incorporated in, their copyrighted products and no two copies of a product identical, it is possible for owners to detect, and subsequently cut off supply to, any licensee who has turned rogue by disregarding instructions about where and how goods or services are to be offered for sale.[10] Thus, paracopyright rules (which remain highly controversial and even decried as a form of "mutant digital copyright" by some commentators[11]) now afford a huge increase in practical protection to some copyright owners (particularly giant multi-national conglomerates that are

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arises whether anything turns on the fact that the licensees are the same or different. See W A Rothnie. "Parallel Imports and Copyright" Paper presented at the International Bar Association Conference, Auckland, October 2004, pp 2-3.

[8] See also art 18 *WIPO Performers and Phonograms Treaty* (WPPT).

[9] Rights management information under the WCT means information which identifies the work, the author of the work, the owner of any right in the work, or information about the terms and conditions of use of the work, and any numbers or codes that represent such information.

[10] See T Hays, *Parallel importation Under European Union Law* (Thomson, Sweet & Maxwell, 2004) 368, 372-373 for a useful discussion of the development and potential use of product codes as rights management information under the *European Directive on the Harmonization of Certain Aspects of Intellectual Property and Related Rights in the Information Society*, 2001/29/EC.

[11] L Cradduck and A McCullagh, "Designing Copyright TPM: A Mutant Digital Copyright" (2005) Int'l J L & Info Tech 155, 186.

oligopolies both domestically and internationally[12]) in that they can now use technology to effect market segmentation and price discrimination strategies and counter any parallel trade[13] occurring in another country, irrespective of how that country may treat parallel imports of legitimate copies under its copyright regime.[14] It is no exaggeration to say that, as software is increasingly incorporated into consumer products, that paracopyright rules have the ability to "radically redefine the parameters of a sale of goods or services." [15]

If the relatively recently acquired right of copyright owners to reinforce cross border market segmentation and price discrimination practices by code, as well as by contract, is allowed to ride on the back of state-backed parallel importing restrictions, some copyright owners may have potentially three ways in which they may enforce their bargains as opposed to manufacturers of products (not protected by copyright or any other intellectual property right) who have merely contract to rely upon. It is argued here that state provision of civil and/or criminal sanctions against the parallel importing of copyrighted goods creates artificial barriers to free trade in these goods, discriminates against businesses not reliant on copyrighted products and cuts across competition policy. While not intending here to document every possible forensic turn or legislative development in every jurisdiction, the writer suggests that protection for copyright owners' trade practices is now set generally at least one level too high because those practices are subject to a receding liability under competition law, and this at a time when the scope of the grant for copyright owners has slipped into expansionist gear and is becoming increasingly harmonised globally. Thus, with the balance nowadays so markedly tilted towards protecting the interests of copyright owners, there appears to be little justification for the world's trading nations to continue fighting copyright owners' battles for them against their particular ongoing problem of proliferation and distribution of counterfeit goods with yesterdays' weapons in the form of statutory parallel importing restrictions. It cannot be ignored that parallel importing rules, be they for or against, evolved in a world of conventional trading patterns where physical goods traditionally passed

[12]This is the reality, for the foreseeable future, in relation to the structure of the audio-visual and software industries according to the Australian Intellectual Property and Competition Review Committee, *Review of Intellectual Property Rules Under the Competition Principles Agreement*, Final Report, September 2000, 74.

[13] Hays, n 10 above, 372.

[14] The high water mark for paracopyright protection for copyright owners is to be found in the United States' Digital Millennium Copyright Act 1998 ("DMCA") where liability can result from conduct independent of any act of copyright infringement or of any intent to promote copyright infringement and in the *European Directive on the Harmonization of Certain Aspects of Intellectual Property and Related Rights in the Information Society* (2001/29/EC) which has equally draconian provisions.

[15] B Fitzgerald, "An Over Broad definition of TPM will Defeat the Ability of Australians to Participate as Global Consumers in a WTO World." Submission to the House of Representatives Standing Committee on Legal and Constitutional Affairs- Inquiry into Technological Protection Measure Exceptions," 6 November 2005.

down a chain of exporters to importers to retailers to end users. All of this looks very different in the digital networked environment where the end user is easily placed in direct contact with the exporter and where no physical object need cross a frontier for a work to be enjoyed by that end user. This does not so much render the parallel importing debate otiose as shift it into channels to which the framers and revisers of copyright statutes should now pay more heed.

The paper in part builds upon earlier work[16] in which I examined the reasons why, and the process by which New Zealand and Australia developed and applied various strategies to remove copyright owners' power to block parallel imports and practice international price discrimination against consumers in their countries. The legal reforms[17] in these jurisdictions were, and remain, of general interest because they demonstrate that the sky need not fall following legislative dismantling (or finer tuning) of protections which many copyright owners and their local distributors have long taken for granted. The inconclusiveness of economic analysis of parallel importing is often to due to the absence of empirical "before" and "after" benchmarks against which theories can be tested in the real world. The lifting of parallel importing restrictions in New Zealand and Australian copyright law may go some small way towards providing such benchmarks.

Since this paper invites a reassessment of parallel importing rules, it could be argued that any such assessment, if it is to be conducted at all rationally, should operate evenly across all forms of intellectual property, not just copyright. That, however, has not happened in either New Zealand or Australia. While it is true that reforming copyright law while allowing parallel importing restrictions to apply in trade mark law appears strangely self defeating in a world where many imports are trade marked, this is not to say that every intellectual property right should be governed by the same parallel importing rules. There may be good policy reasons why the rules should differ.[18]

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[16] L Longdin, "Parallel Importing Post TRIPS: Convergence and Divergence in Australia and New Zealand" (2001) 50 ICLQ 54; L Longdin, "Making the Most of Article 6 TRIPS: Parallel Importing in Australia and New Zealand" in H Hansen (Ed), *International Intellectual Property Law and Policy* (Juris, New York, 2001); L Longdin, "Parallel Importation in Australia and New Zealand" paper presented at Fordham Law School, 8th Annual Conference on International Intellectual Property Law and Policy, New York, April 2000.

[17] The question is consciously being begged here that the changes made were, and are, "reforms".

[18] A point forcefully made by the Australian Intellectual Property and Competition Review Committee, *Review of Intellectual Property Rules Under the Competition Principles Agreement*, Final Report, September 2000. See also H Norman, "Parallel imports from Non-EEA Member States: The Vision Remains Unclear" [2004] 4 EIPR 159 who suggests that future development of European Community law may show a divergence in the way in which private arrangements to ban parallel imported products from non member states are treated under competition law depending on what kind of intellectual property right protects those goods.

II. MARKET SEGMENTATION AND PRICE DISCRIMINATION

Since TRIPS and the coming into force of the two WIPO Treaties, the world's trading nations have largely ironed out major disagreement among themselves over the nature and duration of the various exclusive economic rights that attach to copyright. Included in the raft of rights generally bestowed by states on their copyright owners or their licensees is the right to make copies available to the public (the broad right of distribution). In making their works available, copyright holders may set up a differential pricing and market segmentation system under which they exact higher prices from "high value" or more eager, less patient consumers able and willing to pay but lower prices for "low value" consumers who are not willing and/or are unable to pay more. The practice of price discrimination is of course not confined to copyright or other intellectual property right owners. Manufacturers of all manner of tangible products may, and do, engage in it.

There are several mechanisms copyright owners can use to divide the market, charge differential prices for their products and prevent their low value consumers from engaging in arbitrage in the same country by reselling to high value consumers at a higher price. One long standing mechanism is market segmentation by contract, where, first, if copyright owners are in a direct contractual nexus with their consumers, they may supply them only if the latter agree there is to be no resale, sub-licensing or other mode of re-supply to anyone else. Secondly, copyright owners may punish their low value consumers who engage in arbitrage by refusing to deal with them any more. Thirdly and very commonly, right holders may attempt to limit the resale or re-supply of their products to particular geographic territories or to particular classes of users.

Market segmentation and price discrimination practices are also increasingly being set up and enforced by code. Today's digitally networked environment allows owners of DVDs and other electronic information products incorporating copyrighted material to use shrink-wrap, click-wrap and browse-wrap licences not only to set out digital rights management information (DRMI) that identifies them as owners of the works in question but also to "lock down" content[19] in the product or provide terms and conditions that limit access and/or use by a particular licensee to a particular segment of the downstream market. Thus various kinds of digital rights management systems (DRMS[20]) are becoming increasingly sophisticated and deployed to assist right holders to set up and maintain price discrimination between end users. Such private order self help mechanisms allow copyright owners to*:* prevent unauthorised initial access to their products (the best known example, being the region coding system used for DVDs and Sony

[19] The Content Scrambling System (CSS) incorporated into many commercially distributed DVDs can prevent copying of the content onto recordable DVDs using the standard DVD recorders installed in most new personal computers. See M Kramarsky, "Copyright Enforcement in the Internet Age: The Law and Technology of Digital Rights Management" (2001) 11 De Paul-LCA J Art & Ent L 1, 10-11.

[20] The general term DRMS is used here to embrace both technological protection measures (TPMs) and digital rights management information systems (DRMIS).

PlayStation consoles); meter access (pay –as- you- view business models); set out terms and conditions of access or use and ensure access/use only occurs in line with such terms and conditions; register and then verify user identification details; track on-line consumption patterns of protected material by individual users and product tampering and track dissemination of material to a particular computer terminal, if not to the actual user. As foreshadowed above, statutory restrictions on parallel imports allow copyright owners to rely on the coercive power of the state to police their market segmentation and price discrimination practices. While such restrictions will not necessarily confer or enhance market power on owners of copyright, there are some situations in which they can. They can also serve as a base on which technology and paracopyright can build further anti-competitive restrictions. The two processes can complement each other. They are not simply alternatives.

III. THE PARALLEL IMPORTING DEBATE: PLAYERS AND PARAMETERS

Parallel importing or grey market importing occurs when a business organisation in a country obtains products directly from licensed or authorised sources outside that country's borders, by-passing any authorised domestic suppliers or licensees. As, Rothnie aptly describes the process: [21]

> "Some enterprising middleman buys stocks in [a] cheaper foreign country and imports them into [a] dearer domestic country. Hence, the imports may be described as being imported in 'parallel' to the ... distribution network [as set up and authorised by the intellectual property right owner]."

