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PARALLEL IMPORTS: TIME TO ATTACK THE CITADEL?

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WORD LENGTH

The text of this paper including contents page, footnotes, bibliography and annexes comprises approximately 15,000 words.

ABSTRACT

The prevention of parallel importation means that a firm which establishes a foothold in a market in respect of a particular product can prevent others from importing the same product.

This paper considers some of the reasons raised by those who seek to limit import competition, which are characterised by self-interest and the raising of potentially spurious arguments to justify their position against the global background trend of freeing up markets and exposing traders to the discipline posed by competition.

The possible economic and, to a lesser extent, social consequences upon a market are then analysed, with the conclusion being reached that the degree of any adverse impact upon an economy will be a function of such matters as the extent of vertical integration, power to segment markets and differentiation of products. It is observed that any ban upon parallel importations is effectively setting up a vertical restriction and establishes the factors necessary for price discrimination.

Finally, it considers the extent to which copyright and trade mark rights can be used as a barrier to import competition and establishes that, notwithstanding the potential for inefficiencies and consumer welfare losses, copyright law does give the holder of copyright an impermeable barrier to prevent parallel importation.

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PARALLEL IMPORTS: TIME TO ATTACK THE CITADEL?

I INTRODUCTION

Over the past decade or so, New Zealand has made a massive shift in its international trade policy; it has taken the hard decisions to dismantle tariff and subsidy protection of its domestic industries in order to make them internationally competitive and to meet concerns from its trading partners, which argued that state support of industry was not appropriate. At the same time, there has been an increasing focus on globalisation, on regarding the world as an open market with a removal of barriers to cross-border trade, which has seen the development of "free trading" areas, within which territorial borders become virtually invisible.

Intellectual property rights, however, seem to be a special case. As with all signatories to the Uruguay Round of the General Agreement on Trade and Tariffs, New Zealand needed to audit its intellectual property legislation to ensure compliance with the newly reached Trade Related Aspects of International Property agreement. That provided an ideal opportunity to consider the type of intellectual property rights available and to harmonise them with the trade policy. It might have been expected that any provisions which had the effect of hindering the access of imports to the New Zealand market would be removed yet, if anything, the rules were tightened by the amendments made in 1994 to the New Zealand legislation.

I do not intend in this paper to debate the merits of intellectual property protection as such: quite plainly there are strong arguments founded upon economic principles as well as principles of natural justice and the basic notion that society should provide a reward for labour which justify the legal protection

of the bundle of rights for which the shorthand term is intellectual property. I do, however, wish to develop a comment made by Hammond (now Hammond J):

"... the [economic] model is increasingly being asked to accommodate more than it was designed for, and probably far more than it can ever satisfactorily accommodate. More and more people are trying to accommodate more and more things under the protective umbrella of intellectual property law to achieve private economic gain"¹

Intellectual property rights seem to have become regarded as some sort of citadel with holy significance which no Government dare touch. One aspect of these rights is the prohibition in New Zealand law against parallel imports. Two simple cases illustrate the possible benefits arising from import competition.

The first is where the authorised exclusive Australian distributor of a cookbook imported from the United States, was selling it for \$16.95. A bookseller imported its own supplies from a wholesaler in California and started selling for \$8.95.² The second is taken from the New Zealand context, where nobody will have failed to notice the drastic reduction in car prices following the flood of used car imports, primarily from Japan, which has resulted in new car price reductions in order to "meet the market". Curiously, this practice has gone on unchecked for several years, although at least two firms have indicated they will take action to prevent further imports. Already, interim injunctions have been granted on a similar basis to prevent the importation of Rossignol skis, Kawasaki jetskis and Smith & Wesson firearms.

¹ Hammond, G *The Legal Protection of Ideas* (1991) 29 Osgoode Hall LJ 93, 95

² *Time-Life International (Nederlands) BV v Interstate Parcel Express Co Pty Ltd & Anor* (1976) 12 ALR 1; on appeal to High Court *Interstate Parcel Express Co Pty Ltd v Time-Life International (Nederlands) BV & Anor* (1977) 15 ALR 353. The authorised distributor was able to use the Australian copyright legislation to prevent this "unauthorised" import competition.

Surely, if this kind of importation leads to lower prices, that is a good thing and should be encouraged rather than prohibited? Unfortunately, as my analysis in the first part of this paper demonstrates, it is not that simple. I then consider the effect of intellectual property rights on importation and whether they account for any of the economic concerns arising from prohibition.

(New Zealand). Most simply, parallel importation occurs where an established New Zealand importer is bypassed, and product obtained directly from some overseas market.³

This is not in itself unlawful. For example, the fact that two importers are bringing bulk rice into New Zealand from the same source makes their importation parallel with each other but no legal consequences will spring from this fact.

The goods may, however, be cloaked with some form of intellectual property protection; the rice may be packaged and imported bearing a trade mark or a copyright packaging to differentiate it from rice sold by another firm. Alternatively, the goods may be subject to copyright protection in their own right; they may be books, music, vehicles, pin ball machines or bottles of alcohol, to give just a few examples of the types of goods which may be imported.

The New Zealand distributor of such products, having invested in an exclusive arrangement with the primary right holder and in marketing the goods in the New Zealand market, is going to see its investment undermined if a rival firm, competition from another importer of the same product, and will attempt to erect legal barriers to restrain the activities of the other.

The concern of this paper is the protection afforded by copyright and trademarks to this distributor, assuming that it has become entitled to exercise the rights arising under copyright or trade mark. There are other legal barriers available

³The product must be legitimately available in the country it may be the United States (and in this example is the source of the product) or some other country in which the primary right holder exports the goods.

II WHAT IS A "PARALLEL IMPORT"

Parallel importation implies a firm operating in one country (for example, the United States) which has set up some form of distribution channel into another (New Zealand). Most simply, parallel importation occurs where an established New Zealand importer is bypassed, and product obtained directly from some overseas market.³

This is not in itself unlawful; for example, the fact that two importers are bringing bulk rice into New Zealand from the same source means they are importing in parallel with each other but no legal consequences will spring from that fact.

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The New Zealand distributor of such products, having invested in an exclusive arrangement with the primary right holder and in marketing the goods in the New Zealand market, is going to see its investment undermined if it then faces competition from another importer of the same product, and will attempt to erect legal barriers to restrain the activities of the other.

The concern of this paper is the protection afforded by copyright and trademarks to this distributor, assuming that it has become entitled to exercise the rights arising under copyright or trade mark. There are other mechanisms available

³ The product must be legitimately for sale in that country, it may be the United States (used in this example as the source of the product) or some other country to which the primary right holder exports (Singapore, for example).

which may also be used to prevent imports, such as passing off, a "fair trading" remedy,⁴ patents⁵ or possibly the agreement between a New Zealand importer and the source of products⁶

A "parallel importer" is thus an importer which obtains goods from some foreign source without any authorisation from the domestic right holder, brings them into the country and sets up in competition with the domestic marketing channel. Importantly, the goods must be legitimately for sale in the country from which they are imported; my concern here is not with the importation of counterfeit goods.

⁴ Section 9 Fair Trading Act 1986 (New Zealand), for example, states "No person shall, in trade, engage in conduct that is misleading or deceptive or is likely to mislead or deceive."

⁵ The question of patents and parallel importation will not be considered in this paper. In very general terms, a buyer of such goods is seen to have some form of implied licence to use, sell and import the goods, so patent goods do not throw up the same policy considerations and the analysis of situations where the buyer is not seen to have such an implied licence would largely be a matter of construction of agreements or conduct which in some way abrogated the importation rights. The *rationale* is that the patent holder is granted an exclusive right to make, sell and use an invention. The sale of a patent good by necessary implication gives the buyer the right to use and resell, unless negated, as held in the early case of *Thomas A Edison Ltd v Stockdale* [1919] NZLR 276, where the plaintiff held patent rights to phonographs and records and printed a very restrictive license to purchasers and users of those records. Herdman J referred to *National Phonograph Co v Menck* [1911] AC 336 (PC) where it was held that there was a presumption in favour of the right of "full ownership" (including "the absolute freedom of disposal of chattels" (page 349) being vested in the purchaser but this could be made subject to restrictive conditions, as here.

⁶ The authorised importer may have been appointed as some sort of exclusive reseller; this will not generally give it any rights against the parallel importer but there will generally be contractual rights against the foreign right holder.

II WHY DOES IT OCCUR?

The obvious reason is that someone sees an opportunity to land goods in New Zealand cheaper or quicker from a foreign source than by buying through the local authorised distributor. This can arise from a number of factors:

1. The sensitivity to price changes of a particular good⁷ will vary from market to market. As a result, where there is a high level of sensitivity to price changes, the price will tend to be lower⁸ than in markets where there is less sensitivity, which implies that consumers are more willing to purchase despite price increases⁹. A profit maximising primary right holder would be expected to vary the price from market to market¹⁰ according to price sensitivity and utility. This provides for an arbitrage opportunity; goods can be purchased in the country in which they are relatively cheap, imported into a country where they are relatively expensive and sold in competition with the authorised distributor;
2. Marketing strategies may vary from country to country; the primary right holder may not invest in marketing in one country but instead allow for a relatively high margin to be earned by the authorised importer, thereby encouraging that importer to invest in marketing whereas in another country, the marketing role may be taken on by the primary right holder and reduce the margin by charging a high wholesale price. An importer could avoid that by obtaining goods from a high margin/low investment country;
3. The goods may be subject to niche marketing in particular countries; certain brands of vehicle, for example, have a somewhat exclusive image in New Zealand, induced partly by a high price tag whereas the same vehicles in their

⁷ *i.e.* Price elasticity. Numerous elements, including the standard of living, possibility of substitutes, taste and the nature of the good will determine the price elasticity and explain differences from market to market.

⁸ Because, as prices increase, there will be a relatively rapid fall off in demand.

⁹ More accurately, demand diminishes at a relatively slow rate as price changes.

¹⁰ Price discrimination.

country of origin they may have a much more humble status and be priced accordingly;

4. Market conditions will vary from country to country, which might also allow an arbitrage opportunity. Goods made in a country where the manufacturer can take advantage of economies of scale, lower labour and capital costs can be obtained cheaper than the same goods made in a country without such advantages. If those cheaper goods can then be brought into a market where the production costs are higher, the importer will have a competitive advantage;
5. The quality of the goods in the foreign market may be inferior. It is debatable whether such a situation is truly an example of parallel importation, as the goods, by being of inferior quality, can be seen as differentiated from those in the domestic market through the authorised channel.
6. Currency fluctuations mean that goods can temporarily be obtained overseas cheaper than through the authorised distributor, but these prices can not be taken advantage of by that distributor because it is contractually bound to take goods from a particular source.¹¹

¹¹ This cause may well be more significant than might be thought; Rothnie cites research in the United States establishing a correlation between the extent of parallel importation and the relative value of the United States dollar, particularly observable from 1981 when the dollar experienced a rapid information. The original research may be seen in Hilke, John C *Free Trading or Free Riding: An Examination of the Theories and Available Empirical Evidence on Gray Market Imports* (1988) 32 *World Competition* 75

III WHY DO RIGHTS HOLDERS OPPOSE PARALLEL IMPORTING?

The underlying premise of parallel importation is that goods have been purchased, not from the domestic supplier, but from some other source authorised by the primary right holder. Why then is the right holder concerned? It still gets paid for those sales, no goods are wrongly created in this process, they are simply moved from one part of the world to another, so why stop it? Obviously, they will only do so if it is in their economic interests to do so, but what arguments do the rights holders raise to explain or justify their actions?

A *Parallel Importers are Parasitic Free Riders*

The traditional argument raised is that parallel importers compete unfairly, in that they either wait for a firm to invest in research and development and copy the product generated without the same levels of investment¹² or, more significant in the present context, they take advantage of the goodwill associated with a particular good or firm, again without the investments in advertising, distribution, pre-sales services¹³ or post-sale services¹⁴.

While this may be true of some parallel importers, it can hardly be true of all. Numerous objections can be raised:

- The authorised importer is effectively being held up as the standard to which all should be compared, but there is no guarantee it will be any better; indeed basic competition theory is to the effect that if a firm is the only source from

¹² Given that there is no unauthorised creation of goods implicit in parallel importation, it is beyond the scope of this paper to address this aspect of the debate.

¹³ In other words, such matters as staff training, customer demonstrations and training.

¹⁴ This would include warranty claims, helplines, provision of spare parts and repair facilities.

which services can be obtained, it has little incentive to operate at the optimal level but will instead operate at the level which suits it best;

- Free-riding in this sense can only be a temporary strategy; customers would soon realise that the importer provided little pre or post sales support;
- It forecloses the consumers having the choice of a lower cost, lower service provider;
- It ignores the possibility that an alternative market structure, such as a specialist importer or distributor, which may have greater economies of scope or scale available to it, might be more efficient¹⁵ than the right holder setting up its own distribution network
- On a theoretical level, this free rider argument might be available to a trade mark holder, given the function of a trade mark¹⁶, but there is major difficulty in seeing it as a legitimate justification for copyright, which is supposedly to reward and encourage the creation of works, not the recovery of investment on marketing.

