PARALLEL IMPORTING OF COPYRIGHT MATERIAL IN A DIGITAL AGE: WHY IT SHOULD BE LAWFUL AND WHY IT MAY NEVER BE

*Mark J Davison**

INTRODUCTION

The legislative prohibitions on the parallel importation of copyright material should not survive the new technological developments in the transmission of that material. Australian copyright law should come to grips with that reality and remove the existing prohibitions. Yet the adoption of current proposals for the amendment of copyright law may lead to a situation in which copyright owners could effectively prevent parallel importing. This could be done by copyright owners even if the existing statutory provisions specifically aimed at preventing parallel importing were repealed.

This article looks at the justifications for prohibiting parallel importing and the strength of those justifications in the light of new or developing means of distributing copyright material. Those justifications have been seriously questioned in recent years by a series of reports of the Prices Surveillance Authority[1] (PSA) which has criticised the continuing prohibition of parallel importing. The criticisms in these reports have not made any detailed reference to the effects that changes in technology will have on the means of distributing copyright material.[2] Those criticisms, combined with the impact of new technology, tip the balance of the debate concerning parallel importing in favour of permitting parallel importing.

The challenge is to re-write Australian copyright law so that it does not permit copyright owners to prevent parallel importing. That challenge is complicated by the need to comply with international conventions on copyright. Proposed changes at the international level are substantially similar to the proposals for changes to Australian legislation. If those proposed changes are made without appropriate regard to the issue

* LLB (Hons) (UQ); LLM (Mon) Senior Lecturer, Faculty of Law, Monash University. I would like to acknowledge the assistance of Professor Sam Ricketson who provided detailed and helpful comments on successive drafts of this article. Any errors in the article are solely my responsibility.

1 The Prices Surveillance Authority has recently been merged with the Trade Practices Commission to form the Australian Competition and Consumer Commission.

2 Brief reference is made to this issue in PSA "Submission to Copyright Law Review Committee's Reference to Review and Simplify the *Copyright Act* 1968", http://www.agps.gov.au./customer/agd/clrc/submissions/sub_15_psa.html#RTFT.C5.

of parallel importing, parallel importing will be unlawful throughout the world at the very time when it should be lawful.

What is parallel importing?

Parallel importing of copyright material occurs after copyright material is produced overseas either by the owner of the copyright or with its authority. The creation of these reproductions is therefore legitimate and beyond legal reproach, unlike pirate copies of the material that are so-called because they are reproduced without the copyright owner's authority. However, the subsequent importation into Australia of the legitimately created copyright material, for a commercial purpose such as resale, without the consent of the owner of the Australian copyright, is parallel importing. Apart from some limited statutory exceptions, parallel importing of copyright material is illegal in Australia.[3]

The effect of prohibiting parallel importation is to facilitate geographical division of the market for the copyright material in question.[4] The copyright in particular material can be partially assigned along geographical lines. The assignee is then assured that when selling the copyright material within the geographical area described in its assignment that it will not be competing with the same material from a different source.

The basic justification for prohibiting parallel importing is that the owner of the Australian copyright needs a return on its investment in promoting the copyright material in Australia. It is less likely to invest this money if it runs the risk of cheaper versions of the same material being imported and sold in competition with the Australian copyright owner's material. A publisher may be less willing to publish and promote a book by an Australian author if there is a possibility that cheap copies of the book may be imported for sale into Australia. For example, this may happen if the owner of the overseas copyright is unsuccessful in its attempt to promote the book overseas and sells the book at a discount on the Australian market where it is more popular.

The present law

As already stated, parallel importing is prohibited in Australia, subject to certain exceptions.[5] The key provisions are ss 37 and 102 of the Copyright Act 1968 (Cth) (the Act). Section 37 reads:

> SECTION 37 INFRINGEMENT BY IMPORTATION FOR SALE OR HIRE
>
> **37** Subject to section 44A, the copyright in a literary, dramatic, musical or artistic work is infringed by a person who, without the licence of the owner of the copyright, imports an article into Australia for the purpose of —
>
> (a) selling, letting for hire, or by way of trade offering or exposing for sale or hire, the article;
>
> (b) distributing the article —
>
> (i) for the purpose of trade; or

3 See Copyright Act 1968 (Cth) ss 37, 38, 102 and 103 and s 44A for exceptions to the genera prohibition against parallel importing.

4 The term "market" here is used in a loose sense to refer to the demand for and supply o particular copyright material.

5 Copyright Act 1968 (Cth), s 44A.

(ii) for any other purpose to an extent that will affect prejudicially the owner of the copyright; or

(c) by way of trade exhibiting the article in public,

if the importer knew, or ought reasonably to have known, that the making of the article would, if the article had been made in Australia by the importer, have constituted an infringement of the copyright.

Section 102 imposes similar restrictions in respect of subject-matter other than works. The effect of these sections is increased by ss 38 and 103 which prevent the commercial distribution of copyright material that is imported without the licence of the owner of the copyright. In addition, Australian courts have taken a restrictive view of what constitutes the provision of a licence by the copyright owner to import material.[6] The mere act by a copyright owner of selling copyright material overseas will not constitute an implied licence to import the material into Australia.