The result of parallel importing copyrighted products through non authorised channels is to place those parallel imported products (which, it needs to be emphasised, are not pirate copies but items lawfully made and put into circulation in a foreign country with the permission of the copyright holder) into competition with the very same goods produced or imported through exclusive channels established by the copyright holder. While the imports are identical (or should be) to the legitimate products they may be differently packaged and may not carry the original manufacturer's warranty.[22]

Typically, state imposed parallel importing restrictions on copyrighted products (which protect copyright owners' authorised channels of distribution and remove for them the threat of arbitrage where net price differences prevail[23]) provide that no person can import even legitimate copies of protected products such as books, sound recordings and films without the consent of the local right holder (not usually granted) where the products are acquired not for private individual use but for commercial resale. In sum, where trading nations allow copyright owners to restrict the free passage of

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[21] W Rothnie, *Parallel Imports* (Sweet & Maxwell, London 1993).

[22] K M Vautier, "The Economics of Parallel Imports" in C Heath and A K Sanders (eds) *Industrial Property in the Bio-Medical Age: Challenges for Asia* (Kluwer Law International, 2003) 185, 186.

[23] Ibid, 187.

grey market products across their external borders, owners are able not only to engage in cross jurisdictional price discrimination but also stagger the release of new products so that smaller markets in developed economies have to wait longer for new products or new models of existing ones.[24]

The debate over parallel importing restrictions is waged between those stakeholders who push the principle of *national exhaustion of rights*[25] and those who support the counter notion of *international exhaustion of rights*.[26] The first group comprises, in the main, copyright owners and their licensees who have joined forces across national boundaries in order to present their time honoured trading advantage (the explicit right to prevent the cross border passage of grey market goods) as both natural and indispensable, instead of the historical accident that it arguably is. They assert that rights are to be exercised territorially and hence that when right holders make their genuine (non pirated) copyrighted works available in a particular country, that sale or disposition exhausts their rights only as far as that particular country is concerned.[27]They insist that authorisation for importation must be obtained for each and every country and right holders should be able to legally prevent goods that have been put into circulation in another country with their consent from being subject to parallel importation.

The second group is largely comprised of importers and would be importers outside existing authorised distribution systems and is intent on dismantling such attempts to erect private law barriers to entry reinforced by both civil and criminal sanctions. Under the principle of international exhaustion, once a legal copy of a product has been put into circulation somewhere in the world with the consent of the right owner, the rights in relation to that copy are exhausted.[28] Hence *any* authorised first making available, wherever it is in the world, exhausts the owner's rights. There also exists the hybrid principle of *regional exhaustion*[29] best exemplified by the European Economic Area (EEA) where a number of countries treat themselves as one economic entity so that re-sale rights are considered exhausted if products are first distributed anywhere within that trading bloc.[30] However, copyright owners in countries

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[24] A van Melle in "Parallel Importing in New Zealand: Historical Origins, Recent Developments and Future Directions" [1999] EIPR 63.

[25] Also dubbed the "territorial exhaustion of rights" or jurisdictionally specific exhaustion.

[26] Known also as the "global exhaustion of rights."

[27] Rothnie, n 21 above, 1-9; D Gervais, *The TRIPS Agreement: Drafting History and Analysis* (Sweet and Maxwell, London 1998) 61 -62.

[28] Ibid.

[29] G Okutan, "Exhaustion of Intellectual Property Rights: A Non Tariff Barrier to International Trade?" Annales de la Faculte de Droit d' Instanbul, XXX No 46, (1996), p 110.

[30] The free movement of goods principles set out in Articles 28-30 of the European Treaty (formerly Articles 30 and 36) take precedence over the *exercise* (but not the *existence)* of intellectual property rights under Article 222 even if some member states impose price controls which foster arbitrage opportunities. All forms of intellectual property are

within the bloc (in Janus fashion) are not prohibited from blocking the parallel importation of copyrighted goods from any non member country outside it.[31]

As more than one commentator has conceded, the arguments by both national and international exhaustion proponents do have points to commend them,[32] albeit not to the same players, and as yet another has observed, they are really limited only by human ingenuity.[33] The upside of adopting a global exhaustion regime is commercial definiteness for subsequent purchasers of goods who can presume they are free to dispose of them in whatever market(s) they wish.[34] On the other hand, however, when a trading nation applies the rule of territorial exhaustion, copyright owners are advantaged because they can game differences in copyright regimes in isolated markets, subject of course to commercial realities such as transportation costs between markets, technical requirements[35] and the increasing incidence of individual consumers making direct purchases over the Internet[36] which could mean that parallel imports are less of a threat than price differences alone might indicate.[37]

Also feeding into the debate are economic insights provided by competition regulators and policy makers, such insights being derived from detailed analyses of the impact of parallel importing restrictions both on particular product markets and on national economies as a whole. For example, in Australia, the Explanatory Memorandum to its last tranche of statutory parallel import amendments[38] referred to economic studies analysing the markets for books, sound recordings and computer software which

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considered exhausted (albeit to varying degrees) by a consensual sale in the EEA. Hay, n 10 above, para 9.03. After *Deutsche Grammophon GmbH v Metro –SB-Grossmärkte, GmbH & Co KG* [1971] ECR 487, para 32, it was clear that both the free movement and the first sale exhaustion principles applied to copyrighted products.

[31] Case 270/80 *Polydor Ltd and RSO Record Shop v Harlequin Record Shops Ltd and Simmons Records Ltd* [1982] 1 CMLR 667, paras 7 and 17.

[32] Hays, n 10 above, 8-9.

[33] Rothnie, n 7 above, 6.

[34]Hays, n 10 above, 6.

[35] For example, in some countries some parallel imported electronic products may have to be adjusted so that their power source corresponds to the current or voltage in the import country

[36] Most countries' copyright regimes do not prohibit parallel importing by individuals using the Internet where the products imported are for personal use, however, factors such as shipping costs (where dependent on item size and weight) and/or the risk of loss or damage in transit mean that not all products may be appropriate for parallel importing.

[37]Hays, n 10 above, 6.

[38] Explanatory memorandum to the Copyright Amendment (Parallel Importation) Bill 2002, General Outline."

demonstrated that the power to block parallel imports of copyrighted goods restricted competition and enabled owners to exercise market control and practise international price discrimination in the import country. The Memorandum noted too that the economic studies had found that over time Australian consumers had paid higher prices as well as thrown up inefficiencies that had resulted from the legal environment as it impeded competition or the threat of competition.

In responding to the debate, trading nations must first recognise and weigh up what they stand to gain and lose in arriving at an appropriate policy to deal with the treatment of parallel imported works in their own copyright regimes. What is unambiguous is that banning the parallel importation of copyrighted products always benefits their owners and manufacturers who are concentrated in a few developed countries.[39] Countries who are net importers of copyrighted goods who adopt a national exhaustion approach are likely to see higher payments to foreign copyright owners.[40] The situation is reversed where a country manufactures and exports the bulk of its copyrighted products.[41]

Whether or not a country chooses to impose a statutory ban on parallel importation can have a major impact not only on the market price of the relevant goods but also on the quantity and variety of goods and services available.[42] A country that opts to go down the national exhaustion or partial exhaustion road and ban or restrict parallel importation in relation to some kinds of copyright works, is likely to find that competition in the supply of any goods or services protected by the ban or restriction is also restricted. As well as leading to higher prices and reduced availability to consumers of the relevant goods, parallel importing bans or restrictions can result in higher input costs in sectors of the economy which rely on these goods as inputs into production.[43] On the other hand, the same higher prices can result in higher returns for the producers of those goods protected by the parallel importation ban or restriction, a situation which may redound positively on incentives to invest and in consequence on current and future availability of goods and

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[39] See Vautier, n 22 above, 187 and K E Maskus, *Intellectual Property Rights in the Global Economy* (Institute for International Economics, Washington DC, 2000) 214.

[40] Although there is a suggested upside here for net importing countries that adoption of a national exhaustion regime is unlikely to reduce the incentives for creating copyright material in domestic markets especially where the parallel imports are of a much higher value than those produced domestically. See Australian Intellectual Property and Competition Review Committee, *Review of Intellectual Property Rules Under the Competition Principles Agreement*, Final Report, 2000.

[41] J S Chard and C Mellor, 'Intellectual Property Rights and Parallel Imports,' (1989) 12 World Economy 69, 76 – 80.

[42] Network Economics Consulting Group, *The Impact of Parallel Imports on New Zealand's Creative Industries* (Final Report to the New Zealand Ministry of Economic Development, October 2004) 4. See http://www.med.govt.nz/buslt/int_prop/creative/negc/index.html.

[43] Ibid, 5.

services to consumers.[44] Whatever exhaustion rules a country elects to adopt and apply are subject to international requirements of non discrimination, national treatment and most favoured nation treatment. Thus, the exhaustion regime must be applied consistently and cannot vary depending on where a parallel imported product comes from.[45]

IV. THE SCOPE OF THE RIGHT OF DISTRIBUTION

As mentioned above, the so called "distribution right", the principle that the owners of copyright in all kinds of work enjoy an exclusive right to issue both the original and any copies of their works to the public has gained wide international acceptance. However, there is no such convergence of views in relation to the scope or boundaries of the distribution right after the first sale or transfer of ownership. In the United Kingdom, for example, it is hard to determine whether a particular act in relation to a particular type of copyright work is, or is not, the subject of a valid distribution right and when precisely in the chain of distribution a copy can be said to have been "issued to the public." On one view, it is issued when it finally ends up in the hands of a member of the public with the consent of the owner. On another view, it is issued (with the right of resale exhausted) when it is transferred from a manufacturer to a wholesaler or from a wholesaler to a retailer. [46] Not surprisingly, different countries take different approaches. [47]

A. The First Sale Doctrine

In the United States the doctrine of first sale dominates the exhaustion debate and refers to the notion that copies of a work (tangible ones at least) must remain legally alienable. The doctrine is codified in section 109(a) of the United States Copyright Act 1976 which allows a purchaser (without the copyright holder's permission) to transfer by selling or giving away a particular, legally acquired copy of a protected work once it has been obtained. Thus, distribution rights, again as far as a particular tangible copy are concerned, are curtailed once the copy is sold. The first sale doctrine was judicially discussed by the United States Supreme Court nearly a century ago in *Bobbs-Merrill v Strauss*[48] in which it was affirmed that, although the then

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[44] Idem.