B Undermining the "orderly market"

This is a claim that rights holders seem to like advancing without providing specific detail of quite what it means, so it is difficult to assess. A, perhaps cynical, explanation is provided by Ruff¹⁷

"Yet defenders of parallel importing argue that local distributors are simply afraid of competition. Parallel imports threaten to disturb authorized distributors' insulated pricing schemes. These schemes allow distributors to charge the highest possible

¹⁵ I leave open at the moment precisely what is meant by "efficiency"; it is considered in depth in the next section.

¹⁶ As will be developed in a later section, the point of trade mark protection is to identify and distinguish the source; if the domestic source of the goods is important yet not in any way identified by the trade mark, then arguably the trade mark is not being used properly, if it really only points to the foreign source.

¹⁷ Ruff, Andrew *Releasing the Grays: In Support of Parallel Imports* (1992) 11 Pacific Basin Law Journal 119

prices in each of their foreign markets without fear of competition between markets."¹⁸

In my view, this is really a complaint that allowing import competition is going to undermine the efforts made by rights holders to set up price discrimination schemes; if each country is treated as an isolated and sealed off market, then that allows the right holder to price in accordance with what that market will bear. The merits of this are discussed in the next section.

C Investment in marketing will be diminished

The claim here is that pre and post sales support will be eroded by competition, that choice will be restricted as the right holder will necessarily concentrate upon the fast selling, profitable items¹⁹ so that consumer choice is reduced. The problem here is the lack of empirical evidence to determine the validity of such a self-serving claim but it is unlikely to hold true in all cases. An inefficient importer, shielded by the present ban, may need to shake off its lethargy and be **more**, not less, responsive to consumer demand in order to survive. Those supporting a ban seem to assume no inefficiencies will arise but there does appear to be room for scepticism.²⁰

¹⁸ Page 120. He quotes A Robertson Stevenson, Vice President of K Mart (a firm which does engage in parallel importation in the United States) who sees a proposed ban as "a smokescreen for the fact that the distributors don't want to be price competitive".)

¹⁹ In the context of the book market, for example, just best sellers.

²⁰ While there is an absence of empirical evidence for New Zealand here, there is anecdotal support provided in the submissions to the New Zealand Commerce Select Committee considering the proposed *Copyright Bill 1994*. Independent record sellers accused the large record companies of holding inadequate supplies of backlist and non-mainstream music and at the same time trying to stop the record sellers from, in effect, making up for the deficiencies in the market by importing. Naturally the record companies retorted by saying all records could be indented through them, so long as the requisite numbers were ordered, which I took as rather proving the point being made by the independents.

D Other Arguments

Rights holders raise a number of other arguments in support of a ban on parallel importation which I do not propose to explore. Two of the more common of these arguments²¹ is that it is necessary because of the prevalence of piracy,²² and that it is the "right" of an owner of intellectual property to prevent imports.²³

D Foreign Trade Implications

Brown²⁴ notes that, in the context of a New Zealand Governmental analysis of the ban on parallel imports conducted in 1994, the Ministry of Foreign Affairs and Trade submitted that a removal would seriously change New Zealand's trade relations with the United States, which wanted the ban maintained. A submission by the America New Zealand Chamber of Commerce to the Commerce Committee was to similar effect.

The fear is that there might be American retaliation, in the form of import restrictions on New Zealand products if United States' rights holders do not have their exports to New Zealand protected from import competition. This would certainly not be the first time America has shown a willingness to punish those countries which do not conform to its pattern of doing business. As Ullrich²⁵

²¹ My source here is the submissions made in the context of New Zealand's proposed *Copyright Bill 1994*; a number of submissions made to the Commerce Committee raised this concern.

²² The making of copies unlawfully is indeed a significant problem and one which clearly justifies some right on the part of rights holders to prevent. One argument put is that if rights holders have total control over all imports, then only those imports which they have authorised will come into the market. Because of the quality of pirated copies, some are indistinguishable from goods sold legitimately overseas, so, as the argument goes, all imports should be prohibited except by the domestic rights holders. The merits of this argument probably justify a paper devoted to the issue.

²³ This, obviously, begs the question of why there needs to be such a right.

²⁴ Brown, Andrew *New Zealand's Copyright Act of 1994* (1995) 9 IPJ 229

²⁵ Ullrich, Hans *GATT: Industrial Property Protection, Fair Trade and Development* in Beier, Friedrich-Karl & Schrickler, Gerhard (Eds) *GATT or WIPO? New Ways in the International Protection of Intellectual Property* 1988 Max Planck Institute for Foreign and International Patent, Copyright and Competition Law, Munich at pages 149-150

shows, President Reagan, concerned that America was losing its competitive edge because of relatively high labour costs, saw intellectual property rights as one way to protect itself from a decreased competitiveness.

E International Treaty Obligations

New Zealand is a signatory to the Trade Related Agreement on Intellectual Property (TRIPS); an agreement which has patently conflicting objectives. The tension is obvious from the opening statement of the Agreement:

"*Desiring* to reduce distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves barriers to **legitimate** trade..."

The problem is the lack of any clear identification of what is to constitute legitimate trade. In particular, nowhere is it clearly stated whether parallel importation is a form of legitimate trade. The closely-related doctrine of international exhaustion has been carefully stipulated as not addressed by TRIPS, in Article 6. As Katzenberger²⁶ points out:

"The important and internationally intensely disputed problem of exhaustion ... which otherwise is not touched upon in the TRIPs Agreement, is thus removed from the TRIPs dispute settlement mechanism, so that it is basically left to each TRIPs member to decide..."

citing a Memorandum of President Reagan of 21 July 1988 where, because Brazil is perceived as providing inadequate intellectual property protection for United States' pharmaceuticals, he instructed officials to identify appropriate Brazilian products on which to increase import duties or other import restrictions.

²⁶ Katzenberger, Paul *TRIPs and Copyright Law* in Beier, Friedrich-Karl & Schrickler, Gerhard (Eds) *From GATT to TRIPs - The Agreement on Trade-Related Aspects of Intellectual Property Rights* 1996 Max Planck Institute for Foreign and International Patent, Copyright and Competition Law, Munich at pages 80-81

for itself the extent to which exhaustion applies, and as a corollary, the extent to which parallel importation is to be restricted, in domestic law.

Ullrich²⁷ sees TRIPs as expressly refraining from regulating problems such as "the gray market of parallel imports". Although Straus²⁸ saw the freedom of members to apply the doctrine of exhaustion as undermining the guarantee contained in Article 28 of the territorial right to a patent²⁹, he is implicitly confirming the view that TRIPs does not oblige its signatories to prohibit parallel importation.

Certainly there was no suggestion in any of the submissions to the Commerce Committee nor in the Departmental Report³⁰, when deciding whether to ban parallel importation in the *Copyright Act 1994*, that there was any international obligation to do so.

²⁷ Ullrich, Hans *Technology Protection According to TRIPs: Principles and Problems* in Beier, Friedrich-Karl & Schricker, Gerhard (Eds) *From GATT to TRIPs - The Agreement on Trade-Related Aspects of Intellectual Property Rights* 1996 Max Planck Institute for Foreign and International Patent, Copyright and Competition Law, Munich at page 359

²⁸ Straus, Joseph *Impact of the TRIPs Agreement in the Field of Patent Law* in Beier, Friedrich-Karl & Schricker, Gerhard (Eds) *From GATT to TRIPs - The Agreement on Trade-Related Aspects of Intellectual Property Rights* 1996 Max Planck Institute for Foreign and International Patent, Copyright and Competition Law, Munich at page 194

²⁹ He gave the example of goods patented in India (where prevailing market conditions meant goods had to be supplied cheaply) and in Japan - the Japanese patent would become virtually worthless if it applied the doctrine of exhaustion, because goods could be imported from India into Japan, against which the Japanese patentee could not compete.

³⁰ Department of Justice *Departmental Report on Copyright Bill to Commerce Select Committee* 3 November 1994

IV CONSEQUENCES OF BANNING PARALLEL IMPORTATION?

The arguments raised by rights holders³¹ against relaxation of bans can be characterised as lacking in hard evidence or even any rigorous examination into the social and economic consequences of such a ban. Unfortunately, and this is more than likely a function of the economic significance of intellectual property, the approach taken when considering a lifting of the ban³² is to require a justification for the lifting. Why not require those seeking the ban to show a clear justification which outweighs any potential social or economic harm?

In this section, I will consider some of the implications arising within a market where imports are restricted to just those importers who have been authorised by the right holder.³³

A *The Concept of Product Differentiation*

If parallel importation is banned, the most fundamental consequence is that there is restriction on access to the "world price"³⁴ of the particular goods; they can only come on to the domestic market through channels authorised by the primary right holder. Whether this gives rise to concern will generally be a function of the goods involved, in particular a function of how successful the right holder has been in differentiating its products from similar products sold by other firms.

³¹ The fact that it is the rights holders who raise this argument is in itself grounds for suspicion.

³² As in New Zealand in 1994.

³³ It will be assumed that the law gives either the right holder or its authorised importer the right to prevent anyone else importing the same goods and selling them in competition with the authorised importer

³⁴ That is the price which would be hypothetically available if the world is an open market. For present purposes, I will be using the lowest price at which goods can be obtained from any source as being an approximation of this world price. A more theoretical approach would be to compare the price of the goods with the marginal costs of production, with any excess being characterised as supranormal profits.

Rice can be used as emblematic of an undifferentiated product; if an importer of bulk unbranded rice seeks to raise prices above the world price, it is unlikely that it could maintain that position as a competing importer would simply obtain rice from another source and so the domestic price is going to approximate the world price. The key here is that there is no differentiation between the products from the various suppliers. So long as there is easy substitution between goods, then each seller has no influence over its sale price; basically if prices are raised above the norm, the seller makes no sales.³⁵

Even if the rice is packaged and branded³⁶, this is likely to only be a weak form of differentiation; it is probable that inter-brand substitution is likely; so that a particular brand will become price sensitive. The consequence of this is that if a particular brand of rice (brand X) is being sold in New Zealand at a margin above the world price for Brand X, even if an importer is prevented from getting Brand X at the world price and bringing it in to compete, the importer will be able to bring in a competing brand, (brand Y) confident that consumers will not cling irrationally to Brand X but will substitute to Brand Y.³⁷

This can only apply to goods where either there is no clear differentiation between goods from different suppliers (such as unbranded rice) or where there is, consumers are not concerned with source. If there was a multiplicity of suppliers of these items or there were ready substitutes (inter-brand competition), a supplier which tried to increase price or reduce service would lose a sale to competing firms or products but a supplier of a good which has no close

³⁵ A further example of this appears to be the personal computer market, where there is little evidence of substantial differences between New Zealand prices and prices in other countries, because there is little to differentiate computers of different brands and buyers are willing to substitute brands. Individual firms, even the largest, are thereby constrained by the competition to sell at the best possible price and provide the best possible service if they wish to retain a foothold in the market.

³⁶ Branding, of course, is not the only way in which a product is differentiated. As it is the branding which is one source of legal protection against import competition, I am using a simplifying assumption that the brand is what differentiates one supplier's product from an otherwise identical product of another.

³⁷ Even with rice, there is some potential for a brand to attract a premium in a particular market (some will buy Big Ben but not Sunwhite) but as rice is such a utilitarian product, this cannot be true of many people.

substitute and where there is no competing supplier has a certain degree of freedom to engage in such conduct.

It is this willingness to substitute between brands of essentially the same product which provides the key to measuring the possible harm flowing from banning parallel imports. If there is no inter-brand competition and only one source, so there can be no intra-brand competition, that is a position which can be exploited by the primary right holder, the authorised importer or both.

It is unlikely that any goods fall completely into a class of goods where no-one will substitute between brands, but some types of goods have a high degree of "brand loyalty" - such as perfumes, vehicles and cameras, at least at the "exclusive" end of the market. Taste will dictate that buyers of books, music, perfumes, motor vehicles and many other goods choose a good of a particular brand and characteristics; a buyer of a BMW may well not regard a Mercedes as a clear substitute or a buyer of Jane Austen's *Persuasion* may not be content with Henry Fielding's *Moll Flanders* and be even less content with Grisham's *The Firm*³⁸ and not at all content with Borrowdale's *Commercial Law in New Zealand*³⁹.