For the purposes of this article, it is especially important to note that none of the provisions concerning parallel importing applies to direct dealings between Australian consumers and overseas distributors of copyright material. An Australian consumer can place an order directly with an overseas supplier. The placing and filling of such an order would not contravene the Act provided the ordered material had been legitimately reproduced. This is so because the relevant provisions apply only to importing for a commercial purpose, not to importing by a consumer or end user of the copyright material.

The scope of this article

There have been a number of different inquiries into the appropriateness of the restrictions on parallel importing. These inquiries have been conducted by either the Copyright Law Review Committee (CLRC)[7] or the PSA.[8] The reports of the CLRC have recommended retention of significant restrictions on parallel importing,[9] whereas the reports of the PSA have recommended their abolition. The response of the Federal government has been to favour the views of the CLRC and it has retained the restrictions on parallel importing apart from small alterations to the provisions concerning books.[10]

6 *Interstate Parcel Express Co Pty Ltd v Time-Life International (Nederlands) BV* (1977) 138 CLR 534; *Computermate Products (Aust) Pty Ltd v Ozi-Soft Pty Ltd* (1988) 12 IPR 487.

7 CLRC, *The Importation Provisions of the Copyright Act 1968* (AGPS, Canberra, 1988) and CLRC, *Computer Software Protection* (Office of Legal Information and Publishing, Canberra, 1995) at Ch 11.

8 PSA, *Inquiry into Book Prices — Interim Report* (August 1989); PSA, *Inquiry into Book Prices — Final Report* (December 1989); PSA, *Inquiry into the Prices of Sound Recordings* (December 1990); PSA, *Inquiry into Prices of Computer Software — Interim Report* (October 1992); PSA, *Inquiry into Prices of Computer Software — Final Report* (December 1992); PSA, *Progress Monitoring Report on Book Prices and the Impact of the 1991 Amendments to the Copyright Act 1968* (September 1993); PSA, *Inquiry into Book Prices and Parallel Imports* (April 1995).

9 The CLRC did make recommendations leading to the enactment of s 44A: *The Importation Provisions of the Copyright Act 1968* at 3-6. Some members of the CLRC have also recommended a review of the provisions concerning computer software in two or three years: *Computer Software Protection* at 229. The CLRC has also recommended that computer manuals be brought within the operation of s 44A: *Computer Software Protection* at 231-232.

10 Copyright Act 1968 (Cth), s 44A.

The PSA took detailed submissions from various groups and also made its own investigations into prices and the structure of the relevant industries. In this regard, its inquiries were more exhaustive than those of the CLRC, which did not have the resources to mount its own investigation into such matters.[11] Accordingly, in the next section of this article, the arguments for and against parallel importing that were canvassed by the PSA in its reports are examined. Thereafter, commentary is made on the changes in the promotion and distribution of copyright material being brought about by new technology and their effect on the arguments for and against parallel importing. Finally, the proposals to alter existing copyright laws and their impact on parallel importing will be considered.

THE REPORTS OF THE PSA

Books

The PSA found that Australian book prices were higher than those in the United Kingdom and Canada.[12] In addition, books were less likely to be available in Australia than in those countries.[13] It attributed these differences between countries to distribution costs and Australia's copyright importation provisions having led to international price discrimination and inefficiency in the distribution of books. Distribution costs are a function of Australia's geographical size and its small population and little can be done about those issues. International price discrimination generally requires three conditions—

- the existence of market power held by suppliers;
- differences in demand and/or supply conditions between markets; and
- effective segmentation of geographical markets, such that profitable international arbitrage is not possible.[14]

The PSA concluded that all three of these conditions were present in the Australian book market. Market power was provided by the existence of copyright in individual book titles.[15] This limited power obtained by ownership of copyright in individual titles was augmented by the dominance of the Australian market by publishing companies such as Collins and Penguin.[16] Differences in demand and/or supply conditions between the Australian and other markets existed because of the relatively high income of Australians and the lack of competing editions of the same books.[17] This leads to a relatively inelastic demand for books.[18] The third condition, effective segmentation of geographical markets, is achieved by the importation provisions of the

11 CLRC, *The Importation Provisions of the Copyright Act 1968* at 98-99.
12 PSA, *Inquiry into Book Prices — Interim Report* at 50.
13 Ibid at 51-52.
14 Ibid at 33.
15 Ibid.
16 Ibid at 17-22.
17 Ibid at 33-34.
18 Inelastic demand exists when a price increase has no significant impact on the demand fo the product. The more that demand for a product decreases as a result of price increase the greater is the elasticity of that demand.

Act.[19] Abolition of the importation provisions would remove this third condition and prevent international price discrimination.

There were several arguments made by authors and publishers in favour of retaining the import restrictions. These included:

1 Protection from import competition permitted publishers and retailers to expend money on promotion and advertising without fear of being undercut by importers taking a free ride on the promotional activities in Australia.