[45] TRIPS, art 3; Art 5 Berne Convention for the Protection of Literary and Artistic Works 1886; T Cottier, "The WTO System and the Exhaustion of Rights", Conference on the Exhaustion of Intellectual Property Rights and Parallel Importation in World Trade, Geneva, 6-7 November 1889, 2.

[46] See J Phillips and L Bently, Copyright Issues: The Mysteries of Section 18" [1999] EIPR 132. L Bently and B Sherman, Intellectual Property Law (2nd ed, 2004, OUP) 138.

[47] V Korah, "*Consent in Relation to Curbs of Parallel Trade in Europe*" (2002) 25 Fordham Int'l L J 972.

[48]210 US 339, 350-351 (1908). After this case, the statute was amended and under the Copyright Act 1909 Act, the exemption was confined to copies that had been sold (hence the "first sale doctrine). However, in the 1976 Act it was extended to apply to any "owner" of a lawfully made copy or phonorecord regardless whether it was first sold. The doctrine of first sale in the United States does not now include renting and leasing phonorecords (recorded music) and certain types of computer software.

copyright statute protected owners' rights to "multiply and sell" the work on their own terms, the statutory right to sell did not also create a right to limit any resale. Importantly however, the Supreme Court did not hold that a contract or licence imposed on the first sale could *never* create an obligation. In *Bobbs-Merrill v Strauss* itself, it just happened that there was no contract between the owner and the original purchaser, and there was no privity of contract between the owner and any third party.

That the first sale doctrine is not limited by the statutory right to control importation (under certain circumstances) was unanimously decided by the United States Supreme Court in *Quality King Distributors Inc v L'anza Research International Inc*[49] which reversed the Ninth Circuit's decision.[50] L'anza, a Californian manufacturer, had sold its hair care products in the United States exclusively to distributors who agreed to resell within limited geographic areas and only to authorised retailers. In foreign markets L'anza's prices were substantially lower than its domestic prices because there it did not (as it did in the United States) promote sales with extensive advertising and special retailer training. L'anza's United Kingdom distributor arranged for the sale of L'anza products, affixed with copyrighted labels, to a distributor in Malta who then sold the goods to the appellant who then re-imported them into the United States without L'anza's permission and resold them at discounted prices to unauthorised retailers. The appellant relied upon a provision in the copyright statute which seemingly contradicted section 109(a). That provision, section 602(a)[51] states that the importation of a copyright good without the authorisation of the copyright owner is an infringement of the exclusive distribution right. In the result, the Supreme Court read down section 602(a) and held that it did not create an additional exclusive right for the copyright owner but simply put a cross border gloss on the right owner's exclusive right to distribute copies under section 109(a). Interestingly, the Court refused to be drawn into any discussion of policy and found the fact that the United States government had from 1991 entered into

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[49] 118 S Ct 1125 (1998).

[50] In so doing, the Supreme Court affirmed a Third Circuit Court of Appeals decision, *Sebastian International Inc v Consumer Contacts Ltd* 847 F 2d 1093 (3rd Cir 1988) in which the plaintiff had manufactured hair care products in the United States and shipped them displaying copyright-protected labels to an exclusive distributor in South Africa who then shipped them back to the United States for sale. The court found that the importation right was extinguished by the first sale by the United States copyright owner on the basis that that provision does not create a right in addition to the distribution right. Since the latter right is clearly intended to be limited by a first sale, the importation right was also extinguished by that sale. United States law relating to the parallel importation of copyright-protected material is discussed in more detail by T Hays, "The L'anza Decision" [1998] Ent L Rev 313.

[51] Cote J applied this provision in *U2 Home Entertainment Inc v Lai Ying Music and Video Trading Inc* US Dist LEXIS 9853 (SDNY May 2005) to find that the defendant's importation and sale of unauthorised copies of Chinese language films breached the rights of the exclusive United States distributor. In so finding, he noted that: "the importation of copies into the United States of a work manufactured in a foreign country can form the basis for a copyright infringement claim by an exclusive licensed United States distributor without regard to the first sale doctrine."

five bilateral trade agreements[52] intended to protect domestic copyright owners from the unauthorised importation of copies of their works sold in those five countries could shed no light on the proper interpretation of the statute.

Ginsburg J in a short concurring opinion would have confined the impact of the decision to copyrighted goods manufactured in the United States that make a "round trip journey" back to that country after being distributed in a foreign market, a viewpoint which was neither disowned nor endorsed by her colleagues. This leaves the case the most uncertain of authorities as to the appropriate treatment of copyrighted products which are parallel imported into the United States from a foreign market but are created or manufactured outside it. It is thus not clear whether *Quality King* overrides a lower court decision *Columbia Broadcasting Systems Inc v Scorpio Music Distributors Inc*[53] in which the United States owner of copyright in sound recordings obtained an injunction against sales of recordings (lawfully made in the Philippines under license) which had been parallel imported into the United States on the grounds that the first sale doctrine applied only to copies made and sold within the United States because the language of section 109(a) refers to a copy "lawfully made under this title" and that any other interpretation of the first sale doctrine would render the right of importation under section 602 quite meaningless.

That copyright owners are restricted to only the right of first sale of tangible copies of their works may be just as entrenched in other common law copyright regimes even if not as positively asserted in their copyright statutes[54] as, for example, those of the United Kingdom and New Zealand. Both of those jurisdictions[55] provide that the act of putting into circulation copies not previously put into circulation does not include "subsequent distribution or sale of those copies." It is clearly intended that copyright owners cannot control resale and that the distribution right can no longer be exercised after a consensual first commercial circulation. This corresponds with the notion of exhaustion of rights.

[52]The agreements were made with Cambodia, Trinidad and Tobago, Jamaica, Ecuador, and Sri Lanka. At the time of the decision none had been ratified by Senate, but it appears that had they been, this fact would not have carried any more weight with the Court.

[53] 569 F. Supp. 47 (E D Pa. 1983), affirmed 738 F.2d 424 (3d Cir 1984). In *BMG Music v Perez*, 952 F 2d 318 (9th Cir 1991), cert denied, 505 U.S. 1206 (1992), the Ninth Circuit applied *Scorpio Music* and prohibited the defendant record store from importing or selling copyrighted records made outside the United States, distinguishing *Sebastian* (discussed in n 50 above) in which the products in question were manufactured in the United States and sold there by the copyright owner for export.

[54] Indeed it could be inferred from the fact that Art 11 of TRIPS requires signatories to add rental rights to owners' bundle of economic rights in relation to cinematographic works and computer programs that the doctrine of first sale has been thoroughly absorbed into most countries' copyright regime.

[55] Copyright, Designs and Patents Act 1988 (UK), s 18(2); Copyright Act 1994 (NZ), s 9(3)(a).

In the United Kingdom the distribution right[56] has also been framed to implement the principle of Community wide exhaustion in compliance with the *European Directive on the Harmonization of Certain Aspects of Intellectual Property and Related Rights in the Information Society*[57] which contains an express exhaustion clause[58] in relation to the right of distribution (albeit one couched in the negative) which makes it unambiguous that intra Community parallel importing cannot be restricted by member states. Recital 28 of the Directive also makes it plain that it is only in relation to tangible copies placed on the market in the EEA that copyright owners cannot exercise any rights existing under domestic legislation to privately regulate the circulation of their works inside the EEA.

As to whether the distribution right can be used to restrict extra Community parallel imports, the Directive remains silent. On one view, the corollary of Community wide exhaustion is that there is no international exhaustion, meaning that the distribution right can be used to prevent importation of copies of the work into the EEA.[59] On another view, however, the situation is not nearly so clear cut.[60]

B. Non Application of Exhaustion Rules to Copyright Works Delivered Online[61]

Increasingly, genuine copies of some kinds of copyrighted work are ordered over the Internet. Delivery to purchasers may be offline or online. Where purchasers import tangible copies of works those goods are clearly subject to whatever exhaustion principle applies in the country of import. Where, however, copies are supplied to purchasers by being downloaded from a server and then stored onto a computer's hard drive, memory stick or CD-ROM there is in addition to the exercise of the distribution right of the copyright owner an exercise of the right of reproduction by the downloader. The downloader can potentially provide many third parties with a perfect copy of the copyrighted material. For this reason some jurisdictions such as the European

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[56] Copyright, Designs and Patents Act 1988 (UK), s 18(1) provides that the "distribution right" means: (a) the act of putting into circulation in the EEA copies not previously put into circulation in the EEA by or with the consent of the copyright owner; or (b) the act of putting into circulation outside the EEA copies not previously put into circulation in the EEA or elsewhere.

[57]The Directive (2001/29/EC) of the European Parliament and the Council of May 22, 2001 harmonises the rights of reproduction, communication and distribution of copyright-protected works.

[58] Ibid, art 4 states that the right shall not be exhausted *within* the Community in respect of the original or copies of a work except where the first sale of that object is made by the right holder or with his consent.

[59] L Bently and B Sherman, n 46 above, 138.

[60] Rothnie, n 7 above, 18. See also See V Korah, "*Consent in Relation to Curbs of Parallel Trade in Europe*" (2002) 25 Fordham Int'l L J 972.

[61] See TT Tai, "Exhaustion and Online Delivery of Digital Works" [2003] EIPR 207.

Community[62] and the United States[63] treat such transactions as an exercise of the right of communication not the right of distribution and there is no exhaustion in such circumstances.

C. Side Stepping The First Sale Doctrine By Contract

One question that has become increasingly important as more copyright owners rely on the intersection of contract and technology to enforce their bargains is the extent to which they can use contract to side step the first sale doctrine. There has been some judicial skating around the issue, mainly by American courts. In *Softman Products v Adobe*,[64] a case involving a copyright owner's attempt to restrict the future resale of tangible copies of its software, the Court intimated that, had the facts not been as they were in the case, contract could trump the first sale doctrine in copyright. Adobe had sold copies of four of its software products as one tangible package. Softman purchased copies of the package from an authorised distributor and sold the four applications separately for less than Adobe did. The collection had been distributed with an end user licence agreement (EULA) expressly prohibiting unbundling the collection for resale. Adobe was not in any contractual relationship with Softman but still claimed Softman was bound by the EULA. Softman, however, contended that after the first sale of the collection Adobe had no say over what it did with the tangible physical copies as long as it did not copy the master to make copies for sale. It could give them away or sell them separately as indeed it did. In determining whether Adobe's EULA bound Softman, the court noted that the EULA's terms and conditions were not displayed on the outside of the package nor were they inside affixed to any of the application disks. The EULA was only displayed when a user inserted any one of the four disks containing the application into a computer. The program would not install itself on the user's hard drive unless the user agreed to accept the conditions. Thus, since Softman did not install any of the applications before resale, it was found not to be bound by the EULA.