Goods such as movies, books and music can also be seen as a subset; it is not so much the brand which attracts a loyal following as the individual product within the line; those consumers wishing to buy the Spice Girls album are not going to see any other album as a perfect substitute; if there is only one domestic source of Spice Girls albums, the supplier has the potential to price accordingly, as there are no competitive constraints. (Actually, spice girls may not be a very good example - the lack of competition is at wholesale/import level - the buyers (the retail outlets) will not be buying in accordance with their individual taste and

³⁸ Of course, for buyers of *Persuasion*, as the text no longer has copyright protection, there is import competition from other publishers but this will not be the case with *The Firm*.

³⁹ This is not to suggest any criticism of that text; the point is that buyers of classic fiction are unlikely to see a Commercial Law text as a substitute despite the fact that both are books.

there is competition at the retail level, which minimises the ability to raise prices for that particular product).

New Zealand has recently witnessed the benefits of unrestrained parallel imports in the second hand motor vehicle market, which brought the prices of second hand cars down dramatically⁴⁰ which has had a flow on effect into the new car market. Apart from some evidence of odometer winding, there has been little evidence of the dire outcomes predicted by rights holders; indeed, the variety of new cars available in New Zealand and services (such as financing arrangements) has done nothing but increase, as firms have to be more vigorous in their marketing practices to stay afloat⁴¹.

The point being made is that without the degree of influence of the right holder becoming sufficiently significant as to attract the operation of *section 36 Commerce Act 1986*⁴², an importer will have some degree of market power, to the extent that its goods have no perfect substitute, without running foul of the *Commerce Act 1986*.⁴³ It reaches this degree of market power by promoting its product, using intellectual property rights such as trade marks to do so. The irony is that it is this very investment in differentiating the product which is seized upon by the importer as justifying exclusive rights to import. In my view, it is no answer to say that this is a failure of competition law, because that does not deal with the issue of why there is statutory protection in the first place.

⁴⁰ Estimates of savings of around 30% are quite common.

⁴¹ Interestingly, the *Dominion* newspaper of Saturday 20 September reports that Toyota New Zealand Ltd is presently seeking to register its trade mark in New Zealand and to put a stop to parallel importation of used Toyota vehicles into the country, possibly to minimise competition with its own operation.

⁴² Which, given current interpretations, does actually allow for significant market power to accrue before it becomes operative.

⁴³ A situation commonly called monopolistic competition.

B Price Discrimination

The idea behind price discrimination is that the sale price varies from buyer to buyer. In the present context, each "buyer" is in fact a market - a multinational firm may adapt different price levels to the various countries it supplies; when those price differences are not explained by associated costs, then the seller is said to be engaging in price discrimination.

Three conditions are necessary for it to occur⁴⁴:

1. The seller has control over price;
2. The seller can segregate its customers into groups with different price elasticities of demand;
3. Any opportunities for arbitrage - resale by high price customers to low price customers must be constrained.

The outstanding feature of these ingredients is that they are the very elements a firm is given by a prohibition against parallel imports; if such imports are prevented, then it gives control over to sellers over prices (assuming there are no perfect substitutes), it creates a territorial segregation and prevents arbitraging.

Thus, a firm campaigning for a ban on parallel imports is implicitly campaigning for the right to discriminate, as the very prohibition seems made to measure to allow for price discrimination, particularly second degree discrimination⁴⁵. This is described as a cruder version of first degree discrimination, under which:

"... each unit is sold at its reservation price, so that every customer is **milked** of the largest outlay he or she would be

⁴⁴ Scherer, F M & Ross, David *Industrial Market Structure and Economic Performance* 1990 3rd Edition Houghton Mifflin Company - page 489

⁴⁵ The seller segregates buyers into blocks (countries) and makes an assumption as to the price at which it can maximise profits (generally, the reservation price) within the particular block; it will sell to all countries where the sale price exceeds marginal costs. Markets where competition is weak will be paying a higher price than where it is strong

willing to commit for the good in question and still consider its purchase worthwhile."⁴⁶

As Scherer & Ross point out, this causes a redistribution of income away from the consumer to the seller; a rational firm is only going to do so if it is in its own interest. Whether this is acceptable, as they acknowledge, is a matter for a value judgment but where the redistribution is to an external economy, it has adverse implications for the domestic economy. They do go on to point out that a second degree discriminator is generally more efficient than a simple monopoly⁴⁷, but in the present context, the comparison is between such a discriminator and a more competitive market:

"Price discrimination is a two-edged sword. It can improve the performance of industries that are unavoidably monopolistic, but it can also alter the extent of monopoly power wielded by sellers."⁴⁸

They identify two pro-competitive effects arising from unsystemic price discrimination, as it allows experimental pricing⁴⁹ and can undermine oligopolistic discipline.⁵⁰

Systemic price discrimination⁵¹ however weakens competition, as it can allow for firms to be entrenched in a position of power as it raises barriers to entry⁵², or

⁴⁶ Scherer & Ross, page 490, emphasis added.

⁴⁷ Because it encourages extra production, an increase in allocative efficiency. Even in the present context, there can be advantages to an economy from second degree discrimination; a firm obliged to set one price will necessarily set a price to recover costs, so the price may have to be set too high to allow entry into particular markets. In other words, it can set a higher price for some markets which effectively subsidise products sold into markets where the "full cost recovery" price would not be sustainable.

⁴⁸ Scherer & Ross, page 499

⁴⁹ in that it allows for selective price changes to measure elasticity

⁵⁰ Oligopolistic discipline seems to include such matters as tacit collusion, which can have anticompetitive effects. Price discrimination would allow for secret discounts, so that there is cheating on the oligopoly profit maximising, meaning the discipline breaks down and every firm maximises its own profit, not that of the oligopoly as a whole.

⁵¹ The meaning of which is not explained but seems to imply a policy of deliberate price discrimination to serve the firm's own interests.

provides the means to charge lower prices (in the form of cross-subsidisation or predatory pricing) only where competition means it has to, so that in areas of contestability, it is difficult for rivals to take them on.⁵³

Legislative responses vary; for example, it is unlawful in the US to charge different prices for the same goods if the effect is to substantially lessen competition or create a monopoly⁵⁴ and Australia has a similar provision⁵⁵. New Zealand, reflecting the less detailed approach to defining unlawful trade practices has no such specific provision but, as the Court has made clear, allegations of price discrimination can be entertained under either *section 27* or *36 Commerce Act 1986* if there are anti-competitive consequences.⁵⁶

C *Deadweight Losses*

Within the market, consumers will place different valuations upon the product - all who see it has having less value than the price at which it is sold will not purchase it, whereas all who value it at or above the sale price can be expected to purchase it. If the price is increased from \$10 to \$20, all of those potential consumers with a reservation price of between \$10 and \$20 will no longer purchase it; this choking off of demand is a deadweight loss, and generally regarded as inefficient because production which could be had given existing resources is lost.

If a firm is given power to set prices according to its own profit maximisation desire without constraint from perfect substitutes, a situation which a ban on parallel imports seems geared to allow, then there will be these deadweight losses

⁵² Scherer and Ross (page 500) give the example where a dominant tin can-making firm could use its size to extract discounts from suppliers and gave discounts to large canneries; smaller tin can-making firms were therefore at a disadvantage.

⁵³ An issue arising in *Commerce Commission v Port Nelson Ltd* (1995) 5 NZBLC 103,762

⁵⁴ *Robinson-Patman Act* s 2 (1936)

⁵⁵ *Trade Practices Act 1974* s 49

⁵⁶ *Commerce Commission v Port Nelson Ltd* (1995) 5 NZBLC 103,762, upheld on appeal in *Port Nelson Ltd v Commerce Commission* [1996] 3 NZLR 554

in the form of consumers willing to buy the particular product but for whom the price is too high. It is in this context that the "services" provided by a right holder become a concern; they may be over-priced, inefficient or just not wanted by a consumer but the consumer is faced with a situation of taking the bundle of goods and associated services or not, with no intermediate position of taking unbundled goods and making its own arrangements for services.⁵⁷

1 Consumer Welfare Transfers

While consumer welfare transfers are regarded as transfers of income from consumer to producer and not necessarily inefficient, where the producer is based outside New Zealand, it is basically a transfer of wealth away from New Zealand. This arises because when goods are sold at, for example, \$10, there are going to be consumers willing to pay more than that, in accordance with their individual reservation price.⁵⁸

This difference between what the consumer is willing to pay and the sale price of goods is described as retained wealth or "consumer surplus". If the price is raised, this surplus, rather than disappear, is partially transferred to the producer and becomes producer surplus. It can thus be seen that if consumer surplus is minimised by the pricing strategies of a foreign firm, that is not for the benefit of either the consumer or the New Zealand economy.

⁵⁷ An extremely good example of this, although not in the parallel importation context, can be seen in the retailing of financial products, such as unit trusts. Until recently, the consumer has had to pay the 5% "brokerage" to compensate the supplier of the product, irrespective of whether the consumer has approached a broker or the firm itself, and irrespective of whether the consumer has wanted advice on the product or not. Some brokers have recognised that not all consumers require the same level of service and so there has been an outcrop of "No-fee" brokers, for those who do not want the service component.

⁵⁸ This will be a function of the utility of the good to the individual consumer - some will value it so highly they will continue to buy even at \$100.

D Relationship Between Right Holder and Importer

In a sense, when there is only one entry point into a market for a particular good, a bilateral monopoly⁵⁹ is created; a single seller (implied by the very existence of an intellectual property right) dealing with a single buyer (the exclusive importer).

This will not always be a concern; the importer may be one of a number of firms importing goods of the general nature, so at this level competition could be expected; the foreign rights holder will be competing against other rights holders to gain access to the distribution channel into a market and the importers within the market will be competing with each other to obtain rights to obtain and supply the goods.

As a result, the threat of loss of distributorship can pose a constraint and ensure competitive behaviour. Furthermore, in this arrangement, while the behaviour to be expected is that there will be co-operation between buyer and seller so that both maximise profits. As Scherer and Ross point out, this can actually be of benefit to consumers; the authors demonstrate⁶⁰ that so long as there is co-operation between the two (as opposed to one firm setting the price on a "take it or leave it basis"), the profit maximising strategy for both is to increase output, and it is a basic principle in economic theory that to sell a greater number of goods, price needs to be reduced⁶¹

Where this will not be true is where the importer is a subsidiary of the rights holder, raising the potential for the problems inherent in a vertically integrated

⁵⁹ This situation may well not be regarded as a monopoly under competition law nor by economists who insist upon defining the market, then considering the degree of market power held by a firm within that market. In the present context, I am using monopoly to imply a situation of an exclusive right to sell a particular product; the consequences of this will generally be dictated by the extent to which a particular product is differentiated by other, similar, products so that they are not perfect substitutes. The greater the imperfection of the substitute, the stronger the monopoly.

⁶⁰ Pages 520-521

⁶¹ Except the peculiar case of inferior goods, where demand is more a function of income than price; as income increases, consumption decreases.

chain of supply, where the "buyer" of the goods is actually owned or at least controlled by the "seller", which will be the case at the level of entry into the market. As Scherer and Ross say:

"When monopsony and monopoly stages are integrated vertically, decisions regarding how much of an input to be used can be guided by the actual marginal cost of the input, rather than by bargaining strategems or by the monopsonist's concern for restraining the volume of its purchases to avoid driving up the supplier's price. Consequently, vertical integration facilitates arriving at the input choice that extracts maximum profits from whatever monopoly power exists at either stage - that is, the choice consistent with joint profit maximisation under unintegrated bilateral monopoly.... For the ultimate consumer, vertically integrated monopoly is less satisfactory than competitive behaviour at *all* stages."⁶²

They go on to acknowledge this is an improvement over the situation which arises with imperfect bargaining or price leadership, but, again, the present point of comparison is with a competitive market; where more than one importer can source products from more than one supplier; the vertically integrated monopoly is a less satisfactory situation for consumers. Indeed, as they say:

"Our analysis reveals that under plausible circumstances, vertical integration downstream by an input monopolist *can* lead to enhanced monopoly power and price increases. The implications for economic efficiency are even more complex. Integration increases the efficiency of downstream input choices. On the other hand, if downstream product prices are raised owing to integration, output is restricted and classic deadweight monopoly misallocation losses occur."⁶³

⁶² Page 521

⁶³ Page 526

I have been discussing the monopoly situation whereas restricting supplies of a particular brand is unlikely to create a monopoly on present interpretations of that term, given the Court's reluctance to see markets as constituted by a single product. However, if there is any market power, then similar consequences can be anticipated from vertical integration. The essential point being made is that the economic consequences are not as clear cut as might be implied by an outright ban on parallel imports, which augments any strength a vertically integrated exporter-importer may have.

Given the present context of the merits of a banning of parallel importing, which generally sets up a single importer,⁶⁴ it is interesting that Scherer and Ross should say:

"Greater profit can be gained by an upstream monopolist if it sells to a competitive downstream sector or, failing that, integrates vertically to bring the downstream sector under its internal control."⁶⁵

The appointment of a single importer thus seems counter intuitive, given that selling into a competitive market⁶⁶ generates more profit for the right holder.