2 Publishers could promote Australian authors by "cross-subsidising" the losses occasioned by publishing some Australian authors with profits made from other publications.

3 The incentive to publish Australian authors in Australia would be reduced if publishers faced the threat of "remaindered" copies from overseas being dumped on the Australian market.

The PSA ultimately rejected all of these arguments, although it did have some sympathy for concerns about remaindered books being dumped on the Australian market.[20] The argument concerning advertising and promotion carried with it the assumption that the then level of advertising was appropriate. The PSA's view was that the level of promotion of books should be dictated by the market, rather than being decided by publishers independently of market forces.[21] Excessive advertising can have detrimental effects. It may serve "as a barrier to entry of new competitors in a market, through the establishment of brand loyalty and the requirement for considerable expenditure on these sunk costs[22] by potential entrants".[23]

The argument of "cross-subsidisation" of Australian authors was also rejected.[24] This argument claimed that:

> [M]uch Australian literature ... would not be profitable without import protection, either because the profits made on sales of overseas titles are being used to subsidise the promotion of marginal Australian authors, or because the guaranteed market which those protected imported titles enjoy provide a "critical mass" to enjoy economies of scale in marketing and distribution.[25]

The PSA stated that this was not, in fact, cross-subsidisation. It was a normal part of publishing that some individual titles would sell at a loss but these individual losses "would be averaged against gains from more successful titles, such that returns are averaged to provide a normal level of profitability".[26] Alternatively, first works by an author are promoted at a loss with a view to earning profits on future works by the same author.[27] Decisions along these lines are made by publishers on a strictly commercial basis rather than out of any commitment to the promotion of Australian literature and culture.

---

19 PSA, *Inquiry into Book Prices — Interim Report* at 34.
20 Ibid at 72.
21 PSA, *Inquiry into Book Prices — Final Report* at 25.
22 Sunk costs are those costs that are not recoverable if a person withdraws from the market in which those costs are incurred.
23 PSA, *Inquiry into Book Prices — Final Report* at 25-26.
24 PSA, *Inquiry into Book Prices — Interim Report* at 66.
25 Ibid.
26 Ibid at 67.
27 Ibid.

The PSA did acknowledge that some Australian authors may be adversely affected by repealing the importation provisions.

> [P]rice discrimination could be used to support a profitable scale of publication for some Australian titles which could not otherwise be published. If books were exported at marginal cost in order to achieve scale economics, they would be re-imported into the Australian market to compete with the higher priced Australian sourced books. This potential problem is unlikely to be significant in an overall context.[28]

The PSA also acknowledged that remaindered overseas books could be re-imported thus creating difficulties.[29] It had a number of responses to these difficulties.

One response of the PSA was to recommend that for a 10 year period the provisions not apply to books by Australian resident authors for which a separate Australian publishing contract is held.[30]

> In the absence of worldwide repeal of importation provisions, it is recognised that by repealing Australia's provisions we could put the "infant industry" of Australian literature at a disadvantage in terms of international trade. By providing this ... exception, geographic price discrimination would allow the profitable publication of some currently marginal Australian titles, and avoid any potential problems from overseas remainders of Australian titles.[31]

The PSA also noted that any detriment to Australian authors may be partly offset by a general reduction in book prices brought about by greater competition and efficiencies in distribution. A fall in prices may lead to increased "demand, total revenue and royalties".[32] More importantly, the gains to Australian consumers from price decreases would exceed the detriment to the local industry. These gains could be used to pay for direct subsidies to Australian authors and publishers rather than permitting the present system to continue which tends to benefit foreign publishers and authors.[33]

Sound recordings and computer software

After its report on Australian book prices, the PSA produced further reports concerning the prices of sound recordings and computer software.[34] It drew similar conclusions in those reports to the conclusions reached in its report on book prices. In both these reports, it rejected submissions that protection from parallel imports was required in Australia to protect investment in the local copyright industry.

Use of the Trade Practices Act

It has been suggested that the restrictive trade practices provisions of Part IV of the Trade Practices Act 1974 (Cth) (the Trade Practices Act) could be relied upon to prevent abuses by copyright owners of the restrictions on parallel importing.[35] If this were so, there would be no need for concern about the restrictions on paralle

28 Ibid at 68.
29 Ibid.
30 Ibid at 71.
31 Ibid at 72.
32 PSA, *Inquiry into Book Prices — Final Report* at 35.
33 PSA, *Inquiry into Book Prices — Interim Report* at 69.
34 PSA, *Inquiry into the Prices of Sound Recordings*; PSA, *Inquiry into the Prices of Computer Software*.
35 CLRC, *The Importation Provisions of the Copyright Act 1968* at 44.

importing. In some limited circumstances, it may be possible for a parallel importer to insist that a copyright owner license it to import material by claiming that a failure to license it would be a misuse of market power, contrary to s 46 of the Trade Practices Act. Alternatively, it could be argued that an exclusive distributorship arrangement between the copyright owner and its exclusive licensee is an agreement that substantially lessens competition, contrary to s 45, or is exclusive dealing, contrary to s 47.[36] In that case, the exclusive aspect of the distributorship arrangement may be void.