In another more recent and controversial United States decision, *Davidson v Internet Gateway*,[65] the Eighth Circuit Court of Appeals held that contract can trump the fair use exception for users of copyrighted material. The Court found that the defendants were not able to invoke the defence to a claim of copyright infringement because they had contracted out of it by agreeing not to engage in reverse engineering under the terms and conditions contained in

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[62] Recital 29 of the *European Directive on the Harmonization of Certain Aspects of Intellectual Property and Related Rights in the Information Society* (2001/29/EC) declares that no question of exhaustion arises in the case of services and on-line services in particular and that this also applies with regard to a material copy of a work or other subject-matter made by a user of such a service with the consent of the right holder. The same applies to rental and lending of the original and copies of works or other subject-matter which are services by nature.

[63] United States Copyright Office, DMCA, Section 104 Report, August 2001, Section III.B.1 78-105, as cited by Tai, n 61 above.

[64] 171 F Supp 2d 1075 (District Court of California, 2001).

[65] 422 F 3d 680 (8th Cir 2005).

the plaintiff's end user licence agreement. Thus, it appears that if copyright owners can use contract to exclude the traditional broad statutory fair use exception then they can equally well employ it to exclude the just as long standing statutory first sale doctrine.

V. COPYRIGHT AND COMPETITION VALUES

By definition, owners of intellectual property rights are legal, as opposed to economic, monopolists who are given exclusive rights by states in the expectation that they will act to counter competition and "appropriate for themselves the full market value of the protected subject material, but no more than this market value."[66] Since the promise that the grant holder may obtain a full reward from the market is intended not only to provide an incentive for the creation, use and exploitation of intellectual property but also to stimulate competition in a well functioning market economy, competition and intellectual property rights should not normally be seen as being contradictory. Nor should competition be viewed as designed to restrict the scope or operation of intellectual property regimes. Rather it is intended to safeguard their proper functioning[67] and thus competition and intellectual property act as interdependent forces on each other in a push-me-pull-you sort of way. To be borne in mind in this context too is the rule which has now become fundamental cross jurisdictionally: that competition law is intended to protect only the process of competition which underlies economies based on free markets, not any unfortunate competitors who happen to lose out.[68]

For several decades now it has been recognised in jurisdictions with mature competition regimes that while the mere holding of a legal monopoly in an intellectual property right is never, in itself, anti-competitive, some owners' trade practices may be. In general, there are three kinds of situation in which an owner's trade practices are assailable[69] under competition law. First, there is misuse where an owner's use of intellectual property is contrary to the objectives and conditions of its protection. Secondly, an owner may use its existing market power or market power arising from the legal monopoly to extend the protection for the subject matter beyond the scope of the grant or exercise its exclusive rights to further extend or abuse its monopoly power. Thirdly, an owner may enter into agreements or arrangements which restrict use or exploitation of the intellectual property. [70]

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[66]TRIPS and Development Resource Book. Part Three: *Intellectual Property Rights and Competition*, UNCTAD/ICTSD February 2003, 5.

[67]Ibid.

[68] *Brown Shoe Co v US* 370 US 294 (1962); *Queensland Wire Industries Pty Ltd v Broken Hill Pty Ltd* (1989) CLR 1.

[69] Assailable does not necessarily mean unlawful. All of the other requirements of a particular competition or anti-trust regime's rule of reason or *per se* liability rules will also have to be established.

[70] TRIPS and Development Resource Book. Part Three: *Intellectual Property Rights and Competition*, UNCTAD/ICTSD February 2003, 5.

Trade practices which involve the setting up of market segmentation systems and price discrimination mechanisms (whether they involve tangible or electronic products) do not in themselves contravene competition law in any jurisdiction.[71] Thus, all distributors of copyrighted products (or indeed any products) are able to engage in price discrimination or selective supply within or outside a particular country's borders to the extent that the practice does not breach its competition law.[72] Copyright owners without market power are generally not precluded from erecting market segmentation and price discrimination systems by establishing vertical exclusive dealing arrangements or imposing contractual restrictions on the secondary disposition of legitimate copies of their products. Where there is market power, however, these private law limitations on entry[73] set up by copyright owners will receive further strengthening by the state in the form of parallel importing restrictions.) It must be stressed that the restrictions do not create market power just by existing. The copyrighted goods may have non copyright protected substitutes. Conversely though the use of parallel importing restrictions by those with market power (as determined by factual and economic analysis[74]) is perfectly properly subject to regulatory scrutiny.

There is now a considerable body of jurisprudence and commentary on the interface between competition and copyright principles. Under certain circumstances, competition regulators and courts are prepared to strike down some kinds of positive copyright licensing practices. They are also prepared to find, somewhat more reluctantly, that refusals to license copyright-protected works by owners with market power are anti-competitive in certain situations. That there are no clear bright lines as to precisely when copyright will trump competition or vice versa is well exemplified by two United States decisions: *Image Technical Services Inc v Eastman Kodak Co*[75] and *CSU, LLC v Xerox Corp*[76] which both concerned an owner's refusal to sell copyrighted parts to some consumers or users to prevent their on sale or supply to rivals. The Ninth Circuit in *Image Technical Services v Eastman Kodak Co* identified two

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[71] F Hanks, "Intellectual Property and Price Discrimination: A Challenge for Australian Competition Law" (2004) 16 Information Economics and Policy Paper 113.

[72] For example, in Australia where a practice involving market division and price discrimination "lessens competition" it could fall foul of ss 45 and 47 of the Trade Practices Act 1974 (Cth) or where the copyright owner has market power it could amount to a misuse of market power under s 46. Similarly, in New Zealand such a practice is assailable under ss 27 and 36 of the Commerce Act 1986.

[73] That barriers to entry can be behavioural or strategic (as well as structural) has now been judicially recognised. In *Boral Besser Masonry Ltd v ACCCC* (2003) 195 ALR 609, at 295, McHugh J in the High Court of Australia observed that strategic barriers may be created by the practices and policies of incumbent firms.

[74] Assessment of whether a copyright owner has market power in the relevant market would typically require a consideration of the possibilities of barriers to entry into that market and the possibilities of substitution for the copyrighted product.

[75]125 F 3d 1195 (9th Cir 1997).

[76] 203 F 3d 1322 (Fed Cir 2000).

competing principles: First, that neither patent nor copyright holders are immune from antitrust liability, and, secondly, that patent and copyright holders may refuse to sell or license protected work.[77] In both cases, the right holders (Kodak and Xerox) claimed a valid business justification existed for their refusal to deal with potential competitors, *viz*, the protection of their intellectual property rights. While the courts in both *Image Technical Services* and *Xerox* agreed with previous decisions supporting the valid business justification as basis for refusing to deal,[78] the two cases diverged from each other widely in drawing the boundary lines between intellectual property rights and antitrust law. In *Image Technical Services v Eastman Kodak*, Kodak failed in its attempt to hoist the valid business justification flag by way of explaining why it had ceased to deal with independent service organizations (ISOs) and supply parts (including parts not protected by any intellectual property right). In finding Kodak's actions anti-competitive in a secondary aftermarket for Kodak equipment repair services and parts, the Ninth Circuit looked to the "commercial realities" of the situation. In contrast, in *Xerox* the United States Court of Appeals, Federal Circuit declined to follow *Image Technical Services*, did not examine any subjective reasons Xerox might have for refusing to grant access to its intellectual property and, in disallowing an action by the ISOs against Xerox for refusing to supply patented parts and copyrighted manuals and software, considerably narrowed the circumstances under which a copyright or patent holder can exclude others from using its intellectual property. [79]

European competition regulators and courts have been prepared to find refusals to license by copyright owners with market power anti-competitive under "exceptional circumstances" since *Radio Telefis Eirean and Independent Television Publications v EC Commission and Magill* (*Magill*).[80] In that case three television companies had attempted to prevent the development of a new product (a comprehensive weekly programme guide which they had no intention of developing themselves and which would have competed with their own single channel guides) by refusing to allow the would be developer to use their copyright-protected programme information. The refusal was found by the European Court of Justice to constitue an abuse of dominant market position under Article 82 (then Article 86) of the EC Treaty. Subsequently, in *Micro Leader Business v Commission*,[81] the Court of First Instance rebuked the European Commission for not even inquiring into whether Microsoft's use of its copyright to prevent parallel imports of its software products into France from outside the EEA might constitute breach

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[77]125 F 3d 1195 (9th Cir 1997) at 1215.

[78] Following *Data General Corporation v Grumman Systems Support Corporation,* 26 F 3d 1147 (1st Cir, 1994).

[79] See D A J Goldfine and K M Vorrasi, "The Fall of the Kodak Aftermarket Doctrine: Dying a Slow Death in the Lower Courts" (2004-2005) 72 Antitrust L J 209.

[80] (1995) 4 C M L R 718.

[81] Case T-198/98; [1999] ECR II-3989.

of a dominant market position in line with *Magill*. Micro Leader, a wholesaler of computer and office equipment, had imported Microsoft products from Canada into France and made them available at prices lower than those authorised by Microsoft for France. Microsoft then took measures to prevent the distribution of its products outside Canada, as a result of which Micro Leader lost lucrative orders. Micro Leader complained to the Commission *inter alia* that Microsoft's behaviour constituted an abuse of dominance. The Commission had not dismissed the possibility that Microsoft was dominant, but had found it was not necessary to decide on the Art 82 issue because Microsoft's behaviour was permitted under the *Directive on the Legal Protection of Computer Programs*[82] which states that the first sale of a copy of a computer program in the Community by the copyright owner, or with its consent, exhausts the distribution right of that copy in the Community. The Commission had reasoned, therefore, that since the purchase of a copy in Canada did not exhaust the right, Microsoft, by preventing the importation of the Canadian software into France was merely protecting its copyright.

More recently, however, the European Court of Justice in *IMS Health GmbH v NDC Health GmbH*,[83] in the course of attempting to clarify precisely under what circumstances a refusal to licence a copyright protected work by an owner with market power might be found anti-competive, unfortunately ended up by introducing even more uncertainty into the *Magill* test when it found that a refusal to allow access to a so called brick system for the presentation of regional pharmaceutical prescription and sales data (in which copyright allegedly subsisted) might, subject to some highly restrictive conditions,[84] be attacked as abuse of a dominant position under Article 82 EC.