E Vertical Restraints

Any adverse consequences on consumers arising from such vertical integration are compounded when the consequences arising from vertical restraints are factored in. The two most common vertical restraints are resale price maintenance, which is not necessarily a component in the present context, and the

⁶⁴ Not always the case however; IBM has authorised six resellers to import and market IBM computers into New Zealand.

⁶⁵ Page 541

⁶⁶ That is, to a number of importers who then compete amongst each other to resell; a business model used by IBM, for example, which has six resellers in New Zealand. That must go a long way towards preventing any of the harm which might arise from banning parallel importing.

grant of an exclusive territory, which is an inevitable consequence of banning parallel imports. Other potential restraints are where a right holder requires the importer to deal only in products from the right holder (exclusive dealing) or requires it to take other products from within its range (bundling).

Quite clearly, a vertically integrated firm has formidable power to restrain the conduct of the downstream seller (i.e. the importer), by dictating the terms upon which it must buy and then resell the product but vertical integration is not necessary to the grant of an exclusive territory.

Interestingly, Scherer and Ross describe the legal response in the United States as "tumultuous"; and at the same time there

"...have been sharply conflicting interpretations of the economic motivations for, and consequences of, vertical restraints... [F]ew questions in the field of industrial organisation economics have been debated more heatedly.⁶⁷

The underlying motivation behind vertical restraints is to make the downstream sector less competitive by the creation of areas of monopolistic power or by increasing the margin between upstream prices and the price at which goods are resold. Again, there is no unequivocal rule that vertical restraints are "good" or "bad"; they do not necessarily benefit nor harm consumers.

One economic justification for resale price maintenance, for example, is that there may be a retail market for goods which is so competitive that retailers have no margins from which to fund customer service, maintain desired levels of inventory to the point that the upstream supplier's profits suffer. In such circumstances, the supplier may stipulate that the retailer must resell at a particular price or higher; the trade-off being that consumers get more services

⁶⁷ Page 541

for the higher price⁶⁸. Valuation can never be precise, but if the services do not fully justify the increased price, welfare is transferred to the producer and if there is a sufficiently large disparity in value, it will lead to decreased profitability; as the producer will have priced itself off the market.

The protection from competition implied by the grant of an exclusive territory is said to be justified by the scope given to the importer to charge a higher margin between purchase and sale prices than under unrestricted competition, encouraging increased services provided by the importer/reseller and the carrying of larger stock-levels and attracting more able sellers. These "benefits" to consumers run up against the same problem which arises under vertical restraints; the inability to actually measure in any meaningful sense whether the higher prices paid are reflected in corresponding benefits.

Bork⁶⁹ quite convincingly demonstrates that a firm will not set up a vertical restraint for the benefit of the importer/reseller; it will be doing it for its own benefit. He moves from that point to claim:

"... since vertical restraints are not means of creating restrictions of output, we must assume that they are means of creating efficiencies..."

but it is not clear why there is such a rigid dichotomy of possibilities. Scherer & Ross geometrically illustrate that where retail prices are raised as the result of a vertical restraint, it is unlikely that there will be a corresponding gain to consumers, implying a loss in social welfare.⁷⁰

One significant argument raised to justify exclusive territories is that it eliminates the problem of free-riders; only those who have been authorised to sell the

⁶⁸ Despite this argument in favour of RPM, it is unlawful under *s 37 Commerce Act 1986* although *s 58(7)* does allow application to be made for authorisation.

⁶⁹ Bork, Robert H *The Rule of Reason and the Per Se Concept: Price Fixing and Market Division* (1966) 75 *Yale LJ* 402, 424

⁷⁰ Page 546.

product can do so therefore they will provide pre and post-sale services, free of the worry that they will expend effort in selling a consumer on the idea of buying a particular product but then have the consumer make the actual purchase from a discount outlet across town which makes no such investment in service, and then return to the first dealer for training or warranty support.

Telser⁷¹ argues that retailers will not provide high levels of presale⁷² service without a vertical restraint and its ability to guarantee margins to retailers as an incentive; ultimately all suppliers would take the "no-frills" road. This is not borne out by experience however; there are many examples of firms selling the same product but differentiating themselves by price and service; cheap places happily co-exist alongside the not-so-cheap, and the former provide some form of constraint upon the latter.

As Scherer and Ross point out⁷³, there are limits as the free-rider problem is far less likely to arise in respect to post-sales services; those who recognise the need for after sales support are unlikely to purchase from outlets where, because of price, it is unrealistic to expect in depth service. Furthermore, not all, perhaps not even most, consumers rely upon pre-sales services; because of previous experience or transparency of attributes which means the consumer can assess the product for him/herself. In addition, unless there are significant savings to be made, which implies a high value item, free-riding is not likely.

F Rent Seeking

Rent seeking behaviour is generally regarded as inefficient, because it does not lead to any increase in output, yet incurs a cost, possibly a significant one. It is almost inevitable in the present context; the efforts expended by those seeking to

⁷¹ Telser, Lester G *Why Should Manufacturers Want Fair Trade* (1960) 3 *Journal of Law and Economics* 86

⁷² Such as advertising, high levels of inventory, returns policies, training and demonstrations.

⁷³ Page 551

maintain the ban, by lobbying governments, public justifications and court actions to restrain those infringing the ban are classic examples of rent seeking. Rather than getting on with business, being more innovative or efficient, firms are engaging in this territorial warfare which does no-one any good⁷⁴

G *Global Perspective*

If there was a clear-cut answer to whether parallel imports was to be permitted or banned, a common world-wide approach might be expected. Surely the fact that different approaches have been taken through time and across countries to the legality of parallel importation for more than one hundred years by the Legislatures and Courts around the world demonstrates the lack of any unequivocal justification for their prevention.⁷⁵

Without analysing the position in any country to any depth, it is interesting to note that different approaches are still taken to parallel importation around the world. There is a trend in some Asian countries to regard it as beneficial. Examples are the decision of the Taiwanese Court to permit parallel importation of Coca Cola despite domestic trade mark registration⁷⁶ and the decision in the Tokyo District Court that allowing importation of genuine Parker pens promoted "free and fair competition"⁷⁷. Hong Kong (at least prior to the Chinese take-

⁷⁴ Except perhaps those consultants and experts who participate in the fight, but even they could generally apply their talents towards more efficient and socially beneficial objectives.

⁷⁵ In England, Canada and the United States, parallel importers have had mixed fortunes. The situation in the United States has fluctuated so much, and is so dependant upon the construction placed on its own legislation, that the legal position of parallel imports in that country necessitates a paper in its own right. Suffice it to say that at various times this century, the legislation has been interpreted to both allow and exclude imports, with the current position favouring allowance. The Supreme Court has recently given leave to appeal so there may well be considerably more clarity in the near future.

⁷⁶ Noted by Ruff, page 122, who gives the citation as *Coca Cola Co v Gin Yu Hsin Co* Taipei Dist Ct, Civil Div 16 May 1991

⁷⁷ Noted by Ruff, page 124, who gives the citation as *Schulyro Trading Co v KK Aki Shokai* Tokyo Dist Ct 1 June 1964 (unreported, but noted in *Tutroro Doi Digest of Japanese Court Decisions in Trademarks and Unfair Competition Cases* 68 1971)

over) and Singapore have also long been markets for parallel importation. Ruff comments that

"... Japan makes frequent use of parallel imports to foster price competition within its markets. Increasingly, the impetus for such competition comes from U.S. pressure to boost import sales within Japan."⁷⁸

which is ironic given that pressure from the United States may well be behind bans against parallel imports in other countries, such as Brazil and New Zealand.

Within the European Community, also, the balance has been drawn that the principle of freedom of movement of goods outweighs the loss of any benefits which might arise from the prohibition of parallel imports, although of course this will not apply to goods imported from outside the community. Ruff again points out the conflict between the promotion of trade within the Community and the protection against imports from non-Community countries:

"As markets continue to globalize, these two functions of the EEC can be expected to grow increasingly irreconcilable."⁷⁹

but he expects that the EEC will seek reciprocal trading policies with other countries and sees the United States as being an aberration if it makes parallel importation harder.

Imports are both necessary to New Zealand, as it lacks the resources to be fully self sustaining, and beneficial, as they allow it to concentrate on producing goods where it has a comparative advantage and trade those goods with countries producing goods in respect of which they have a comparative advantage. There appears to be a world-wide trend towards recognition of the benefits arising from international trade, reflected in the development of free trading areas, such as the

⁷⁸ Page 127

⁷⁹ Page 128

European Community, the North American Free Trade Agreement. In the Asia Pacific, it has been estimated that if New Zealand was to enter a free trade agreement with the ASEAN nations, it would gain \$1 billion annually from abolishing tariff protection alone, with further gains to be made from removal of non-tariff barriers to international trade.⁸⁰ A prohibition of parallel importation does not prevent international trade, but it at least arguably amounts to a barrier and distorts the flow of benefits into New Zealand.

H Summary

Product differentiation is not costless. While it may be a simplification, generally the more investment in differentiation, the higher the cost to the consumer. At the same time, if that differentiation is effective, there will be a corresponding reluctance on the part of the consumer to substitute to another product, which translates into an increased willingness to pay. This increases the potential for price discrimination, which can be enforced by organisational structure and vertical restraints.

These all provide the incentive for an importer to source otherwise than through the domestic channel; the less differentiated the product, the greater the opportunity for an importer to bring in a competing product. The issue is therefore to be summarised as to whether intellectual property protection is to extend beyond the original product (to reward the creation of that product to the investment in differentiation; which is essentially represented by marketing costs.

Given this, it might be expected that those rights systems which protect the invention itself (such as copyright) would be more forgiving of parallel imports and the rights systems which are more closely aligned with marketing and unfair

⁸⁰ According to research conducted by the Centre of International Economics, Canberra, Australia as reported in the *National Business Review* 12 September 1997.

competition (that is, trademarks) would provide the more effective mechanism for preventing parallel importation.

PREVENT PARALLEL IMPORTING

A Copyright Protection

Copyright is a property right which is granted to the author of a literary, dramatic, musical or artistic work, or to his assignee, for a limited period of years. It gives the author the exclusive right to reproduce the work in any form, to publish it, to perform it in public, to broadcast it, to make adaptations of it, and to authorize others to do so. It also gives the author the right to sue for infringement of his rights.

The Copyright Act 1962 provides that copyright in a literary, dramatic, musical or artistic work is automatically conferred on the author of the work as soon as it is reduced to material form. The Act also provides that copyright in a work is transferred to the assignee of the author if the assignment is in writing and is signed by the author.

(3) An importation of a copy of a literary, dramatic, musical or artistic work into New Zealand is an infringement of copyright if the copy was made in a country where copyright in the work is subsisting and the importation is made without the authority of the copyright owner.

- (a) To copy the work;
- (b) To issue copies of the work in any form;
- (c) To perform the work in public;
- (d) To play the work in public;
- (e) To show the work in public;
- (f) To broadcast the work or to cause the work to be so broadcast;
- (g) To make an adaptation of the work;
- (h) To do any of the above things in relation to a copy of the work which has been lawfully made in any country where copyright in the work is subsisting;
- (i) To do any of the above things in relation to a copy of the work which has been lawfully made in any country where copyright in the work is subsisting, if the copy is made for the purpose of enabling it to be used in connection with the work.

V USE OF INTELLECTUAL PROPERTY RIGHTS TO PREVENT PARALLEL IMPORTING

A *Copyright Protection*

By *section 14*, copyright is declared to be a **property right** which exists in a number of statutorily defined **works**. The extensive nature of the definition of works will encompass the preponderance of manufactured and packaged articles, either by virtue of being works themselves, a three dimensional reproduction⁸¹ of one or by being partially comprised by a work; such as a computer programme, artwork, manuals or writing on the packaging. A manufacturer of non-copyright works simply needs to package it or provide a manual in order to be able to use copyright protection to give it a competitive advantage.

The rights attracted by a work are specified in *section 16*,⁸² which will be infringed by conduct proscribed in Part II. Parallel importing has traditionally been regarded as a form of secondary infringement, as it does not involve the making of infringing copies. The parallel importation of copyright works is dealt with by *section 12*:

"(3) An object that a person imports, or proposes to import, into New Zealand is an infringing copy--

⁸¹ Although the term of the protection is only 16 years.

⁸² These rights are the exclusive right:

- "(a) To copy the work:
- (b) To issue copies of the work to the public, whether by sale or otherwise:
- (c) To perform the work in public:
- (d) To play the work in public:
- (e) To show the work in public:
- (f) To broadcast the work or include the work in a cable programme service:
- (g) To make an adaptation of the work:
- (h) To do any of the acts referred to in any of paragraphs (a) to (f) of this subsection in relation to an adaptation of the work:
- (i) To authorise another person to do any of the acts referred to in any of paragraphs (a) to (h) of this subsection."