However, there are considerable difficulties in relying upon the Trade Practices Act to justify parallel importing. Section 46(1) provides:

> Misuse of market power
>
> **46**(1) A corporation that has a substantial degree of power in a market shall not take advantage of that power for the purpose of —
>
> (a) eliminating or substantially damaging a competitor of the corporation or of a body corporate that is related to the corporation in that or any other market;
>
> (b) preventing the entry of a person into that or any other market; or
>
> (c) deterring or preventing a person from engaging in competitive conduct in that or any other market.

The PSA, the CLRC and the then Trade Practices Commission (TPC) have all expressed the view that for various reasons s 46 is unlikely to be used to overcome any abuse of the parallel importing provisions of the Act.[37] The operation of s 46 is dependent upon the copyright owner having a substantial degree of market power. Whether this is the case will depend on the definition of the relevant market. It is highly unlikely that ownership of copyright in one title will confer such market power.[38] Ownership of many titles in a related area would be required before this requirement would be met. Even then, a parallel importer would have to establish that the copyright owner was using its market power. This would be difficult as the copyright owner could argue that it is using its rights under the Act rather than its substantial degree of market power.[39]

Claims based on s 45 and s 47 face similar difficulties because of the likely definition of the relevant market. An agreement between one copyright owner and its exclusive distributor is unlikely to constitute an agreement that substantially lessens competition. Neither s 45 nor s 47 will apply to an exclusive distributorship agreement unless the purpose or effect of the agreement is to substantially lessen competition. Consequently, any parallel importer seeking a declaration that the exclusive aspect of such an agreement is void would have to establish that the copyright owner had a significant market share before being able to establish that the agreement had the purpose or effect of substantially lessening competition.

In any event, such agreements may receive protection from s 51(3) of the Trade Practices Act. So far as relevant, that section provides that:

---

36 Such claims were unsuccessfully made in *Broderbund Software Inc v Computermate Products (Australia) Pty Ltd* (1991) 22 IPR 215.

37 Ibid. PSA, *Inquiry into the Prices of Computer Software — Final Report* at 35 and PSA, *Inquiry into Book Prices — Final Report* at 14; TPC, *Application of the Trade Practices Act to Intellectual Property* (July 1991) at 32.

38 *Broderbund Software Inc v Computermate Products (Australia) Pty Ltd* (1991) 22 IPR 215.

39 TPC, *Application of the Trade Practices Act to Intellectual Property* at 19.

> A contravention of a provision of this Part other than section 46, 46A or 48 shall not be taken to have been committed by reason of —
>
> (a) the imposing of, or giving effect to, a condition of —
>
> (i) a licence granted by the proprietor, licensee or owner ... of a copyright ...
>
> to the extent that the condition relates to —
>
> (v) the work or other subject matter in which the copyright subsists.

This provision has not been judicially considered in relation to copyright. Nevertheless, it would seem that its application would forestall, for example, any claim that a copyright owner was in breach of s 45 or s 47 of the Trade Practices Act by exclusively licensing one person to import its copyright material into Australia.[40] In *Transfield Pty Ltd v Arlo International Ltd*,[41] the application of s 51(3)(a) to a condition of a sub-licence of a patent was considered. The condition allegedly prevented the sub-licensee from using any type of pole for electricity transmission other than the type of pole that was manufactured using the patent. While the relevant condition was not interpreted in this way by the High Court, both Mason J and Wilson J expressed the view that the imposition of such a condition would be protected by s 51(3) even if it otherwise constituted an agreement with an anti-competitive purpose or effect.[42] The precise scope of s 51(3) is difficult to determine because of the vagueness of words such as "relates" that are not clearly defined.[43] Nevertheless, any parallel importer seeking to rely on the Trade Practices Act to justify its importation faces a daunting task. First, it would have to establish that the copyright owner had a substantial degree of market power if it was relying on s 46 or, if it relied on s 45 or s 47, that the exclusive importing arrangement had the purpose or effect of substantially lessening competition. If this was in fact the case, it is highly likely that the copyright owner would be a company of quite considerable means, capable of financing a substantial legal defence of the parallel importer's allegations. Even if this practical difficulty could be surmounted, an action based on s 45 or s 47 could be defended by reliance on s 51(3) which creates difficulties for parallel importers because its imprecise wording makes it difficult to predict whether it would apply to exclusive importing licences.

Summary of the arguments for and against parallel importing

The arguments for and against parallel importing can be summarised relatively easily. Those against parallel importing claim that prohibitions are necessary to provide an incentive for investment in local production and promotion of copyright material by providing such investment with protection from overseas competition. Promotion in this sense includes pre-sales advertising, distribution costs and after-sales service. Related to the need for such an incentive for investment is a concern for the development of Australian authors and artists and the nurturing of Australian culture. This latter concern is greater in the case of books, musical works and sound recordings than in the case of purely functional items such as computer software. In essence then geographical division of markets is required because each geographical area has its own unique factors that require it to be segregated from outside competition so as to encourage investment in that area.