A refusal to supply copyrighted works was found to be anti-competitive even where the owner was found not to have a substantial degree of market power by the Full Federal Court of Australia in *ACCC v Universal Music Australia Pty Ltd*.[85] While the Court reversed the finding at first instance by Hill J that Universal's and Warner's refusal to supply copyrighted sound recordings to retailers if they engaged in parallel importing such products was in breach of

[82] Council Directive 91/250/EEC of 14 May 1991, OJ L 122.

[83] [2004] 4 CMLR 28.

[84]These were intended to be applied by the German Court to which the matter was remitted for a final decision. The conditions laid down and clearly meant to be cumulatively applied were that: (i) A copyright license is essential for carrying on the would-be licensee's business. (ii) That business is in a separate (secondary) market ..from the (primary) market in which the copyrighted material might be sold. (One or both markets may remain hypothetical until the license issue is resolved.) (iii) The refusal prevents the emergence of a new product that the copyright owner does not offer and for which there is a potential consumer demand. (iv) There is no "objective" (that is competitively neutral) business justification for the refusal. (v) The refusal forecloses all competition in the secondary market. Some of the steps , however, carry their own internal ambiguities, see I Eagles, Copyright and Competition Collide" [2005] Cambridge Law Journal 564. See also E Derclaye, "The *IMS Health* Decision and the Reconciliation of Copyright and Competition" (2004) 29 EIPR 687.

[85] (2001) 115 FCR 442.

the Australian equivalent [86]of Article 82 EC (for want of the requisite market power) it, nevertheless, upheld Hill J's finding that the practice amounted to exclusive dealing for the purpose of substantially lessening competition, a breach of section 47 of the Trade Practices Act 1974 (Cth). As detailed below, Australia had removed a statutory prohibition against the parallel importation into Australia of 'non-infringing' CDs from other countries in 1998. Shortly after the ban was lifted, Universal and Warner ceased to supply certain retailers who imported CDs from overseas and made it known they might not supply any other retailers who behaved likewise. Pertinent here is the observation by Hill J that this was a case "where the ability of the major record companies to prevent retailers from selling imported CDs [operated] as a barrier to entry into the market of sellers of imported Warner and Universal titles."

Copyright owners' market segmentation and price discrimination practices effected by code may also be subject to an indirect form of competition scrutiny under copyright legislation itself. Such a challenge may occur if and when a copyright owner seeks to enforce its technological protection measures under paracopyright rules. For example, in *Stevens v Kabushiki Kaisha Sony Computer Entertainment,*[87] a six strong High Court of Australia unanimously supported increased competition and the interests of computer games aficionados over Sony's attempts to control the distribution of its products in various regions of the world and engage in price discrimination across borders. The Australian High Court decided against upholding the unanimous finding of the Full Federal Court that the copyright statute[88] prohibited the appellant Stevens from selling or distributing a device (a "mod chip") to modify one of the world's most popular games consoles the Sony PlayStation 2 to allow owners in Australia to play on their lawfully acquired consoles non pirated games which they had lawfully acquired in, or parallel imported from, other regions of the world such as Japan or the United States.[89] In contrast, no similar competition concerns were raised by Jacob J in *Sony Entertainment v Paul Owen*[90] (a case based on largely similar facts) in which the copyright owner successfully invoked the paracopyright provisions in the Copyright, Designs and Patents Act 1988 (UK) to counteract the bypassing of Sony's circumvention device in PlayStation2 by means of the "Messiah" chip imported from Russia.

More recently United States courts (also relying on strict interpretation of paracopyright provisions rather than any statutory or judicial competition

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[86] Trade Practices Act 1974 (Cth), s 45.

[87] [2005] HCA 28.

[88] Copyright Act 1968 (Cth), s 116A.

[89]The chip bypassed code in the Sony games console that had been designed to prevent unauthorised copies as well as out of zone games from being played on it (even if they were legitimate copies).

[90][2002] EWHC 45.

rules) have thwarted plaintiffs' attempts to gain a market advantage using technological protection measures in relation to products or services (or parts thereof) that are not copyright protected.[91]

Although competition authorities certainly can, and do act on occasion, to safeguard the proper functioning of the copyright system, many regulators and courts remain confined by national laws that were never framed with global markets in mind.[92] (It is true, of course, that copyright right laws are national too but the long entrenched and TRIPS backed principle of national treatment means that deep-pocketed multinationals have no problem enforcing their rights in foreign jurisdictions.) Thus, many competition regulators and courts must work within the confines of national laws that were framed in a much more nationalistic trading environment and which provide only narrow parameters within which the relevant market must be found. (Definition of the relevant market(s) affected by a challenged trade practice being, of course, fundamental in all cases of alleged anti-competitive behaviour.) Thus both the Australian and New Zealand competition statutes limit their effect to markets within their respective countries' geographic borders under their equivalents of Article 81 EC.[93] Also, although both statutes expressly provide that the effect of "competition" on a market shall include reference to imports, those imports cannot be parallel imports because both statutes explicitly provide[94] that if imports are to be considered as a factor, they must be supplied by persons who are non resident or not carrying on a business in the country. In other jurisdictions, competition laws may be either silent as to the geographic limits of the relevant market as in the United States[95] or else address the matter but leave it somewhat vague or uncertain as

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[91] While the United State Court of Appeals for the Sixth Circuit in *Lexmark Inc v Static Control Components Inc* 387 F 3d 522 (2004) agreed that the provisions in the Digital Millennium Copyright Act 1998 prohibiting anti-circumvention of technological protection mechanisms were not intended to be used ("offensively" in the words of Merritt J) to create a monopoly in secondary markets for parts or components of products that consumers have already purchased, this finding was not made with any express reference by any of the judges to United States antitrust provisions. In the case itself, the appellate Court lifted an injunction Lexmark had obtained from the District Court to prevent its competitors in the market for ink cartridges from circumventing a computer program it had incorporated into its computer printers to prevent them from interoperating with cheaper and just as efficient non Lexmark ink cartridges. See also *The Chamberlain Group Inc v Skylink Technologies Inc* 381 F 3d 1178 (Fed Cir 2004).

[92] F Hanks, "Intellectual Property and Price Discrimination: A Challenge for Australian Competition Law" (2004) 16 Information Economics and Policy Paper, para 3.2. As Hanks also notes, the concerns of national competition authorities usually rest with their own domestic economies and do not extend to the efficient allocation of the world's resources (ibid, para 3.0).

[93] Both, however, encompass the concept of a Trans-Tasman (Australian/ New Zealnd) market for the puposes of their equivalent of Article 82 EC.

[94] Commerce Act 1986, s 3(3); Trade Practices Act 1974 (Cth), s 4(1).

[95] While the Sherman Act is said to have extra-territorial effect insofar as claims may be made relating to trade practices perpetrated outside its borders, this is not the same thing as a court finding the relevant geographic market can encompass any number of countries.

in the European Union.[96] Another reason why copyright owners' imposition of parallel importing restrictions may evade competition scrutiny is that most competition cases are investigated and instigated by publicly funded competition authorities not by private parties (although it is often a private party who will first lay a complaint). Even when private claims can be brought in many jurisdictions, private parties usually wait to piggy back their claims on the evidence uncovered by the relevant competition authority.

IV. DISMANTLING RESTRICTIONS: ANY LESSONS FROM AUSTRALIA AND NEW ZEALAND?

The New Zealand government's decision in 1998 to strike down in a single legislative blow all existing parallel importing restrictions across all kinds of copyrighted products came with minimal public warning and without debate. However, after heavy lobbying by overseas entertainment and communications industry giants and local copyright exclusive licensees, it has subsequently backtracked and reinstated new restrictions governing some kinds of copyrighted products. Australia, on the other hand, has carried out its staggered changes in a carefully contrived fashion after wide consultation with all interested parties and publicly funded research. Thus, such commonalities as presently exist between the two parallel importing regimes have been arrived at fortuitously rather than intentionally despite the fact that the two countries are linked into a common free trade area[97]). Very different legislative methodology and economic and political catalysts are at play in the two countries so that the process of change has occurred unevenly across them. Significant differences also exist between the Australian and New Zealand copyright regimes. Indeed these differences have increased since Australia and United States signed a Free Trade Agreement (AUSFTA) in 2004. As required under the terms of AUSFTA, Australia has already effected legislative changes to its copyright regime to more closely align it with that of the United States[98] rather than its much closer trans-Tasman neighbour. Nevertheless, both Australia and New Zealand (like the United States,

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[96] The European Commission Notice on the Definition of the Relevant Market for Purposes of Community Competition Law [1997] O J C372/5; [1998] 4 CMLR 177 was intended to clarify the procedure for assessing the market in competition cases but in fact is silent as to the methodology to be used. The relevant market, however, is expressly supposed to have two dimensions: a product market and a geographic market. Judicially, the geographic factor has been defined as "the territory in which all traders operate in the same or sufficiently homogeneous conditions of competition in so far as concerns, specifically, the relevant products" See *Tetra Pak International SA v EC Commission* [1994] E C R II-755.

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[97]The bilateral *Australia New Zealand Closer Economic Relations Free Trade Agreement* signed in 1983 (CER) required that initiatives taken on trade matters by either Australia or New Zealand are not to impede trade between the two countries. 1 July 1990 saw in a new free trading regime between Australia and New Zealand when licensing and tariff barriers were dismantled.

[98] Most of the required changes in copyright law (such as the extension of the copyright term of protection) were implemented by the United States Free Trade Agreement Act Implementation Act 2004 (Cth) and came into effect on 1 January 2005. Australia has also undertaken to effect United States style paracopyright rules by 1 January 2007.

members of the European Union and other trading nations) continue to provide in their national competition legislation for regulators and litigious competitors to use that legislation to challenge the trade practices of copyright and other intellectual property right owners

A. Australia: A Saga of Staggered Deregulation

Australia has opted to gradually remove parallel importing restrictions from its copyright law over several years with one change of government during the period. Restrictions have been lifted market by market or on the basis that certain copyrighted products possess certain idiosyncratic features. Each step in the staggered deregulatory process has been preceded by comprehensive inquiry (in some cases more than one) by an established regulatory agency or policy advisory body with plenty of opportunity for interested parties to make submissions.