- (a) If, had that person made the object in New Zealand, that person would have infringed the copyright in the work in question; or

Furthermore, *section 35* deals with the issue of importation of infringing copies:

"Copyright in a work is infringed by a person who, other than pursuant to a copyright licence, imports into New Zealand, otherwise than for that person's private and domestic use, an object that is, and that the person knows or has reason to believe is, an infringing copy of the work."

One other feature of the legislation worth mentioning is the provision made in Part V for the licensing, assignment and transmission (such as upon death) of the copyright, which will last for up to fifty years from the author's death. This emphasises and reflects the proprietary nature of the right.

The issue of whether parallel importation of genuine goods infringes copyright has rarely come directly before the New Zealand Courts. There have, however, been several successful interlocutory applications to injunct the importation of allegedly infringing copies⁸³ as well as decisions from other jurisdictions. Little attempt has been made, at least in the Commonwealth jurisdictions, to rely upon competition legislation to prevent assertion of intellectual property rights⁸⁴. One explanation for this is the insistence upon considering the extent of power in the context of a "market"; current interpretations make it very unlikely that one product can constitute an entire market⁸⁵ and have also placed a high threshold upon the degree of market power required before intervention will occur.

⁸³ There have been three such cases; *Composite Developments (NZ) Ltd v Kebab Capital Ltd* (1996) 7 TCLR 186; the striking out application in *Remington Arms Company Inc and Sportways Distributors v Reloaders Supplies Ltd and R D Dent* (Auckland High Court, CP 384/95, 20 Dec 96 per Master Gambrill) and *Lyntec Holdings Ltd v Wills* (High Court Auckland, CP 11/97, 29 Jan 97 per Robertson J).

⁸⁴ In the United States, such arguments have met with varying degrees of success.

⁸⁵ *Tru Tone Ltd v Festival records Retail Marketing Ltd* (1988) 2 NZBLC 103, 081, upheld on appeal at [1988] 2 NZLR 352.

Over the years, a number of arguments have been relied upon in attempt by parallel importers to avoid infringement. Two in particular need consideration in the present context; one relating to the precise wording of the former legislation which has been held to raise an issue as to the maker of imported goods hypothesised and the other relating to the applicability of the doctrine of exhaustion. Each of these primary issues raises one or more subsidiary issues.

1 What is "Copyright"?

Copyright is declared by *section 14* to be a proprietary right. An important statement of what this actually means can be seen in *J Albert & Sons Pty Ltd v Fletcher Construction Ltd*⁸⁶, which involved a cassette tape of "Muzak"⁸⁷ which had been made in the United States. The maker had all necessary rights to make and use the music recorded on the tape in that country. The defendant importer had obtained all licenses necessary for the **broadcasting** and **performance** of the contents of the tape in New Zealand. The plaintiff however had the sole and exclusive New Zealand right to **reproduce** the musical works contained on the tape and had authorised neither the making nor the importation of the tape. It alleged that the importation was an infringement of its right.

The defendant argued that because it had the right to make an "ephemeral copy" under *section 19*⁸⁸ there was necessarily an implicit right to import it. Quilliam J found the process of statutory interpretation "troublesome"⁸⁹ but accepted the plaintiff's argument. His view was that the *Copyright Act 1962* created:

"... a separation of rights at every level from the moment of composition of a work. Every form of transaction with regard to

⁸⁶ [1974] 2 NZLR 107

⁸⁷ A peculiar type of music, arguably entirely lacking in taste or character, played as background in such places as elevators, shopping malls, supermarkets and telephone "hold" systems.

⁸⁸ A similar right to that granted by s 85 of the 1994 Act to broadcasters to make incidental copies

⁸⁹ Page 114

a work is a separate one, and is given separate protection, and is capable of being separately dealt with upon an economic basis."⁹⁰

Making and importing were thus separate matters and the copyright owner would be entitled to deal separately with each of the rights listed previously as being conferred by *section 16* of the present Act:

"The result is that an author of a work may assign virtually all his rights in all countries or he may assign some only of his rights or he may assign rights of a certain kind in one kind in one country to a particular person and rights of the same kind in another country to another person and so on. The combination of ways in which he may assign his rights is almost endless. Similarly, a person holding a right from an author may himself make further assignments. In these ways there may be a multiplicity of rights all stemming from the original work but all different and all capable of separate assignment."⁹¹

Quite plainly, copyright exists in order to provide a mechanism for extracting all economic benefit from a "work" by the copyright owner, either directly or by selling those rights to others, with a capacity for both vertical and horizontal exploitation.⁹² The possibility of the adverse consequences that might have were not a consideration His Honour saw necessary to mention, but he does confirm the use of a prohibition against parallel importation as setting up the mechanism for price discrimination and the vacuuming up of all consumer surpluses and transfer to the right holder; it is almost as if this is the objective of the Act.

⁹⁰ Page 114

⁹¹ Page 111

⁹² Thus for each and every country offering a similar statutory scheme (the horizontal dimension), each of the separate rights are capable of assignment (the vertical dimension).

2 The "Maker" Argument

Section 10(2) Copyright Act 1962 provided for copyright to be infringed by importation where the making of the article imported would have been an infringement "if the article had been made in the place into which it was so imported." The United Kingdom had similar legislation, as did Canada, which has not yet abandoned it.

This has been interpreted in such a way that the rights of a domestic right holder which has been granted that status by some foreign right holder will not be infringed if the foreign source decides to bring copyright goods into the country itself or even make them there. That instead is regarded as a derogation of grant, for which the foreign right holder might be answerable under contract law, but not copyright law.⁹³

An argument developed as a result in the context of goods bought overseas from a source authorised by the foreign right holder as to whether the "maker" hypothesised by the section was the "actual maker", that is the foreign right holder. If so, as it could legitimately make and sell the works in New Zealand despite there being a domestic right holder, then importation would not be an infringement of copyright.

The alternative hypothesis was that this fictional maker was anyone; could be the importer himself. On this basis, the legislation was seen to require consideration of the importer's rights to make the goods in the country; if that infringed the rights of the domestic right holder, then so too would importation. Obviously, given the exclusive nature of copyright, a parallel importer generally has no right to make the goods, so this interpretation effectively prevents parallel importation whereas the "actual maker" theory is more forgiving.

⁹³ *Barson Computers (NZ) Ltd v John Gilbert & Co Ltd* (1984) 1 TCLR 150, 159

On this point, there has been a divergence between the New Zealand and English approaches. Essentially applying Quilliam J's view of the idea of copyright, the New Zealand Courts rejected the "actual maker" test and considered whether the importer could lawfully make the goods here. As only the holder of the right to make copyright goods had such a right, importation was an infringement.⁹⁴ England, on the other hand, took the opposite approach and focused on the rights of the "actual maker" to make the goods in England; as there was such a right, importation was not an infringement.⁹⁵ The Canadian cases

"... do not really explore the meaning of the hypothetical manufacturing requirement in a detailed manner. However ... the cases tend to suggest that Canadian Courts follow a broader test than the actual maker theory."⁹⁶

He identifies the New Zealand approach as being anomalous and describes our courts as "unrepentant"⁹⁷ yet sees it as having a lot to recommend it, primarily because it is squarely founded upon a territorial notion of copyright, which is consistent with international conventions such as TRIPs. He does acknowledge however:

"The approach may, however, lead to some potential danger of international price discrimination or market sharing; an issue which must be considered."⁹⁸

Notwithstanding this potential for danger, when New Zealand came to rewrite its copyright legislation, it confirmed the *Barson Computers* approach, by enacting the following provision:

⁹⁴ *Barson Computers (NZ) Ltd v John Gilbert & Co Ltd* (1984) 1 TCLR 150

⁹⁵ *CBS United Kingdom Ltd v Charmdale Record Distributors Ltd* [1980] 2 All ER 807 and *Polydor Ltd v Harlequin Record Shop* [1980] FSR 194

⁹⁶ Rothnie, *Warwick A Parallel Imports* 1993 Sweet & Maxwell Australia, pages 206-207

⁹⁷ Page 222

⁹⁸ Page 226

"12(3) An object that a person imports, or proposes to import, into New Zealand is an infringing copy--

- (a) If, had that person made the object in New Zealand, that person would have infringed the copyright in the work in question;"

This is thus a statutory rejection of the "actual maker" theory; in assessing the legitimacy of the importation, the focus is on whether the **importer** could lawfully make the object in New Zealand; the existence of a competing right to make copies will therefore make the importation an infringement.⁹⁹

The implications of this were firmly before the Commerce Select Committee when considering the new legislation¹⁰⁰ yet it moved to confirm the *Barson* approach. The reasons for this are obviously related to the reasons for retaining the ban. The Department of Justice reported on that point:

"Two general points can be made:

- (a) The effects of permitting parallel importing would vary across products as the effects would be influenced by market conditions which are continually changing; and
- (b) Inquiry and research cannot therefore predict the precise effects that parallel importing may have on particular products. In that sense it will never be possible to make a clear case for or against parallel importing."¹⁰¹

Despite this and despite an acknowledgement that abandoning the ban and allowing the discipline of competition would "seem to be consistent with current

⁹⁹ As has been noted, the Australian legislation is to similar effect. England has not taken the same approach; s 27(2) *Copyright, Designs and Patents Act 1988* remains in the form as in their 1956 Act, except that protection has been extended to exclusive licensees, so that there is statutory protection available to such an assignee against imports directly from the copyright owner. This effectively over-rules the decision in *CBS UK Ltd v Charmdale Record Distributors Ltd*.

¹⁰⁰ The Chairman specifically requested one submitter, R S Chambers QC to report on the legal implications of the wording of the section.

¹⁰¹ Department of Justice Departmental Report on Copyright Bill to Commerce Select Committee 3 November 1994, page 40

economic policies in New Zealand" and the inconclusive nature of studies commissioned, the present legislation seems to have been strongly influenced by the views of Prichard J in *Barson Computers*; indeed, The Department of Justice noted the expectation that most submitters expected the law to remain as stated in that case.

In my view, two factors were vital in swaying the Government towards retention of that approach:

- The majority of the submitters represented the owners of intellectual property rights and had a natural interest in extracting maximum protection from the legislation. Balanced against this unity were a few individual consumers and dealers who saw benefits in removing the ban. It was not merely a matter of majority desire but also those calling for the ban had economic and political power;
- There is a reference in the report to the Ministry of Foreign Affairs and Trade report that there could be serious consequences to New Zealand's trade relations with the United States, immediately followed by the following:

"On further reconsideration of the issue, the Government favoured the retention of the ban on parallel imports;..."

This emphasises the foundation of the decision being a political one. Now it seems to have been accepted without question in *Composite Developments (NZ) Ltd v Kebab Capital Ltd*¹⁰² that if the skis in question had been new, there would undoubtedly have been an infringement, given the wording of *secs 12 and 35*.

In that decision, without any discussion, Salmon J accepted that *section 12* arguably did apply to importation of second hand skis and, with respect, that does seem entirely in accord with the analysis provided by Quilliam J, which recognised a complete separation of rights between a copyright holder in New

¹⁰² (1996) 7 TCLR 186

Zealand and the holder of the equivalent rights in other countries; the United States in this instance. If goods are brought into New Zealand by someone who has no right to make them here, there is no foundation in the legislation for any distinction between new and second-hand goods.

3 Functional Objects Argument

If the importer can point to a right to make objects, it then has not infringed copyright by importation. One possibility for a parallel importer is to rely upon an argument that has been raised in England that the rights of those who create purely functional objects are curtailed by a wider public interest, based upon the fact that copyright gives a monopoly right¹⁰³ to works, a matter which gave rise to objection in *Dennison Manufacturing Co v Alfred Holt & Co Ltd*¹⁰⁴ where price labelling tags had been imported, allegedly in contravention of the plaintiffs copyright in drawings of the tags. The defendant argued that a copyright did not, or at least should not, give rise to "a monopoly in a functional manufactured product which is not susceptible of patent or registered design protection."¹⁰⁵

This was founded upon *British Leyland Motor Co Ltd v Armstrong Patents*¹⁰⁶ which created an exception for spare parts from copyright infringement. In that case, the facts are evocatively summarised by Lord Templeman¹⁰⁷

"BL manufacture the Marina car. The component parts ... include two lengths of exhaust pipe ... The exhaust pipes need replacement at intervals which vary from six months to two years. Armstrong manufacture replacement exhaust pipes for

¹⁰³ There appears to be ready acknowledgement by Judges that intellectual property rights do create monopoly interests but only in the sense of the exclusivity of particular rights, not necessarily in the sense of a monopoly in the marketplace so as to attract the application of competition legislation.

¹⁰⁴ (1987) 10 IPR 612

¹⁰⁵ Page 619

¹⁰⁶ [1986] 2 WLR 400; (1986) 6 IPR 102 (HL).