40 TPC, above n 39 at 22.
41 (1980) 144 CLR 83.
42 Ibid at 102 per Mason J and at 108 per Wilson J.
43 TPC, above n 39 at 13.

The argument in favour of parallel importing is that it will lead to a reduction in prices and market forces will determine the optimal investment in items such as Australian literature and sound recordings. It will also lead to an increased availability of copyright material. Geographical division of markets is used as an opportunity to extract unduly high profits from consumers and to protect inefficient practices. For various reasons, the Trade Practices Act is unable to prevent this occurring. The arguments concerning Australian culture are countered by the view that if Australian culture and industry are to receive a subsidy, this should be transparent. Direct subsidies should be provided to the industry that can be specifically targeted to achieve desired outcomes. Such subsidies should not be hidden by the use of import provisions to distort the market and increase prices where the results of such subsidies cannot be clearly discerned.

COPYRIGHT AND NEW TECHNOLOGY

These arguments are now being affected by changes in technology. In particular, the capacity to convert copyright material into digital form has profound implications. This capacity to convert material into digital form means that it can be stored in, copied by, sent from and received by computers quickly and easily. Devices such as scanners which can convert print material into digital form extremely quickly are becoming commonplace. Much copyright material is also being produced in its original form using digital technology. The obvious example of this is literary works, most of which are created by word processing. Another well-known example is compact disc sound recordings. In such instances, there is, of course, no need to convert the material into digital form.

There are very great advantages associated with holding copyright material in digital form. First, it can be stored in a small space. There is no need to have large archives containing masses of printed material. Instead, it can be stored on CD-ROMs, floppy disks or the hard disk of a computer. Second, it can be reproduced, either in whole or in part, with accuracy and very quickly. Reproduction can occur on demand rather than take place in anticipation of demand, with the accompanying risks associated with attempting to judge demand in advance. Other advantages of having copyright material in digital form then flow from the capacity of computers to interact so that copyright material can be sent from one computer to others. It is this aspect of computers that has enormous consequences for copyright and issues concerning the geographical division of copyright markets. Computers that can transmit and receive copyright material in digital form are now linked all over the world. Material can be reproduced and sent via telephone lines, fibre optic cables, satellites and other means with astonishing speed and absolute accuracy. The Internet is an outstanding example of this.

The Internet gives the capacity for a person almost anywhere on the globe to transmit copyright material to any other person. The communication is reliable and virtually instantaneous. Most important of all, the geographical distance between the person sending and the person receiving material is basically irrelevant to this process. The Internet and other digital communications technology have largely eliminated the relevance of geography to the distribution of copyright material. The Internet has other uses in addition to the transmission of copyright material. It can act as a means of advertising and promotion of one's product. Almost anyone can set up a home page on

the Internet which can act as an advertisement providing detailed information of products, can facilitate product sales by credit card and provide after-sales service. Some computer programs can be used to diagnose and treat bugs via the Internet. Physical proximity is not necessary to provide after-sales service. In short, advertising and promotion, distribution and after-sales service can be provided quite readily from large distances. In addition to literary and artistic works and computer programs, digital technology will also be used to transmit sound recordings and films. The celestial jukebox and the cyberspace video stores will become realities in which consumers select the recording or film they wish to hear or see at the time they wish to hear or see them. These will then be transmitted to the consumer almost instantly. Again, the geographical location of the server that transmits the recording or film will be irrelevant to the cost of providing the service.

IMPLICATIONS FOR PARALLEL IMPORTING

This new technology has several implications for the law concerning parallel importing. First, a great many more "sales" of copyright material will occur directly between consumers and overseas distributors as a result of those sales being facilitated by new technology. For example, an Australian consumer wishing to purchase a computer program for its own use may simply e-mail an overseas distributor of that program. Payment and other contractual aspects could be dealt with quickly using the Internet and the program transmitted by the overseas distributor directly to the Australian consumer. As previously noted, such sales do not involve the parallel importation provisions as they do not involve the importation of copyright material for the purposes of re-sale or any of the other commercial purposes specified in ss 37, 38, 102 and 103. A massive increase in such transactions would render the parallel importing provisions basically redundant. However, as discussed below, such transactions may be caught by other provisions in the Act or new provisions introduced in response to new technology.

The strength of the reasons for prohibiting parallel importing is also significantly affected by new technology. Promotion and advertising can occur from long distance. Distribution costs are significantly reduced. In the case of literary works, for example, they can be printed in hard copy on demand or simply provided in digital form. There is no need to expend money, space and time on acquiring and maintaining large stocks. The distance involved in distribution also becomes irrelevant. The "book" can be sent quickly over any distance and the different costs of transporting it ceases to be a factor in distribution costs. The cost of distributing a book published in London throughout London would be the same as distributing it from London to Oodnadatta. Similar arguments apply in respect of sound recordings and films. Computer software can be downloaded with ease and after-sales service can be provided by e-mail, downloading of updated software or distance diagnosis of bugs. In short, arguments for a geographical segregation of copyright markets disappear in the face of technology that substantially reduces the significance of geography.