The first assault on the existing parallel importing restrictions (which had previously covered all kinds of copyrighted works) was directed at the book market after it was found that that Australians paid more[99] for books and had a more restricted choice of titles,[100] a fact which could only partly be attributed to its market size or to what one Australian historian dubbed “the tyranny of distance.”[101] The Australian Parliament first addressed the unavailability (but not the price[102]) issue by amending the copyright statute to relax restrictions on the parallel importation of foreign books legitimately manufactured in their country of origin.[103] Strong resistance on the part of the local publishing industry however, led to a split market regime and copyright amendments in 1998 perpetuated this state of affairs. The door to the market for books first published outside Australia now stands wide open while that for books first published in Australia remains only slightly ajar. Both markets allow for the parallel importation of “non infringing books”[104] and curiously in

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[99] More, that is, compared to residents of the United Kingdom, the United States and Canada and New Zealand.

[100] *Price Surveillance Authority Inquiry into Book Prices – Final Report* (Canberra, December 1989).

[101] G Blainey in his eponymous work *The Tyranny of Distance*, Macmillan, Melbourne, 1968.

[102] In deciding to focus on availability only the legislature seems to have relied on an earlier report by the Copyright Law Review Committee (CLRC) into parallel importing restrictions generally. See *CLRC Report into the Importation Provisions in the Copyright Act 1968* (Canberra, September 1988).

[103] See Copyright Amendment Act 1991 (Cth) inserting new ss 44A and 122A into the parent legislation, the Copyright Act 1968. The provisions were subsequently replaced by the Copyright Amendment Act 1998 (No 104), s 3 and sch 10, item 1.

[104] As defined in s 10(1) of the Copyright Act 1968 (Cth) as inserted by s. 2 of the Copyright Amendment Act 1991 (No 174) which came into force on 23 December 1991. A non infringing book is a book made otherwise than under a compulsory licence, without infringing the copyright subsisting in any “work” or “published edition’ in a country specified in the [Copyright] Regulations, s 10(1).

both markets, books are defined only by what they are not.[105] Overseas books (that is books first published[106] outside Australia) and not published in Australia within thirty days of first publication elsewhere are classed as "non infringing books" and can be imported with impunity without the licence of the copyright owner.[107] In the case of books first published inside Australia,[108] copyright owners retain full rights to control parallel importation for commercial purposes[109] with two narrow exceptions, provided they keep up supply in response to consumer demand.[110]

The next stage was directed at preventing the artful use by traders of copyright in labels and some forms of packaging (protected as literary and artistic works) to restrict the passage of goods thus labelled or packaged across national frontiers,[111] even though the shape and appearance of the goods themselves (such as liquor, cosmetics, shoes and clothing) were seldom protected by copyright.[112] To prevent copyright in packaging and labelling being used as a back door means of protecting exclusive distribution arrangements, a new concept of a "non infringing accessory"[113] was inserted[114] into the copyright statute which extended it to mean one of more of the following: "labels affixed to, displayed on or incorporated in imported articles; packaging or containers enclosing such articles ...written instructions, warranties and manuals (provided these are not software manuals sold with

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[105] Under s 44A(9) of the Copyright Act 1968 (Cth), the term "book" does not include: (a) a book whose main content is one or more musical works with or without any related literary, dramatic or artistic work; or (b) a manual sold with computer software for use in connection with software; or (c) a periodical publication.

[106] Under s 29(1)(a) of the Copyright Act 1968 books are deemed published when supplied to the public by sale or otherwise. S 29(5) provides that publication in Australia or in any country shall not be treated as other than first publication by reason only of an earlier publication elsewhere if the two publications took place not more than thirty days apart.

[107] Copyright Act 1968 (Cth), ss 44A (1), (6) and (9). Overseas "published editions" are covered by counterpart provisions in ss 112A (1) (6) and (9).

[108] The Copyright Act 1968 (Cth) extends this concept to those books published in Australia if within thirty days of their first publication elsewhere.

[109] Such control can relate to both hard copy and paperback versions of non infringing books.

[110] The narrow exemptions and tight criteria to determine whether or not supply is being maintained are set out in ss 44A and 112A of the Copyright Act 1968 (Cth).

[111] *Bailey & Co v Boccacio Pty Ltd* (1984-1986) 6 I.P.R. 279. Attempts in that case to use trademark law to achieve the same result were not successful.

[112] In contrast to the position in New Zealand, pseudo design protection via copyright law is now almost impossible to obtain in Australia.

[113] See Copyright Act 1968 (Cth), s 10(1) for definitions of "accessory" and "non infringing accessory."

[114] By the Copyright Amendment Act (No 1) 1998 (Cth). The amendments came into effect 1 February 2000.

software in connection with the use of that product) and instructional sound recordings or films reasonably related to the performance or use of imported articles." Now, provided that the copyright owner in the country of manufacture approves the use of copyright material in or on the accessory, its importation into Australia no longer infringes.

By far the most controversial of the Australian reforms was the decision in 1998 to allow parallel importation of sound recordings subject only to certain minimal limitations. Unlike the book amendments, liberalisation did not in this case depend on prior availability through an authorised distributor in Australia. Again, the impetus for the amendment was the finding that Australian sound recording prices were higher than in other countries including the United Kingdom, the United States, Canada and New Zealand.[115] In response to strong protestations by the music industry that parallel importation would give customs officers an uphill task distinguishing genuine and pirated works, the medicine was sweetened, if not fully disguised, by the provision of substantial penalties for civil and criminal infringement.[116] The legislative mechanisms by which the sound recording amendments were introduced were highly convoluted even by the hair splitting tradition of legislative drafting in Australia.[117] Their most significant aspect was that for the first time parallel importing was permitted outright (albeit only on a narrow front) rather than merely regulated. [118]

The most recent stage in the deregulatory process has targeted markets for software. After research by the Australian Competition and Consumer Commission and a governmental study[119] that showed that consumers were paying higher prices for software as a result of the exercise of copyright owners' market power (a study which was strongly contested by them) the Copyright Amendment (Parallel Imports) Act 2003 finally emerged from the

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[115] *Price Surveillance Authority Inquiry into Book Prices – Final Report* (Canberra, December 1989).

[116] Under the Copyright Act 1968 (Cth), s 132(6A) persons convicted of the offence of parallel importation may be fined 550 penalty units (or five times that sum in the case of a corporate) and face imprisonment for up to five years.

[117] For a detailed account of their structure and effect, see I Park, "The Cacophony of Parallel Importation" (1999) 10 AIPR 91, 97 and van Melle, n 24 above, 76.

[118] In September 2000, a majority of the members of the Australian Intellectual Property and Competition Review Committee (a committee appointed by the Australian government to review the country's intellectual property laws in light of competition policy) recommended in its *Final Report* (September 2000) that restrictions on parallel importation in the copyright legislation be repealed both as between types of copyright material and as between the industries and activities that rely on copyright protection and those that do not. It recommended that the government lift all parallel import restrictions on copyright material. If adopted, this would have opened the door to the parallel importation of a wide range of copyright materials, and in particular films and DVDs. However, the government did not accept this recommendation and has retained restrictions on the parallel importation of other categories of copyright material.

[119] Explanatory memorandum to the Copyright Amendment (Parallel Importation) Bill 2002.

procedural maze of a bicameral Federal legislature after about four years of strenuous debate. The Act thwarts right holders' ploys to block the parallel importation for commercial distribution of legitimate copies of computer programs and games. The Act also lifts restrictions on the importation of "copies of electronic literary or music items" and "enhanced CDs" (multimedia devices which are sound recordings incorporating other copyright material such as video clips). The concept of an "enhanced CD" had to be created to plug a loophole in the 1998 copyright provisions relating to sound recordings which record companies had been able to exploit by artificially enhancing compact discs with film clips which most Australian consumers did not have the equipment or knowhow to view. (The record companies and their Australian distributors had threatened parallel importers with infringement proceedings alleging that the enhanced compact discs were composite articles lying outside the sound recording exemption.) Thus, the Copyright Amendment (Parallel Imports) Act 2003 deems films and other works to be mere accessories if they are included in an article containing a sound recording and a likely use of that article is playing it on a device which "as ordinarily used" is not capable, whether with or without the aid of some other device of causing visual images to be seen.

The Copyright Amendment (Parallel Imports) Act 2003, however, does not lift restrictions on the parallel importation of feature films made for public exhibition, broadcast or sale or rental to the public. It also threw in, as a sop to copyright owners, a new requirement that defendants who rely on a parallel importation provision to import software or other copyrighted products must prove that they are legitimate copies or else it will be presumed they are not.[120]

While the Copyright Amendment (Parallel Imports) Act 2003 has closed the loophole in the 1998 sound recording amendments, it does highlight an inherent flaw in Australia's incremental approach. Categorisation and picking off markets or products, one by one, for deregulation invites evasion and evasion is particularly easy where definitions are so technology dependent.

Australia continues to ban the parallel importation of all other categories of copyright material.[121] Traders cannot parallel import films or DVDs, a state of affairs which has apparently left Australians paying fifty percent more for Sony PlayStation games than user/consumers in the United States.[122] Nor can they parallel import an article which displays or incorporates a copyright work in circumstances where that copyright work cannot be viewed as merely an "accessory" to the article in question. Thus, products such as fabrics, textiles or ceramics embodying a copyrighted pattern or some other artistic work may not be parallel imported.

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[120] Copyright Act 1968 (Cth), s 130A. The placing of a copyright notice on the goods or a foreign certificate of registration is *prima facie* evidence of subsistence and ownership.

[121] Copyright Act 1968 (CTH) ss 37 and 102.

[122] See D Richardson, Intellectual Property Rights and the Australia-US Free Trade Agreement", Parliamentary Library Research Paper No 14, 2003-4, at 16-17.