¹⁰⁷ Pages 628-9

the Marina and in order to do so copy the shape and dimensions of the original.. BL claim that the tentacles of copyright have now reached out to prevent Armstrong from manufacturing exhaust pipes for the Marina unless Armstrong pay such royalty as BL think fit to require... If [BL are correct] it follows that any motorist who drives a BL car must buy his spare parts from BL at the price fixed by BL or bear the burden of a royalty payable to BL for the privilege of buying his spare parts from some body else. The purchaser of a BL car sells his soul to the company store."

In that case, it was specifically held that there was no general exemption from copyright protection on the basis of the goods being purely functional and non-artistic; insofar as such goods are the three-dimensional representation of drawings in which copyright subsists, then the goods so produced will be protected on the basis that their copying would be an indirect copying of the drawings.

Lord Templeman¹⁰⁸, found, unsatisfactory as it was, that British Leyland did have copyright protection and

"we must take copyright law as we find it"¹⁰⁹

Lord Bridge, although finding infringement, did acknowledge the unsatisfactory state of copyright law because, first, copyright protection virtually gave the "patent monopoly" without the strictures consequent upon patent protection¹¹⁰ and, second, he saw it as "irrational" that conversion damages be available for the designer of industrial products, when the design contribution is only a "modest fraction of the value of the product".¹¹¹

¹⁰⁸ with whom Lords Scarman and Edmund-Davies concurred

¹⁰⁹ Page 639, quoting Lord Hailsham in *L B (Plastics) Ltd v Swish Products Ltd* [1979] RPC 551, 631

¹¹⁰ and without the implied licence to sell implicit in sale of a patent item.

¹¹¹ Page 623

Lord Griffith alone held that the copyright protection against reproduction by indirect copying did not extend to protect mechanical drawings or blueprints of purely functional objects, so found no infringement as Armstrong had not only not copied these drawings, it had not even seen them. Indeed, he saw it as improbable that a manufacturer would exploit copyright by restricting supplies or increasing the price of spare parts, because that would have an effect on its ability to sell the goods to which they were to be fixed.¹¹² Any such abuse would need correction by Parliament.

The difficulty of course with his approach is that the legislative language does not allow for a distinction between functional and "artistic" objects¹¹³ and he did recognise the importance of maintaining protection against the reproduction in three dimensional form of drawings which did have artistic merit or value¹¹⁴.

In reaching the decision that there was no copyright protection, His Lordship saw it as relevant that British Leyland had already enjoyed the "primary benefit"¹¹⁵ protected by the copyright and that it was inconsistent to sell cars, thereby creating the right to repair, and to at the same time restrain the free exercise of such rights; "[t]he law does not countenance such inconsistencies."¹¹⁶

The basis then of the House of Lords decision was discretionary; it found that British Leyland was entitled to copyright protection but that entitlement conflicted with the right of the purchasers to repair the vehicles; exercise of the copyright protection would be in derogation of the rights granted as part of the sale.

¹¹² He said, at page 655, he had "misgivings" about the spare parts exception and that he would have had "the greatest difficulty in refusing to enforce that [*i.e.* copyright] protection because it might ... make it more difficult or expensive for the owner of a machine to obtain a spare part." The monopolistic right created by the fact of copyright protection necessarily caused some interference with the rights of others.

¹¹³ Unless there is an equating of "functional" objects with items which are not original, but there seems little justification for that approach either.

¹¹⁴ Page 654

¹¹⁵ Page 627

¹¹⁶ Page 627

With respect, this principle is vulnerable to becoming inapplicable whenever there is some separation in ownership between the copyright drawings and the three dimensional reproduction; if British Leyland had not also owned copyright in the drawings, there would be no derogation from grant if the copyright holder was to assert its rights.¹¹⁷

In any event, in *Dennison* His Honour held that there was no factual basis for any similarity between that case and *Armstrong* and that the issue had already been decided in New Zealand against applicability of this spare parts exception, in *Wham-O Manufacturing Co v Lincoln Industries Ltd*¹¹⁸. and *Mono Pumps (NZ) Ltd v Karinya Industries Ltd*¹¹⁹ on the basis of there being substantial differences in the relevant legislation between the two countries.

In an important decision, the Privy Council has recently limited the scope of the *Armstrong* decision. In *Canon Kabushiki Kaisha v Green Cartridge Co (Hong Kong) Ltd*¹²⁰ which involved the making of photocopy cartridges.¹²¹ Lord Hoffman, delivering the decision of the Judicial Committee, saw *Armstrong* as an expression of:

"... over-riding public policy, namely the need to prevent a manufacturer from using copyright ... in order to control the after-market in spare parts. This appears clearly from the emphasis on the need for an 'unrestricted market' as opposed

¹¹⁷ This vulnerability seems to be implicitly acknowledged by His Lordship, when he goes on to emphasises the retention of copyright in the drawing of the exhaust pipe fitted to the car, after sale of the car itself.

¹¹⁸ [1984] 1 NZLR 641; (1984) 3 IPR 115. It should be noted that this policy argument was not before the Court of Appeal in *Wham-O* and it is difficult to read any view as being expressed by the Court on this point, given that its decision was founded on the finding that there was sufficient originality in the Frisbee to merit protection; the rings placed by the plaintiffs can be seen as "capricious" and so depriving the Frisbees of a completely utilitarian or functional quality.

¹¹⁹ (1986) 7 IPR 25

¹²⁰ [1997] 3 WLR 13, on appeal from Hong Kong.

¹²¹ Owners of Canon photocopiers and laser printers, instead of replenishing toner supplies periodically, are required to replace "cartridges" which contain toner, a corona wire, a drum and scraping device to stop build ups on the drum. The defendant made cartridges and attempted to sell them in competition with the Canon product.

to the right of the manufacturer to 'use his copyright in such a way as to maintain a monopoly in the supply of spare parts'¹²².

This clear acknowledgement of monopoly rights without apparent concern is almost frightening in its disregard of the benefits of free markets and the potential evils of monopolies. His Lordship explained *Armstrong* as being based on an analogy with the kinds of repairs an ordinary man who bought the items could do himself and on an assumption that the exercise of market power operates against consumers¹²³.

With respect, such an assumption seems equally valid as an assumption that market power operates for consumers, implicit in His Lordship's focus on the need to establish anticompetitive behaviour, particularly as those holding market power will act in their own interests to the degree that market power allows them to. Consumer benefit is a possible by-product, not an essential outcome.

4 Exhaustion

The adverse impact on consumers of a ban upon parallel imports came quite plainly before the court in *Time-Life International (Nederlands) BV v Interstate Parcel Express Co Pty Ltd*¹²⁴ where the defendant bookstores, concerned at the local wholesale price of \$A10.17 of certain Time-Life books against a United States retail price of \$US8.95, did a deal with an American wholesaler (which had bought from the Plaintiff's American distributor) which allowed the books to be sold at a retail price of \$A8.95. A feature here was the fact that the importer seems to have been unable to acquire the plaintiff's books through the Australian

¹²² Page 19

¹²³ Features which were not so clearly present in the instant case, in his view.

¹²⁴ (1976) 12 ALR 1; on appeal to High Court *Interstate Parcel Express Co Pty Ltd v Time-Life International (Nederlands) BV & Anor* (1977) 15 ALR 353

distributor, yet the plaintiff saw fit to advise the importer of the infringement of copyright and require it to stop.¹²⁵

Bowen CJ, at first instance, had little difficulty in finding copyright *prima facie* infringed. The plaintiff had the statutory exclusive right of publication in Australia and was infringed by importation whenever the importer or a seller within Australia¹²⁶ knew that if he made the item in Australia, there would be an infringement.¹²⁷

Much was made by the defendant of American case law which had held it unlawful on the part of an American publisher to try to impose territorial or customer restrictions upon resale upon the buyers from it of books,¹²⁸ on the basis that this action was an attempt to impose such a restriction. For this reason, Time Inc withdrew but that did not prevent Time-Life, as exclusive licensee, from continuing with the proceeding. Thus, for technical reasons, the issue of the legitimacy of vertical restrictions was not before the Court.

One argument raised was that the sale without restriction upon export in America was some form of licence to import the goods in Australia, despite the fact that the books had actually been bought from a distributor unconnected with the United States right holder¹²⁹. In policy terms, if it was correct to regard the mere sale of an article as implicit licence to import or re-sell, Bowen CJ saw that:

"... not only will the procedure of granting exclusive licenses for particular areas of copyright be seriously undermined, but the national division of copyright set up under the system of International Copyright Conventions in so far as it provides for

¹²⁵ Interestingly, the importer's response was to place a further order with its American supplier.

¹²⁶ The defendant, as importer and operator of a chain of bookstores, was both.

¹²⁷ To paraphrase the combined effect of *secs 31(1), 37 and 38*

¹²⁸ *United States v Arnold, Schwinn & Co* 388 US 365 (1967) was cited as the leading authority.

¹²⁹ Really no more than a variation on arguments related to exhaustion.

partial assignments and exclusive licences, both vertical and horizontal, would be to a significant degree be subverted."¹³⁰

The importer then argued that the simple sale by the copyright owner to the trade without restriction necessarily imported a licence to deal with the books in any way the buyer saw fit, known in the European context as the doctrine of exhaustion. Thus the imposition of restrictions by way of copyright was a breach of the Australian equivalent of the *section 14 Sale of Goods Act 1908* "right to sell" condition and warranty of quiet enjoyment.

The objection to this was that the buyer would still be subject to all laws of the country of purchase and of any country to which the goods may be taken, and no seller could, in effect, authorise a buyer to disregard those laws, including the copyright laws. This was addressed by Gibbs J in the High Court:

"To warrant that the buyer shall have quiet possession of what he buys is not to warrant that the owner of the copyright consents to the importation of the purchased books into Australia and their sale there after importation, or to warrant that the buyer may import the books into Australia and resell them without the consent which [secs 37 and 38] require...

"The 'licence of the owner of the copyright' ... means the consent of the owner to the importation of the articles into Australia for the purposes of reselling them ... and such a licence cannot ... be inferred from the mere fact that the owner of the copyright has sold the goods without any express restriction upon their subsequent disposal."¹³¹

"The sale of an article confers on the buyer all the rights of ownership including the right to use the article, but it seems a

¹³⁰ Page 13

¹³¹ Page 361. To hold otherwise would limit the operation of s 37 to pirate copies or copies sold subject to some express restriction.

mis-use of words to say that a person who sells an article consents to it being used in any way the buyer wishes."¹³²

Here a distinction is being drawn between the proprietary interests of the buyer in the chattel constituted by the book and the continued proprietary interest of the copyright owner in its contents. Just as the book owner has a limited right to copy and sell those copies, so too is its right of sale restricted by this copyright interest. Thus His Honour continues:

"The copyright in the literary work of course remains with the copyright owner; the buyer has bought no part of it and remains as he was before his purchase, unable lawfully to enjoy any of those exclusive rights, reproduction, adaptation or the like, which ownership of the copyright preserves exclusively for the copyright owner."¹³³

Gibbs J did however say:

"In some circumstances when the owner of copyright sells a book his consent to a particular use may be implied. For example if the owner of copyright sold in America a commercial quantity of books for delivery to a buyer in Australia, whom he knew to be a bookseller, his consent to the importation of those books into Australia and their sale their might well be implied."¹³⁴

Here of course, the books had not been purchased from the copyright owner, and the wholesaler had no authority to give consent on its behalf. This possibility came before the Court in *Ozi-Soft Pty v Wong*¹³⁵, where computer disks containing software were purchased in various overseas countries from the copyright owner and without any restriction upon resale before being imported

¹³² Page 359

¹³³ Page 366

¹³⁴ Page 360

¹³⁵ (1988) 10 IPR 520

into Australia. Nonetheless, Enfield J reached the same conclusion that there was no implied licence.

The argument concerning exhaustion was given considerable attention by Prichard J in *Barson Computers (NZ) Ltd v John Gilbert & Co Ltd*¹³⁶ where he said:

"It is generally true that a purchaser of articles made under copyright by or with the licence of the owners of the copyright, can make any use he likes of his purchase and will not thereby infringe copyright. But it is otherwise when copies are taken across an international frontier for purposes of trade without the consent of the person who owns the copyright in the country of importation. This principle has international recognition. It is implemented by a system whereby each nation provides in its own legislation that such importation is a separate species of secondary infringement.

"The object is to protect the interests of persons who own copyright in the country of importation. If, for example, the copyright owner licenses the making of copies of the original work in a foreign country and has no protection against importation of those copies into other countries where he owns the copyright, the value of his copyright in the country of importation will be diminished. Foreign made copies could then be imported into the country where the copyright owner is domiciled and where he owns the copyright - possibly flooding the market with copies manufactured abroad far more cheaply than they can be made in the "home" country. Or the foreign made copies may be imported into another overseas country to the detriment of an exclusive distributor or licensee appointed in that country by the copyright owner - and the ultimate detriment of the copyright owner.

