

Submissions to MBIE on the Copyright Act Review

I welcome the opportunity to provide comments to MBIE on the Copyright Act Review (**Review**). This submission relates to the Issues Paper published in November 2018 (**Issues Paper**), particularly paragraphs 192 – 194 “Exhaustion of rights and parallel importing”.

I submit that legislation in New Zealand should be amended to include a statutory “material difference” exclusion from the current permissive international exhaustion regime.

New Zealand is an importer of many goods and copyright materials, so the importation provisions are significant both to overseas owners, and their local licensees/distributors and the purchasing public. The current permissive regime for parallel imports under the Copyright Act 1994 and the Trade Marks Act 2002 enables the importation into New Zealand in an unrestricted manner by third parties (with some exceptions, for example, where specific industry regulations apply, like for medicines) of products/materials that are made abroad where copies of the work are placed on the market overseas with the explicit or implicit permission of the copyright owner (and/or registered trade mark owner as the case may be), ie a position of “international exhaustion” of copyright and trade mark rights.

Background

Traditionally, parallel imports were able to be prevented from being imported into New Zealand through enforcement of copyright and trade mark rights. In the copyright context this was achieved by controlling the importation of copies, of say packaging, product information and/or product design. Controlling imports meant that IP owners, licensees and distributors were able to control distribution channels and product standards. The basis for excluding products/materials which are “materially different” includes because of the role of a registered trade to function as a guarantee of the quality of the goods to which the trade mark has been applied and as consumers purchasing goods bearing a particular trade mark expect the goods will meet particular standards and will act in reliance on that trade mark. Similar considerations apply to the copyright that is otherwise protected in product designs, packaging and related materials.

The regime changed with the introduction of the Copyright (Removal of Prohibition on Parallel Importing) Amendment Act 1998 (and corresponding changes to the Trade Marks Act 2002 under the Copyright (Parallel Importation of Films and Onus of Proof) Amendment Act 2003 and subsequent amendments) which established an international exhaustion regime, and allowed importation of goods made by or with the consent of the owner of the copyright in the country in which the goods were made. Effectively, the amendments mean that copyright is exhausted when put on the market in another country with the explicit or implied permission of the copyright owner, which in turn means that copyright and trade mark owners and their “official” local licensees and distributors cannot prevent the import into New Zealand of parallel imported goods and that there are only limited circumstances where sale of them can be prevented. Corresponding changes were made to the provision of the Trade Marks Act 2002, that otherwise enabled trade mark owners to prevent the import into New Zealand and sale of parallel imported goods under their trade marks.

One of the results of the change is that it is difficult for copyright and trade mark owners and their official local licensees and distributors to control product standards locally. This can present problems as, for example, goods that have been imported via trade channels that are not authorised by the copyright owner or trade mark owner may not have been intended for sale in New Zealand and may not meet the quality expectations or requirements of the New Zealand market. However, as the goods will often be similar to goods already being sold in New Zealand through authorised trade channels, it can be difficult for consumers to distinguish them from the authorised goods, and this undermines the distribution structure and the trade mark or copyright owner’s (and authorised licensees’) goodwill.

Without an exclusion to the permissive regime under the enabling legislation in the Copyright Act 1994 and the Trade Marks Act 2002, only limited control is available, for example, under the Fair Trading Act 1986 when products are advertised for sale incorrectly, or through industry statutory regimes such as the Medicines Act 1981.

To address these issues, I submit that the Copyright Act 1994 should include a statutory “material difference” test (with the corresponding changes to Trade Marks Act).

Scope of “material differences” test

When referring to a “material differences” test I refer to a test that reflects a similar scope given to that term by courts in the USA, where a “material difference” is any difference between goods that may

deceive consumers as to the origin, nature or quality of the goods. Depending on the factual matrix, even minor differences may cause the product to be materially different if consumers would consider the difference a relevant factor when buying the product.

In considering whether a product is materially different, US Courts will generally look to differences in quality control, differences in product composition, differences in product packaging and differences in price. I submit that this is an appropriate approach for New Zealand to adopt, focussing on any differences between the products that a consumer would deem relevant to a purchasing decision.

Amendment would then be required to be made to the Copyright Act 1996 and the Trade Marks Act 2002 to codify a “material difference” exclusion of this nature to the current permissive international exhaustion regime.

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