As mentioned above, the Australian and United States Free Trade Agreement (AUSFTA) requires Australia to implement before 1 January 2007 laws that will make it easier for suppliers of copyright material to enforce region coding systems and market segregation policies. Australia must impose criminal penalties in relation to the manufacture, provision and use of devices or services for the circumvention of "effective technological measures" designed to control access to copyright works. While Australia's Copyright Act presently contains provisions restricting the making and distribution of devices to circumvent copyright protection, the AUSFTA requirements go much further than the existing law. Indeed it is rather ironic, as one Australian commentator [123]has observed:

> "As Australia has moved to open the flow of goods and services across borders in line with free trade principles through the removal of the restrictions on parallel importation of copyright material in some circumstances, it seems odd that ....[t]he barrier that the law has taken away, AUFTA is threatening to reintroduce through technological regulation."....The lifting of parallel importing restrictions were meant to liberate {Australia] from the imperialism that British and US publishers have forced on [it] for many generations. Why would [Australia] entertain the return to such imperialism in a digital environment that allows Australian consumers the possibility of access to a global distribution market for the very first time? .... Why should technology be allowed to stultify this and force [Australia] back into a situation where [Australian consumers] buy the Australian edition at a marked up price?"

That the same issue deeply troubled the Australian House of Representatives Standing Committee on Legal and Constitutional Affairs (LACA) was apparent in February 2006 when it released a *Review of Technological Protection Measure Exceptions* after holding public hearings and considering 64 submissions from interested individuals and organisations on the appropriate scope of the forthcoming Australian definition of an "effective technological measure." The *Review* dealt with the region coding of DVDs at some length and found that it was not an infringement of copyright to play discs from other regions and that Australians could import both foreign DVDs and a foreign DVD player to watch them on although this was not a reasonable option for them. The Committee thus recommended that region coding TPMs be specifically excluded from the definition of "effective technological measure"[124]since "it is ludicrous to envisage a situation where an individual's only option to use legally acquired genuine non zone-4 DVDs will be to purchase a DVD player tuned to each of the other regions, rather than have the ability to modify a DVD player to access all regions."

B. New Zealand's Precipitate Leap

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[123] B Fitzgerald, "The Australian Sony Play Station Case: How Far Will Anti-Circumvention Law Reach in the Name of DRM?" Paper presented at the Conference on Digital Rights Management: technology Issues, Challenges and Systems (DRMTICS), Sydney, November 2005.

[124] LACA *Review Of Technological Protection Measures Exceptions*, 48.

New Zealand's lifted its statutory parallel importing restrictions literally overnight. Without prior public consultation, let alone any debate, it flung its markets open to all kinds of parallel imported (legitimate) copyrighted products. Indeed the unheralded reform was introduced as a mere subtext to the otherwise detailed legislation implementing the government's 1998 annual budget. Cabinet and other papers subsequently obtained under official information legislation revealed that while most New Zealanders were completely unaware of the existence even of the pending legislation, let alone its details, the New Zealand government had told the United States (who stood to lose most when exclusive franchises were lost) what would happen a little in advance of the public announcement on Budget night.[125] The only significant *travaux preparatoire* for this seemingly precipitate action were two studies commissioned from a private group of economists, only the second of which unequivocally came down in favour of lifting the ban on parallel importing across the board for all kinds of work. The real explanation for the sudden overnight lifting of the ban lies in an unlikely convergence between economic theory, the availability in New Zealand of dual copyright/design protection for industrially applied works and an unusually active trade in cheap second hand functional goods from overseas.

1. The Economic Analysis

In 1994 the New Zealand government commissioned a report into the effect of parallel importing restrictions on net economic welfare from a private think tank, the New Zealand Institute of Economic Research ("NZIER"). After investigating three quite distinct markets (computer software, spare parts for cars and books) the NZIER concluded that the empirical evidence was not only inconclusive but that it would probably always remain so, however great the resources expended on gathering and assessing it and that they could therefore make no definitive recommendation.[126] In a second, much more detailed, report in 1998[127] the NZIER overcame its previous empirical hesitations.[128] As well as embodying a survey of the literature relating to parallel importing in general the 1998 report also contained, like its predecessor, a detailed welfare analysis of the likely effect of allowing parallel imports into particular markets. This time the markets it selected for scrutiny were motor vehicles (not just spare parts for them), compact discs and books. Although it once again adopted a sectoral approach, the NZIER nevertheless felt able to conclude that the sectors it had studied probably reflected wider trends in the economy as a whole and that parallel importing restrictions on

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125 J Gardiner, "Shelving Hopes for Bargains", *The Weekend Herald*, 1-2 August 1998, Section A, 15.

126 *Study of Parallel Importing* prepared for the Ministry of Commerce and the Department of Justice (1994) 34.

127 *Parallel Importing, A Theoretical and Empirical Investigation,* Report to the Ministry of Commerce, prepared by the New Zealand Institute of Economic Research (1998).

128 This was partly because of the intervening work done by the Price Surveillance Authority in Australia, see n 100 above.

copyright should be removed across the board. Among the more specific findings in the 1998 NZIER report were:

(a) While the international arbitrage allowed by parallel importing could reduce the returns to the innovator that was unlikely to undermine the global incentives to innovate (and perhaps more importantly, the incentive to invest in innovation) given that New Zealand was such a small part of the world market for each of the three products surveyed[129].

(b) There was no evidence in the markets surveyed that the loss of exclusive importing rights would deter distributors either from bringing new goods to New Zealand or deter their timely release.[130]

(c) Far from deterring distributors from investing in repair facilities and after sales service, evidence from the motor vehicle industry (where the effect parallel imports were having was measurable but under threat, see below, and where previous restrictions on imports provided a useful benchmark) suggested that post sales service was improved by competition[131] and that it was up to consumers to balance price and service, not the legal system.[132] They did concede that this depended on whether consumers were sufficiently aware of the source of the product to shoot the right messenger if there were variations between quality between differently sourced copyright goods.

(d) Prices would fall and consumer choice would increase[133] except in those few cases where distributors exercised market power independently of the parallel importing restrictions.[134]

(e) Although blocking counterfeit imports is assisted by the existence of parallel importing restrictions, this is not the primary purpose of such restrictions and that (by inference) there may be ways of achieving that result at a lower cost to the economy as a whole that of imposing a blanket ban on parallel imports.[135]

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[129] Ibid, 59-60.

[130] Ibid, 56.

[131] Idem.

[132] Ibid, 39, 60.The point is not without its resonance in trademark law.

[133] In the case of CDs, the Report's authors thought that consumer effects might balance each other out. Ibid, 58.

[134] The NZIER thought it unlikely that distributors possessing such power would not already be using it to charge higher prices in these particular cases rather than cross subsidise across products under cover of parallel importing restrictions. The conclusion was deductive rather than empirical and appears only in the Executive Summary. Idem.

[135]Ibid, 60. The NZIER also thought that even pirated imports would have little impact on investment in innovation overseas given the size of the New Zealand market. *Idem*, 58. In the

(f) While lifting parallel importing restrictions might shift the balance of power between large discounters (who could extract concessions from copyright owners) and smaller retailers (who usually could not) maintaining such a balance was not a proper concern of copyright law.[136]

(g) In the case of so called cultural products (such as books and compact discs) the existence of a cross subsidy from imports to local works was not demonstrated on a widespread scale and the benefits (if any) to New Zealand authors and musicians were thus incalculable by the Report's authors.[137]

(h) Care would have to be taken in cases where goods were imported from countries with defective copyright protection[138] or no copyright protection at all.

2. New Zealand's Idiosyncratic Design-Copyright Interface

Readers of the 1998 NZIER Report outside New Zealand could well have been puzzled about why it placed such emphasis on industrial goods in general and trucks and automobiles in particular. Surely these were not the subject of copyright protection. The answer was (and is) that they were (and still are). Most of the world's copyright regimes have mechanisms for excluding the shape and appearance of mass produced goods from unrestricted protection via the copyright laws. Usually this takes the form of an alternative system for registered designs, petty patents, utility models and the like which are either based on registration (for long term protection) or confer shorter protection in the form of unregistered design rights. However, almost alone among OECD countries New Zealand continues to operate a system of dual protection in the availability of design protection in no way limits the protection available under the copyright regime.[139] This result does not come about because the industrial product is itself an original copyright work but simply by applying long accepted copyright rules which treat each industrial artefact as a simple, albeit indirect, copy of a preceding model, plan or prototype whose status as an artistic work is not in doubt and then applying equally ordinary

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case of books there was also the possibility that greater availability would reduce the incentive for infringing photocopying. Ibid, 41, 53.

[136] Ibid, 50, 54.

[137] Ibid, 42, 52, 57.

[138] Ibid, 51, 58. Defectiveness seems to have been judged by lack of adherence to the standards in international conventions, presumably the *Berne Convention for the Protection of Literary and Artistic Works* 1886, (*Berne Convention*) and TRIPS itself.

[139] New Zealand consumers did not (and still do not) have the limited relief of a "spare parts" exception along the lines laid down by the House of Lords in *British Leyland v Armstrong Patents Ltd* [1986] AC 577, a doctrine decisively rebuffed by New Zealand judges in *Mono Pumps (New Zealand) Ltd v Karinya Industries Ltd* (1986) 7 IPR 25 and *Dennison Manufacturing v Alfred Holt & Co Ltd* (1987) 10 IPR 613.

infringement principles which treat dealings in the "indirect" copy as if they were dealings in the original protected source. This chain of reasoning[140] has resulted in the atrophy of registered design protection (why bother to register when copyright arises automatically and is unrestrained by tests of functionality and novelty?) and the inexorable extension of something like patent protection for industrial goods without the patent safeguards of disclosure and bounded grant. Completely mundane objects such as lavatory pan connectors[141], plastic kiwi fruit trays[142], farm gates, filing cabinets and frisbees[143] were able to be copyright-protected. (Indeed it was only when the Court of Appeal rebufffed an attempt to claim that indirect copyright protection existed for a jellied sweet in the shape of a crocodile that the tide of over protection receded and then it was only because the Court took the view that given the aesthetic and technical limitations of the particular medium, one jellied crocodile looked very much like another.[144]) By the same logic all secondary infringement rules, including those relating to parallel importing, were applied to the mass produced "copy" of the otherwise commercially insignificant "original". Here the high water mark was reached when the threatened application of copyright law was used to effect interception of a shipment of door knobs.[145]

3. Blocking the Import of Second hand Goods via Copyright Law

Before the lifting of the ban, New Zealand had an unusually active market for second hand industrial goods. Ironically perhaps, the existence of this market owed much to the existence of high prices in part brought about by the ban on parallel importing and the belief among some importers (and their legal advisers) that the ban had no application to second hand goods even where the parallel importing was in commercial quantities and explicitly for resale within the jurisdiction.[146] The courts were, however, quick to disabuse them of the latter notion in a series of decisions refusing to find any implied exception for second hand goods in the copyright statute. Hopeful importers of second hand snow skis,[147] snowboards and their waterborne counterpart the motorised jet ski[148] thus found themselves blocked by existing distributors of

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[140] The self referential logic behind this result is set out in L Longdin (ed), *Law in Business and Government in New Zealand* (Palatine, Auckland, 4th ed 2006) 303-304.