¹³⁶ (1984) 1 TCLR 150, at 153

Obviously, his concern here is with the ability of the right holder and its duly appointed importer to extract maximum benefit; this ability would be destroyed by a "flood" of parallel importation. A similar problem would arise if the imported goods are actually made by the copyright owner, where it would be the authorised importer which would suffer most directly, by depleted royalties. As far as the rights of the buyer of the goods, he saw this as raising issues which lead to confusion of thought but referred back to the opinion of Gibbs J in *Time-Life*:

"... the judgment is of value in that it elucidates the point that the title acquired by the purchaser of a chattel, while entitling him to make such use of the chattel as he thinks fit, does not enable him to use the chattel in a way which infringes any copyright owned by the vendor. That is because although transferring full and unrestricted rights of chattel ownership to the purchaser, the vendor still retains his copyright."¹³⁷

Thus, it is clear that the territorial nature of copyright protection and remuneration of the copyright holder are the paramount concerns to be addressed under copyright legislation.

5 Abuse of Market/Monopoly Power

The question of the general impact of copyright on the market-place received some attention in the High Court of Australia decision in the *Time-Life* case, where Stephen J said:

"This conclusion [that the importation infringed copyright] means that what the appellant saw as a means, in appropriate circumstances, of selling in Australia books published abroad at much lower prices than are presently available through overseas' publishers Australian distributors is foreclosed to it.

¹³⁷ Page 155

The high cost in Australia of imported books relative to prices in their country of publication and the reasons for it are discussed by Sir Richard Eggleston in *Re Books*¹³⁸. It is neither a novel nor a local phenomenon¹³⁹ ... and is directly related to the operation of sections 37 and 38 of the *Copyright Act* and its overseas equivalents ...

"There is, then, no novelty in the view that indirect infringement of copyright may result from the importation of material which until imported infringed no copyright ... and indeed may have originated with the plaintiff copyright owner. Any undesirable economic or cultural effects which some may discern as flowing from this aspect of copyright protection are a matter for the legislature^{140, 141}.

Murphy J was obviously more inclined to the view that the Court did have power to deal with undesirable economic effects. He found an infringement but noted that the granting of relief was "discretionary"¹⁴² and saw it as important to consider the possible effect of the *Trade Practices Act 1974* on the activities of the plaintiff in seeking a restraint of the importation by the defendant. In his view, if the plaintiff was to succeed in stopping the importation:

"... this will deter others, and result in Time Inc ... monopolising part of the commerce between the United States and Australia. The evidence suggests that Time-Life International's enforcement of its copyright may breach the *Trade Practices Act 1974 (Com)*."¹⁴³

¹³⁸ (1970) FLR 256

¹³⁹ Making reference to *Re Associated Booksellers of New Zealand* [1962] NZLR 1057 and Lahore and Griffiths *Copyright and the Arts in Australia* (1974) for the Canadian position.

¹⁴⁰ A matter which, as will be seen, has been taken up by the Australian Government.

¹⁴¹ Pages 369-370

¹⁴² Page 373

¹⁴³ Page 373. He referred specifically to *s 46(1)* which, although not of identical effect, is the functional equivalent of *s 36 Commerce Act 1986* and also the prohibition of resale price maintenance.

Although he saw the evidence as "scanty", His Honour saw it as suggestive that the Australian public would suffer if the plaintiff was to succeed, because the copyright was being used to "manipulate" the Australian market through the plaintiff controlling the outlets and so allowing for a virtual doubling of the price and a delay in access to publications freely available in the United States. It is interesting that such conduct is generally seen as characteristic of, and therefore to some extent probative of, a monopolist. A firm exposed to genuine competition simply could not afford to indulge in such conduct.

Returning to Murphy J, he said:

"Once the facts of a case disclose the reasonable possibility of a serious breach of the *Trade Practices Act* or injury to the public interest by a party, the court can and should require the party to negate this before exercising discretion in its favour."¹⁴⁴

Essentially, he saw this as an application of the equitable "clean hands" doctrine and referred to American authority¹⁴⁵ but as the matter had not been raised at the trial and given the limitations upon appellate courts to hear matters *de novo* did not seek to exercise any discretion against enforcing the plaintiff's rights.

Enfield J in *Ozi-Soft Pty v Wong* could see no room for the application of the trade practices legislation nor any grave injury to the public arising from the importer being restrained. He did however echo the comments of Murphy J in the *Time-Life* case by saying:

"It may be that some other mechanism needs to be developed to resolve these issues, because the interests of the Australian people in having free access to literary, musical and artistic works, even computer video entertainment, are adversely

¹⁴⁴ Page 375

¹⁴⁵ *Precision Instrument Manufacturing Co v Automotive Maintenance Machinery Co* (1945) 324 US 806 where the Supreme Court saw the fraudulent use by the plaintiff of patent rights as disentitling it from relief.

affected if oppressive restrictions on importation and sale may be imposed by copyright owners who are not themselves importing or intending to import the works in question.¹⁴⁶

The Australian Government took heed of comments like this, and initiated an investigation by its Price Surveillance Authority, which found widespread inefficiencies in the book trade and that Australians were the victims of international price discrimination. Notwithstanding criticisms of its methodology and assumptions¹⁴⁷ the Australian *Copyright Act* was amended to allow parallel importation of books, but only in circumstances where books have been published overseas but do not arrive on the Australian market within a particular time at reasonable prices and quantity levels.

Despite further reports by the Price Surveillance Authority finding similar results in the markets for musical recordings and computer software, there has been no move to amend the legislation further.

¹⁴⁶ Page 525

¹⁴⁷ Rothnie, Chapter 10

B Trade Mark Protection

1 Justification

Trademarks are regarded as providing "bifurcated"¹⁴⁸ protection to the consumer and to the trademark holder. In an often cited article, Landes & Posner¹⁴⁹ point out the benefit to the consumer is that trademarks reduce search costs and provide some guarantees of quality or at least consistency. This is because the firm's incentive to invest in the creation and maintenance of a strong mark depends upon consistent quality; a consumer who finds that goods bearing the same trade mark vary in quality will be unlikely to see the mark as assisting in the decision to repeat a purchase. Thus consumer confusion is reduced.

The learned authors acknowledge that arguments are raised (as have been earlier in this paper) that

"... by fostering product differentiation, trademarks may create deadweight costs [because] it induces the owner to spend money on creating, through advertising and promotion, a spurious image of high quality that enables monopoly rents to be obtained by deflecting consumers from lower-price substitutes of equal or even higher quality."¹⁵⁰

Furthermore, as the argument goes

"... the ability of name branded goods to command higher prices than generic goods has seemed ... an example of the power of brand advertising to bamboozle the public and thereby promote

¹⁴⁸ Ruff, page 129

¹⁴⁹ Landes, William M & Posner, Richard A *Trademark Law: An Economic Perspective* (1987)
30 *Journal of Law & Economics* 265

¹⁵⁰ Page 274

monopoly.... [Even if] no monopoly profits are created, consumers pay higher prices, and resources may be wasted in a sterile competition."¹⁵¹

Their answer is that this "hostile view" of brand advertising has been rejected by economists, because even where goods have the same chemical formula, the trade mark is a form of guarantee that the formula has been adhered to and allows economising on a real cost because less time is spent on searching for the product actually wanted.

Even if this is accepted, and, with respect, there is room to be sceptical¹⁵², the justification breaks down when it comes to importation of goods from a foreign firm which owns a trade mark rather than buying directly from whichever domestic firm has been authorised to apply that trade mark, particularly if those goods are identical to the goods obtainable overseas.

Setting aside this argument over whether the trade mark is for consumer protection,¹⁵³ the reason a manufacturer will use one is to differentiate its products from other producers of similar products. In the present context my concern is the degree of control a trade mark gives its owner once the goods are sold, in particular, whether it gives territorial control, so that trade marks can be used to enforce a policy of price discrimination. Given the ease with which a trade marked good can qualify for copyright protection and the strength of that

¹⁵¹ Page 274

¹⁵² Ruff (at pages 138-139), for example, in the United States context argues convincingly that elimination of consumer confusion has not driven the decisions in which Courts have prevented parallel importation. He suggests that any potential for consumer confusion could easily be resolved by product labelling laws requiring information to be given as to origin and warranty, as seems to be the case in Mexico, where importers are required to identify themselves on products brought into the country. Furthermore, actual or likely consumer deception is addressed by other legislation such as New Zealand's *Fair Trading Act*. This allows targeted protection, without the costs associated with an outright ban.

¹⁵³ Until approximately the mid 18th century, it is likely that a trade mark predominately served the purpose of distinguishing one trader's goods from those of another; a function made necessary by the widespread illiteracy, a condition which was still a factor in the passing of case of *William Edge & Sons Ltd v William Niccolls & Sons Ltd* [1911] AC 693.

protection against parallel importation, however, the use of trade marks to prevent parallel importation is of much lesser importance.¹⁵⁴

2 Legislation

The possibility of using a trade mark to prevent unauthorised imports arises out of the exclusive right given by *section 8* to a registered proprietor of a trade mark in respect of any specified goods and services to use the trade mark in relation to those goods. This right is infringed if anyone other than the registered proprietor or user:

...uses in the course of trade--

(a) A sign identical with it in relation to any goods or services in respect of which the trade mark is registered;

or

(b) A sign identical with it in relation to any goods or services that are similar to any goods or services in respect of which the trade marks registered, if such use would be likely to deceive or cause confusion; or

(c) A sign similar to it in relation to any goods or services that are identical with or similar to any goods or services in respect of which the trade mark is registered, if such use would be likely to deceive or cause confusion, --

and in such manner as to render the use of the sign likely to be taken--

(d) As being use as a trade mark;...¹⁵⁵

The starting point is thus a New Zealand registered user or proprietor of a particular trade mark. As the argument goes, when goods bearing this same trade mark are imported and put up for sale by anyone other than the registered

¹⁵⁴ *R A Bailey Ltd v Boccaccio Pty Ltd* (1986) 4 NSWLR 701 illustrates this; the trade mark was ineffective to prevent importation but the label was held to be copyright and therefore able to be used to prevent parallel importation.

¹⁵⁵ *S 8(1A) Trade Marks Act 1953*

right holder, that constitutes an infringing "use" of the trade mark. This will be so even where the trade mark on the allegedly infringing goods was applied validly by the foreign source, which might even be the assignor of the New Zealand right holder's rights or its parent company. The "exclusive" right prevents use in the country by **anyone** other than the domestic right holder, including the foreign source¹⁵⁶.

3 The "Internationalism" of a Trade Mark

Through time, there have been different views as to whether a trade mark has world-wide effect given the multinational operations of many trade mark owners¹⁵⁷ or whether it is subject to some territorial limitation¹⁵⁸.

An early but important case is *Champagne Heidsieck et Cie Monopole Societ  Anonyme v Buxton*.¹⁵⁹ An importer bought champagne from France, imported it into Britain, where the trade mark proprietor, which had been granted that right by the French source, alleged infringement of its registered trade mark¹⁶⁰. Clausen J held the trade mark reflects the right that any person designating his goods by a trade mark

"has to prevent others from selling goods which are not his marked with that mark in order to mislead the public and so

¹⁵⁶ Although if the foreign source has power to control the right holder, it would be expected to direct the right holder not to object if the foreign source itself infringes the right holder's rights.

¹⁵⁷ The "universal approach". Essentially what this means is that all members of a group of companies operating in a number of countries are treated as one "family", so that if use of a trade mark is allowed by one member (generally the "parent" or central repository of rights), then other members of the family can not complain if goods come in to their country.

¹⁵⁸ The "territorial" approach. Within the "family" structure outlined in footnote ¹⁵⁸, each member has a territory, within which it has the exclusive right to use a trade mark and consent to use by some other member, even the parent, will not be a defence.

¹⁵⁹ [1930] 1 Ch 330

¹⁶⁰ Essentially, the label constituted the mark. As the product sold by the defendant bore virtually the same label, it allegedly infringed the registered proprietor's rights.

incidentally to injure the person who is owner of the trade mark"¹⁶¹.

He also held that the parallel importing was **not** an infringement of the *Trade Marks Registration Act (UK) 1875*, a trade mark was not a "badge of control":

"...the use of a mark by the defendant which is relied on as an infringement must be a use upon goods which are not the genuine goods, *i.e.* those upon which the plaintiff's mark is properly used, for anyone may use the plaintiff's marks upon the plaintiff's goods, since that cannot cause the deception which is the test of infringement."¹⁶²

This shows an international concept of a trade mark; there was no infringement because the goods had been obtained from the same foreign source as the domestic right holder looked to as the source of its rights.¹⁶³ The genuineness of the goods in their country of origin was a complete defence.