COPYRIGHT, DIGITAL TECHNOLOGY AND IMPORTING

There is a great irony associated with the fact that new technology renders import restrictions unnecessary. The irony is that existing copyright law and proposed copyright laws regulating the use of that technology may make it even harder for

importing to occur, even if ss 37, 38, 102 and 103 of the Act are repealed in so far as they restrict parallel imports. An understanding of this point requires a discussion of the existing right of reproduction and the proposed right of transmission recommended to the Australian government by the Copyright Convergence Group (CCG)[44] that has been incorporated into the Exposure Draft of the Copyright Act Amendments circulated by the Attorney-General's Department in February, 1996 (the proposed amendments).

What constitutes a reproduction

The right to reproduce a work in a material form is one of the exclusive rights granted to copyright owners by s 31 of the Act. A similar but slightly narrower right, the right to copy, is given to owners of copyright in sound recordings and cinematographic films.[45] Conventional methods of parallel importing of copyright material do not involve the right of reproduction. The tangible objects such as books or sound recordings are reproduced with the authority of the copyright owner. It is the distribution of these tangible objects that is the subject of ss 37, 38, 102 and 103. These sections can be amended with relative ease to permit parallel importing of tangible objects and if that were done, there would be little that the copyright owner could do to prevent parallel importing.

However, when distribution takes place via transmission of copyright material in digital form, there will be a reproduction of the copyright material that cannot legally occur without the consent of the copyright owner. This is because a reproduction of the copyright material is received at the other end of the transmission. Consequently, parallel importing via computer transmissions need not be the subject of special provisions in the Act in order for copyright owners to prevent it. The existing right of reproduction will be sufficient to prevent parallel importing. A copyright owner can simply refuse any person, other than its exclusive distributor, the right to reproduce the copyright material in Australia. This would effectively prevent parallel importing even in the absence of specific prohibitions against parallel importing.

The power to prevent parallel importing would be increased in the event of the introduction of a general right to transmit to the public. A right of transmission for copyright owners has been recommended by the CCG.[46] The CCG did not provide a comprehensive definition of "to transmit" but stated that:

> The right should encompass the ability to transmit visual images, sounds or other information in intangible form by any means or any combination of means whatsoever. This would exclude the distribution of copyright in material form such as books, records etc., and would also avoid specifying any particular technology for delivery of signals.[47]

The CCG also considered that no definition of "the public" should be included in the Act but recommended that "a provision be inserted into the Act which deems transmissions of copyright material which are made for a commercial purpose to be

44 CCG, *Highways to Change: Copyright in the New Communications Environment* (1994).
45 For present purposes, the distinction between the right of reproduction and the right to copy is not relevant. References to the right of reproduction should be treated as including a reference to the right to copy.
46 CCG, above n 44 at 25.
47 Ibid.

transmissions to the public".[48] This would catch single-point to single-point transmissions where those transmissions are for a commercial purpose. There would be no need to show the transmission was to the public at large or a large group of people.

The CCG expressly considered the issue of transmissions originating out of Australia and intended for reception in Australia.[49] It recommended that:

> [W]here a transmission originates outside Australia but is intended for reception in Australia, the CCG supports the proposition that the maker of such a transmission should be required to obtain the licence of the owner of copyright in Australia. However the enactment of any such provision raises extremely complex considerations of private international law. In addition, such a right would only have practical significance where the maker of the transmission had some nexus with Australia. The CCG therefore makes no firm recommendation on this point, except to suggest that the matter should be given urgent and careful consideration in the wider review of the Act which has been proposed by the Minister for Justice. The objective should be to implement some form of protection for copyright owners in respect of transmissions which originate outside Australia.[50]

Obviously, such a right of transmission, if granted, would apply to parallel importing. Perhaps more importantly, it would impact on those direct dealings between distributors and consumers that are not presently caught by the parallel importation provisions. A transmission from a distributor to the consumer would be for a commercial purpose and therefore caught by the right of transmission to the public.

These recommendations have been incorporated into the proposed amendments to the Act that were released for public exposure in February 1996. Under the proposed amendments a right of transmission to the public would be incorporated into s 31(a) and (b) in respect of works and s 85(1) and s 86 in respect of sound recordings and cinematographic films. "To the public" is defined as "to the public within or outside Australia", thus catching transmissions from outside Australia that are received in Australia. In line with the recommendations of the CCG, clause 25(1) of the proposed amendments provides:

> If a fee is payable to the maker of a transmission for the reception of the transmission, the transmission is taken, for the purposes of this Act, to be a transmission to the public.

The fate of these proposed amendments is unknown, partly because of the change of government since they were released and partly because of two treaties concerning copyright that were considered by the Diplomatic Conference on Certain Copyright and Neighbouring Rights Questions in Geneva from December 2 to December 20, 1996. These treaties are discussed in the next section. However, any changes to the Act are likely to reflect the provisions of those treaties.