[141] *PS Johnson and Associates v. Bucko Enterprises* [1975] 1 NZLR 311.

[142] *Plix Products v. Frank M Winstone (Merchants)* (1984) 3 IPR 390.

[143] *Wham O Manufacturing Co v. Lincoln Industries* [1984] 1 NZLR 641.

[144] *Beckmann v. Mayceys Confectionery Ltd* (1995) 33 I.P.R. 543.

[145] *Halliday and Bailey v. Hafele (NZ) Ltd* Unreported, Auckland High Court, M 1797/97, 12 March. 1998.

[146] Importation for private use was not of course an infringement. Copyright Act 1994 (NZ), s. 35.

[147] *Composite Developments (NZ) Ltd v. Kebab Capital Ltd* [1996] 7 T.C.L.R. 186.

[148] *Lyntec Holdings Ltd v. Wills* [1997] B.C.L. 228.

such goods from bringing them into the country. When this last imagined loophole was closed, car manufacturers and their authorised outlets threatened the elimination of a thriving market in used cars especially those imported from Japan. Dealers who had shipments of second hand cars sailing to New Zealand rerouted them to Fiji rather than have them face seizure. The prospect of copyright law being invoked to block the passage of cars and trucks across the nation's wharves provoked a media outcry which the government felt was unwise to ignore. It was this state of affairs which precipitated the commissioning of the 1998 NZIER report.

4. Legislative and Commercial Response

Given the sector specific bias of the second NZIER Report the government might have been expected to confine its response, Australian style, to the industries studied in detail in the Report, that is motor vehicles, books and compact discs. This was not the approach adopted, however, and the ban was lifted in relation to all imported goods. Commercial response to the change was instant. The immediate winners were discount houses which sprang up selling imported cameras and electrical goods as well as the importers of second hand cars whose last minute rescue the rushed amendments had been designed to achieve. (Indeed the term "parallel import" quickly became a marketing inducement, a signal for lower prices.) There were many who lost out, highly aggrieved by the government's decision[149] that all losses would be allowed to lie where they fell and that no person was entitled to compensation from the Crown in respect of any diminution in the rights attaching to copyright as a result of the passing of the amendments.

Some disgruntled copyright owners and their licensees sought to enlist support outside the jurisdiction, alleging that the removal of parallel importing restrictions was in breach of New Zealand's international obligations, a claim which, while on the face of it was implausible in the light of Article 6 of TRIPS, was lent some credence by some infelicitous wording in the new statutory provisions. Whatever the accuracy of these claims in legal terms they possessed enough political clout force to persuade the United States to issue a section 301 notice under its trade laws[150] triggering a review of New Zealand's actions. (One of the ironies of Article 6 is that it permitted not only the New Zealand initiative on parallel importing but also unilateral responses to it which otherwise might be in breach of Article 64 of TRIPS.) Members of the New Zealand music and book publishing industries also lobbied the then opposition parties that New Zealand's authors and performers would be disadvantaged by the removal of what they continued to assert were existing cross subsidies within their industries. In 2000 after the

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[149] Copyright (Removal of Prohibition on Parallel Importing) Amendment Act 1988 (NZ), s 9.

[150] Section 310 of the Trade Act 1974 (repealed and reactivated from time to time along with Title VII of the Omnibus Trade and Competitiveness Act of 1988) gives power to the United States Trade Representative associated with the State Department and Commerce Department to investigate and impose sanctions on countries whose trading practices prejudice United States interests. That country's sanctions may include increased duties, the imposition of import restrictions or loss of most favoured nation status.

political wheel had turned at the end of 1999, and the opposition became the government, it signaled that it might be persuaded to re-impose parallel importing restrictions on "creative' products (a term it extended to include book publishing, film and video distribution as well as music and computer software) for up to two years from the time of first release of such products onto the market.[151]

5. Second Thoughts

The proposal to draw a line between creative and functional products came to nothing, however. Changes to the parallel importation regime, when they were eventually made, were delivered by way of the Copyright (Parallel Importation of Films and Onus of Proof) Amendment Act 2003.[152] The amendment has two parts, one substantive (applying only to films) and one evidential under which some kinds of sound recordings, films and computer programs, if imported other than for a person's private or domestic use,[153] are now presumed to infringe unless their lawful provenance is affirmatively demonstrated. The provisions are intended to cover only those sound recordings[154] and computer programs (such as electronic games)[155] which are stored in a material form separate from any device or apparatus capable of playing sound recordings[156] or executing computer programs respectively.

The kind of film targeted is that produced substantially for cinematic release[157] regardless of in whatever format it is recorded whether this be a VHS video, CD or DVD. The timing of the reintroduced ban on the parallel importation of commercial films coincided curiously well with the international release in late December 2003 of *The Return of the King*, the third film in Peter

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[151] In 2000 the Ministry of Economic Development released a discussion paper *Parallel Importing of Copyright Goods for Creative Industries* to gather information from creative industries stakeholders. This consultation revealed, unsurprisingly, that the main concern of music and software distributors, and a secondary concern of motion picture video and DVD distributors, was the presence of pirated products in New Zealand.

[152] Once the changes were imminent, the United States removed New Zealand from its Special 301 Watch List in 2003.

[153] S 35 (1)(b).

[154] Copyright Act 1994, s 35(6)(a).

[155] Copyright Act 1994, s 35(6)(c).

[156] In the music industry a potential detour around parallel importing rules is sometimes possible because musical works and their accompanying lyrics can be invisibly wafted across borders and downloaded electronically by fans without recourse to any local distributor or retailer. Thus, assuming a robust electronic payment system and effective anti-piracy mechanisms, an alternative mode of dissemination exists which has the potential to weave its way around whatever parallel importing restrictions a given jurisdiction may have in place. For example, the New Zealand and Australian copyright statute's focus on importing "objects" and "articles" respectively rather than copies would certainly have had this effect had not the ban on the parallel importation of sound recordings not been lifted in both countries.

[157] The definition of films under the revised regime was amended during the passage of the Bill to exclude films intended for educational as opposed to commercial distribution.

Jackson's highly successful *Lord of the Rings* trilogy. The new restriction prevents commercial films (or copies of those films or a substantial part of them) from being imported by a non licensee for a nine month period after a title's first release in New Zealand or elsewhere. Nine months was seen to be sufficient time for copyright owners and cinema houses to exploit the copyright in new releases. Reinstatement of parallel importing restrictions in the case of films is being conducted as a five year experiment which comes to an end in 2008.

As nomenclature suggests, the shift in the onus of proof is not similarly time limited in relation to certain kinds of imported sound recordings, films and computer programs. Its institution was largely in recognition of the fact that it is sometimes impossible to distinguish counterfeit copies of these particular kinds of work from genuine copies which have been parallel imported because technology nowadays allows mass production of perfect copies. Thus, it rests upon the defendant to demonstrate in civil proceedings that the goods in question are not infringing copies of works. (The knowledge threshold is now in line with that obtaining in Australia. Instead of importers "knowing or having reason to believe", they must now "know or ought reasonably to know" that the imported copy was an infringing copy.[158])

The requirement that an importer prove that the products are not in fact counterfeit may result in it disclosing the source of its supply to the court or as part of the process of discovery. Such information is of course of great interest to the copyright owner who is highly likely to react by punishing the exposed licensed distributor who has disregarded its instructions regarding resale by severing supply. However, the 2003 amendments allow the importer to put forward an argument to the court that the circumstances are such that it would be unreasonable for it to reveal the identity of its source. While this provision is intended to soften the impact of the presumption that certain kinds of imported copyrighted films, sound recordings and computer programs are counterfeit and protect importers against any backlash from vengeful owners, importers, in practice, may experience real difficulty establishing that the products they have imported are genuine without revealing their source.

The 2003 amendments also clarify that rental of parallel imported DVD copies and films infringes the rental right[159] and ensure that registered trade marks cannot be used to frustrate legitimate parallel importing of copyrighted goods except where the owner has expressly restricted distribution rights of trade marked goods in a licence.[160]

CONCLUSION

Just as new economic and legal issues have arisen for copyright owners in today's digitally networked environment and are being dealt with in ways

[158] Copyright Act 1994, 35(1)(a)(i).

[159] Copyright Act 1994, s 9(1)(2)(3). The provision reinforces the finding of the High Court in *Video Ezy (NZ) Ltd v Roadshow Entertainment (NZ) Ltd* [2002] 1 NZLR 855.

[160] Copyright (Parallel Importation of Films and Onus of Proof) Amendment Act 2003, s 5.

barely apprehended less than a couple of decades ago, so too it is time for the world's trading nations to forego fighting owners' battles for them against their particular ongoing problem of proliferation and distribution of counterfeit goods with yesterdays' weapons in the form of parallel importing restrictions. If ever there was any historical justification for state imposition of civil or criminal sanctions for the parallel importing of non counterfeit copyright protected products, this now has vanished.

This paper has explored the notion that when trading nations back copyright owners' powers to enforce parallel importing restrictions they are opting to assist a select group of competitors in selected private sector industries to enforce their market segmentation and price discrimination practices. Other traders without the benefit of copyright ownership are left to rely on contract to enforce their bargains and remain subject to full competition scrutiny. While statutory restrictions on parallel imports will not always confer market power on copyright owners, they may do so in some circumstances. The end result is to privilege some forms of price discrimination over others.

The right to bring in (or oppose) parallel imports should not depend on the legal form of the arrangement between copyright holders and their distributors. Nor should it depend on the legal nature of the property imported or the service delivered. If parallel importing restrictions are not able to be weighed in the competition balance along with all the factors that go to make up market power, they should be dropped. For states to lift parallel importing restrictions in relation to copyright protected products simply leaves owners to stand squarely on their own two feet alongside other traders who are not copyright owners. That the sky need not fall after removal is demonstrated by the experiments conducted by New Zealand and Australia with their parallel importation regimes which are becoming increasingly convergent. However, in the case of Australia, it is deeply ironical that, after actively removing barriers to parallel trade, that country has allowed itself to be bound to reintroduce them through the back door through technology by passing broad paracopyright rules in line with those enacted in the United States.

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