This was given an extended scope in *Revlon Inc v Cripps & Lee Ltd.*¹⁶⁴ Revlon Inc¹⁶⁵ owned trade marks and operated in England through subsidiary companies, one of which was the assignee of the relevant trade marks. The defendant obtained supplies of an anti-dandruff Revlon shampoo from the US, which Revlon did not market in the UK, and started selling it there. The Court found a *prima facie* infringement but the importer could rely on a statutory defence, which is available whenever the domestic proprietor either applies the trade mark or consents to its application to the goods.¹⁶⁶ According to Rothnie:¹⁶⁷

¹⁶¹ Citing *Farina v Silverlock* (1856) 6 De G.M & G 214, 217; 43 ER 1214 at 1216

¹⁶² *Champagne Heidsieck* case at page 341

¹⁶³ The same general result was reached in the *Bailey* case although His Honour made no specific finding in respect of the defence submission that it was unrealistic to split a world-wide market and trade mark into national compartments.

¹⁶⁴ [1980] FSR 85

¹⁶⁵ a United States corporation

¹⁶⁶ By way of reminder, the particular trade mark was applied to the imported goods by the US parent, Revlon Inc

¹⁶⁷ Warwick A Rothnie *Parallel Imports* 1993 Sweet & Maxwell Australia

"Both judgments stressed the role of trade marks in indicating source and each was clearly troubled by the thought that Revlon Inc could avoid *Champagne Heidsieck* by the simple expedient of transferring its rights to a subsidiary."¹⁶⁸

Buckley LJ held that the function of the trade mark in such circumstances was not to denote a particular part of the group as the source, but instead to denote goods coming from the group as a whole¹⁶⁹:

"The exploitation of the mark and of the goods to which it relates is a world-wide exercise in which all the component companies of the Group who deal in these particular products are engaged..."¹⁷⁰

Rothnie sees the lack of autonomy by the subsidiaries and their lack of individual identity as being critical to this finding:

"...it would seem that the trade source indicated when a member of a corporate group uses a trade mark is not the particular person entered on the register, but each and every member of the corporate group. That broad proposition is ... based on a broader 'economic', rather than a strictly legal, view of the firm."

¹⁷¹

This lack of autonomy is one of the situations previously identified as giving rise to the potential for social and economic harm; the degree of vertical integration here allowed for a great deal of power to be exercised by Revlon Inc over its subsidiaries. Although this was not specifically referred to as a reason for not allowing trade mark protection, the decision removes the potential for that harm arising in the markets in which the subsidiaries operate.

¹⁶⁸ Rothnie, Pages 27-28

¹⁶⁹ The general approach of *Revlon* has been adopted in the New Zealand case of *Tamiya Plastic Model Co v Toy Warehouse Ltd*, noted at [1989] EIPR 277

¹⁷⁰ *Revlon* case, Page 106

¹⁷¹ Page 28

Unfortunately, his saying that the trade mark allows its owner to prevent injury to its reputation by misuse of the trade mark seems to have been taken as authority that a trade mark duplicates the passing off remedy and allows control of resale by claiming trademark infringement. This led to the imports of Atari video games being restrained on one application by an Australian trade mark holder.¹⁷² When the holder sought to rely upon the same grounds against another parallel importer, Smithers J said:

"...once a manufacturer puts a trade mark on his goods and sends them into the course of trade on the billowing ocean of trade, wherever people *bona fide* deal with those goods under that name and by reference to that trade mark, not telling any lies or misleading anyone in any way at all, they are simply not infringing the trade mark. They are not 'using' the mark in the relevant sense."¹⁷³

Young J in *R A Bailey Ltd v Boccaccio Pty Ltd*,¹⁷⁴ facing a similar issue on application by the owner of "Baileys Original Irish Cream" trade marks to stop importation from Holland, referred to¹⁷⁵ *Re Powell's Trade Mark*¹⁷⁶:

"... The function of a trade mark is to give an indication to the purchaser or possible purchaser as to the manufacture or quality of the goods - to give an indication to his eye of the trade source from which the goods come, or the trade hands through which they pass on their way to the market."

On this basis, the defendant argued that the sale in Holland brought to an end the use of the trade mark and any subsequent sale would not be a "use" of the trade

¹⁷² *Atari Inc v Dick Smith Electronics Pty Ltd* (1980) 33 ALR 20

¹⁷³ *Atari Inc v Fairstar Electronics Pty Ltd* (1982) 50 ALR 274, 277

¹⁷⁴ (1986) 4 NSWLR 701

¹⁷⁵ at page 707

¹⁷⁶ [1893] 2 Ch 388, 403-4 per Bowen LJ, approved by Viscount Maugham in *Aristoc Ltd v Rysta Ltd* [1945] AC 68, 89 (HL) where the emphasis was on the trade mark to denote source of the goods.

mark by the maker; in other words, the trade mark did not give its owner the right to control the goods once they had been sold and thereby removed from trade. His Honour saw no case as having suggested the *Champagne Heidsieck* decision was incorrect¹⁷⁷ and that the importation did not infringe trade mark rights.

The question of a multinational group, operating in a number of markets in which components had registered trade marks, came before the English Courts again in *Colgate-Palmolive Ltd v Markwell Finance Ltd*.¹⁷⁸

Colgate UK was the registered **user** and Colgate US (the parent company) the registered proprietor of a number of trade marks related to Colgate brand toothpaste sold in the UK. Another company in the group, Colgate Brazil, was the registered user of the relevant trade marks in that country. The packaging in both countries was very similar, although there were variations in colour and, as might be expected, the words on the Brazilian products were largely in Portuguese.

The Brazilian product was considerably cheaper than the UK range, largely because the former was an inferior product. The defendant imported Brazilian Colgate tooth-paste into the United Kingdom, circumventing a prohibition on export by which Colgate Brazil was bound, and it was sold through a wide range of UK retailers. Colgate UK alleged infringement of its trade mark and the importer relied on much the same grounds that the importer had in the *Revlon* case, consent by the registered owner or user to application of the mark to the Brazilian toothpaste. As Rothnie puts it, the importer's argument was that the Colgate group:

¹⁷⁷ distinguishing the High Court of Australia decisions in *WD & HO Wills (Australia) Ltd v Rothmans Ltd* (1956) 94 CLR 182 and *Estex Clothing Manufacturers Pty Ltd v Ellis & Goldstein Ltd* (1967) 116 CLR 254 relating to what constituted "use" of a trade mark on the basis that those cases were not concerned with parallel importation.

¹⁷⁸ [1988] RPC 283

"deliberately set out to adopt a uniform presentation of its products world-wide, clearly seeking to claim the advantages of an international goodwill without adequately differentiating products of different quality. therefore, it had adopted the world as its market and could not rely on trade mark or passing off rights to insulate national markets."¹⁷⁹

At first instance, Falconer J¹⁸⁰ found that neither Colgate UK nor Colgate US (the parent company) had applied the marks and furthermore that Colgate US had placed restrictions on the use to which Colgate Brazil could put the marks, it only had the right to use them in Brazil. As for the question of consent by Colgate UK, it was obviously lacking. His Honour dealt very shortly with an allegation that Colgate US had impliedly consented; there was no basis for seeing any such consent, because of the export limitations and confirmed by the importer's subterfuge in obtaining the product. The fundamental distinction between *Revlon* and the present case was this export ban.

On appeal,¹⁸¹ Lloyd LJ said, in response to the importer's argument noted above:

"...[H]owever sensible that reply might seem in an era of multinational companies possessing a network of registered trademarks and a world-wide presentation, it does not accord with the present, as yet perhaps under-developed system of trademark protection. [Markwell's] response may well represent the law of the future¹⁸². the present reality is that each country grants trademark protection within its own territorial limits."

¹⁷⁹ Page 33

¹⁸⁰ Pages 316-8. This is disappointingly short, and caused by the fact that His Honour had treated passing off as the primary ground for relief.

¹⁸¹ [1989] RPC 49

¹⁸² Brought on by the growing trend of countries to reach free trade agreements, to which the territorial insistence on intellectual property rights seems inimical.

The Brazilian trade marks simply could not be seen as having been applied by Colgate US and *section 4(3)(a)* was concerned only with dealings in UK trade marks, because trade marks are "territorial and national in character".¹⁸³

This represents a clear departure from the previous cases, where the mark was an indication of corporate origin; all goods carrying the same mark came from the same source with international boundaries being irrelevant. Quality clearly played a part, as seen in Slade LJ's view:

"...a trader by applying a ... trade mark to goods and thereby indicating their origin gives an assurance to consumers in this country that the goods are of the **quality** which they have come to expect from products bearing that trade mark... [T]here is nothing incongruous in holding that a ... trade mark is infringed in relation to goods which do not conform to an identifiable quality which purchasing members of the public ... ordinarily receive by reference to that trade mark."¹⁸⁴

(a) *Source Motivation*

These cases show the trend to regard the trade mark as indicating source or for consumer protection, as opposed to the channel through which the goods have got onto the market. The Australian case of *Fender Australia Pty Ltd v Bev & Sullivan*¹⁸⁵ nicely illustrates a trade mark being used to protect the business goodwill associated with the authorised **importer**.

Essentially, the defendant imported guitars, new and used, bearing Fender trade marks from the US and sold them in competition with the exclusively authorised Australian distributor, to which an assignment of trade marks had been made. The distributor was responsible for all marketing costs within Australia and it

¹⁸³ Rothnie, page 36

¹⁸⁴ *Colgate* Page 527. Emphasis added.

¹⁸⁵ (1989) 15 IPR 257

plainly took its responsibilities very seriously, making a considerable investment in promoting the product.

The interesting feature is the reasoning adopted by Burchett J in finding an infringement:

"...members of ... the Australian public having an interest in ... guitars would be likely to understand the trade marks in question as indicating products acquired from their American producer, and distributed in Australia... The marks are badges of a commercial origin in Australia, as well as of an anterior source overseas."¹⁸⁶

In other words, the trade mark had the dual functions of indicating the original source of the guitars as well as the distributor as the local source and so protecting that local source's (the distributor) **goodwill**, built up as a result of its marketing efforts.

It does however seem to follow from His Honour's approach that the distributor will need to establish reputation, an association by the use of the trade mark back to the distributor. What then of those products where the purchasers neither know nor care who the importer is? Certainly, in light of the decisions in *Tot Toys Ltd v Mitchell*¹⁸⁷ and *Bonz Group Ltd v Cooke*¹⁸⁸ a defendant to an allegation of passing off by diversion of trade will have a defence if the "target market" has no demonstrable concern for obtaining goods from the plaintiff. If the Courts follow this path of overlapping trade mark protection and the passing off remedy, there does seem to be an ability to raise similar defences.

¹⁸⁶ Page 261

¹⁸⁷ [1993] 1 NZLR 325

¹⁸⁸ (1996) 7 TCLR 206

VI CONCLUSIONS

As has been seen, the New Zealand prohibition against parallel importation of goods which happen to be a copyright work qualifies as one of the most tightly constructed barriers to entry imaginable. The legislation has adopted the Court's unrepentant approach, so that those who import goods from an overseas copyright owner cannot rely on that owner's rights to make the goods as authorising the importation, unlike the situation in the United Kingdom and, to a lesser, extent Canada. In this respect, there is an alignment between Australia and New Zealand; the focus is on the importer's rights to make the goods.

This is compounded by a clear rejection by New Zealand courts of any public policy factor justifying the suspension of copyright protection in respect of purely functional three dimensional representations of drawings, although arguably the precise issue of spare parts has not yet been squarely before the New Zealand Courts.

In the rare circumstance that a good cannot be fitted within the copyright protection, there remains the possibility of claiming trade mark protection, where again there is a trend developing towards protection of the interests of individual right's holders and away from recognition of a single global market.

Thus the right holder is given the legal mechanism it needs to establish a price discrimination scheme and an enforceable vertical restraint, which can be exacerbated by such matters as vertical integration and product differentiation. These cannot be characterised as being contrary to the social and economic interests of New Zealand in all circumstances but neither can they be seen as universally beneficial. The New Zealand Government has itself acknowledged the equivocal nature of the consequences of banning parallel imports yet have dealt with them in unequivocal terms.

Given New Zealand's reliance on imports, the major steps it has taken to free up its markets and the global trends towards freedom of trade, the abolition of bans upon parallel importation was something which could be legitimately expected when revising its intellectual property rules.

Why then were these expectations confounded and the rules tightened, or at least given statutory approval? One reason put up at times is that it protects New Zealand firms against import competition, but the Government has made it abundantly clear that this is not one of its objectives, for example by the removal of tariff protection, which currently threatens the viability of the New Zealand car making industry.

The answer is, in my view, to be found in New Zealand's vulnerability to foreign political and economic pressure; it is constrained by the threat from its trading partners to bow to these pressures. Any loss of efficiencies and other consequences arising from the protection given imports against competition from further imports is to be balanced against the ability to gain and retain access to foreign markets without trade sanctions.

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