Changes similar to those recommended by the CCG and contained in the proposed amendments are being considered elsewhere. In September 1995 the United States government released its report on the copyright implications of digital technology.[51] Three points are worth noting about the recommendations of that Report. First, the Report clearly expressed the view that the transmission of copyright material involves

48 Ibid at 29.
49 Ibid at 41-44.
50 Ibid at 43-44.
51 *Intellectual Property and the National Information Infrastructure: The Report of the Working Group on Intellectual Property Rights* (the Report) (1995).

a reproduction of that material and therefore involves the copyright owner's exclusive right to reproduce the work.[52] Second, the Report recommended that:

> [T]he Copyright Act be amended to expressly recognise that copies or phonorecords of works can be distributed to the public by transmission, and that such transmissions fall within the exclusive distribution right of the copyright owner.[53]

The Report made this recommendation to dispel any uncertainty on the point. It may otherwise be arguable that there is no distribution as it is the transmission itself that creates the copy of the copyright material and that there is no distribution because there is no pre-existing material which it can be said has been distributed. It should be noted that the right to control distribution to the public granted to United States copyright holders is not a right granted to Australian copyright holders at present. It should also be noted that the United States right of distribution is subject to the first-sale doctrine. This provides that once a copyright holder releases or authorises the release of copies of copyright material to the public, it cannot control further distribution of those particular copies. However, the first sale doctrine does not apply to parallel imports. Nor would it apply to transmissions of copyright material, as every transmission creates a new copy of the material that has not previously been distributed by or with the consent of the copyright owner. Under the Report's recommendations, many transmissions would fall under both the right of reproduction and the right of distribution to the public.[54] The Report openly acknowledged this and noted the very real possibility that the two separate rights may be owned by two separate legal entities.[55]

The third point to note about the Report is that it recommended that:

> the prohibitions on importation be amended to reflect the fact that, just as copies of copyrighted works can be distributed by transmission in the United States, they can also be imported into the US by transmission. Cross-border transmission of copies of copyrighted works should be subject to the same restrictions as shipping them by air mail.
>
> Just as the distribution of copies of a copyrighted work is no less a distribution than the distribution of copies by mail, the international transmission of copies of copyrighted work is no less an importation than the importation by air mail.[56]

Legislation enacting the Report's recommendations is before the United States Congress at the time of writing.[57] If passed, the effect on the law concerning copyright implications of transmissions would be very similar to the Australian proposal for an exclusive right of transmission to the public.

Proposed new international treaties and trade related aspects of intellectual property (TRIPS)

Proposals for changes to domestic legislation in countries such as Australia and the United States are similar to some of the provisions in two new treaties that were adopted by the Diplomatic Conference on Certain Copyright and Neighbouring Rights Questions (Diplomatic Conference) held in Geneva from December 2 to 20, 1996. The

52 Ibid at 312-314.
53 Ibid at 310.
54 Ibid at 312-313.
55 Ibid.
56 Ibid at 321 and 322.
57 National Information Infrastructure Copyright Protection Bill of 1995.

Diplomatic Conference was held under the auspices of the World Intellectual Property Organisation (WIPO) and it adopted the WIPO Copyright Treaty (Copyright Treaty) and the WIPO Performances and Phonograms Treaty (Performance Treaty).[58] A third treaty, a Treaty on Intellectual Property in Respect of Databases, was considered but not adopted at that time. The Copyright Treaty was formerly referred to as a Possible Protocol to the Berne Convention but it is a separate treaty that imposes new obligations as well as requiring adherence to several provisions of the Berne Convention.[59] It is designed to deal with copyright issues raised by new technology that affect literary and artistic works. The Preamble reads, in part, that the contracting parties recognise

> the profound impact of the development and convergence of information and communication technologies on the creation and use of literary and artistic works ...

Article 8, Alternative A of the original draft of the Copyright Treaty proposed a right of importation and a right of distribution.[60] It read in part:

> (1) Authors of literary and artistic works shall enjoy the exclusive right of authorizing:
>
> ...
>
> (ii) the importation of the original and copies of their works, even following any sale or other transfer of ownership of the original or copies by or pursuant to authorization.
>
> ...
>
> (3) The right of importation in paragraph 1(ii) does not apply where the importation is effected by a person solely for his personal and non-commercial use as part of his personal luggage.

If adopted, Alternative A would have had a significant impact on parallel importing. At present, no multi-lateral international treaty requires its members to prohibit parallel importing. The issue is not addressed in the Berne Convention, and the TRIPS agreement, which is contained within the General Agreement on Tariffs and Trade (GATT), expressly states in Article 6 that "nothing in this Agreement shall be used to address the issue of exhaustion of intellectual property rights". The adoption of Alternative A would have deprived nations of the discretion that they presently have in this area. Even limited exceptions such as those concerning books in s 44A of the Act and those concerning sound recordings in clauses 44C, 44D and 112C of the proposed amendments would have been disallowed. Worse still, the present arrangements under which domestic consumers may deal directly with overseas suppliers would contravene Alternative A. Consumers would have been required to travel overseas in person and bring the copyright material back in their personal luggage as stated in Alternative A, Article 8(3) of the original draft. Despite support for the proposal from Argentina, the United States and Uruguay[61] no consensus in its favour emerged and

---

58 The treaties have been signed by about one hundred countries but have yet to be ratified. "Protection of Intellectual Property" (1997) 15 *European Union News* 5.

59 Copyright Treaty, Art 1(4).

60 WIPO, *Basic Proposal for the Substantive Provisions of the Treaty on Certain Questions Concerning Literary and Artistic Works to be Considered by the Diplomatic Conference prepared by the Chairman of the Committee of Experts*, WIPO document CRNR/DC/4 (August 1996) at 9.

61 Committee of Experts on a Possible Protocol to the Berne Convention, *Comparative Table of Proposals and Comments received by the International Bureau* WIPO Document BCP/CE/VI/12

no right of importation was included in the Copyright Treaty. Nevertheless, it seems that there is still some continuing support for maintaining strict prohibitions on parallel importing.

In any event, a right of distribution was incorporated into the Copyright Treaty. Article 6 provides:

> Right of Distribution
>
> (1) Authors of literary and artistic works shall enjoy the exclusive right of authorizing the making available to the public of the original and copies of their works through sale or other transfer of ownership.
>
> (2) Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the condition, if any, under which the exhaustion of the right in paragraph (1) applies after the first sale or other transfer of ownership in the original or a copy of the work with the authorization of the author.

The right of distribution will not necessarily have any direct impact on parallel importing by means other than transmission. This is because Article 6(2) permits a Contracting Party to legislate for a first sale doctrine under which the right of distribution is exhausted after the first authorised sale of copyright material. In any event, the right of distribution referred to in the Copyright Treaty will have no impact on parallel importing by transmission. This is because the Agreed Statements Concerning the WIPO Treaty[62] provide that, "... the expressions 'copies' and 'originals and copies' ... refer exclusively to fixed copies that can be put into circulation as tangible objects". This is in contrast to the proposed United States legislation on this issue which expressly provides that transmission involves an act of distribution.[63] It remains to be seen whether the United States legislation is altered in the light of the Copyright Treaty's treatment of the right of distribution.

In any event, the critical issue for the purposes of the present discussion is the impact of the right of communication to the public contained in Article 8 of the Copyright Treaty. The right of communication to the public is equivalent to the right of transmission discussed above. It reads, in part:

> [A]uthors of literary and artistic works shall enjoy the exclusive right of authorizing any communication to the public of their works, by wire or wireless means, including the making available to the public of their works, in such a way that members of the public may access these works from a place and at a time individually chosen by them.

Obviously, this right would catch parallel importing by way of transmission.

The Performance Treaty contains similar provisions to those contained in the Copyright Treaty. Rights of distribution are granted in respect of performances and phonograms by articles 8 and 12 respectively. Again, the right of distribution is limited to fixed copies that can be put into circulation as tangible objects.[64] Rights of making available of fixed performances and phonograms are also contained in Articles 10 and 14 of the Performance Treaty. These rights are similar to the right of communication to

---

arising out of the sixth session of the Committee's deliberations held in Geneva from 1-9 February 1996 at 13-18.

62 WIPO Document CRNR/DC/96 (23 December 1996).

63 Above n 57.

64 *Agreed Statements Concerning the WIPO Performances and Phonograms Treaty* WIPO Document CRNR/DC/97 (23 December 1996).

the public contained in article 8 of the Copyright Treaty and would impact on parallel importing by transmission in the same way.

The position with the Copyright Treaty and the Performance Treaty is complex. The entrenchment of prohibitions against parallel importing was rejected when a right of importation was rejected. Simultaneously, the adoption of the new right of communication to the public in article 10 of the Copyright Treaty and the rights of making available of fixed performances and phonograms in articles 10 and 14 of the Performance Treaty could lead to the prevention of the most efficient means of parallel importing. In short, there is little point in opposing a right of importation if other, more general, rights will have the same effect as granting such a right. As with the Australian domestic position, the international regime for copyright law needs to be structured so as to permit parallel importing by way of transmission.

CONCLUSION

Creating a structure which permits parallel importing by way of transmission will not be an easy task. An exception to the existing right of reproduction would be needed to permit some reproductions within a country that are generated by transmissions outside that country. At the same time, it would be necessary to ensure that the copyright owner receives remuneration in respect of that reproduction.[65] A similar exception would be needed in respect of any right of transmission or communication to the public.[66]

In addition to reducing existing restrictions on parallel importing, it is important that existing rights and proposed new rights do not unduly interfere with direct international dealings between consumers and distributors. To do so would be to impose even greater restrictions on the importation of copyright material at a time when the basis for such restrictions is being eroded by technological advances and there is a need for fewer rather than more restrictions on importing.

The creation and implementation of a uniform international standard concerning this issue are required. If different approaches were taken in different nations, the possibility would be created for plaintiffs and defendants to shop for a forum that would select and apply the law most favourable to them. Creation of an appropriate standard will be difficult, but technology has already generated other difficulties with copyright law that must be addressed regardless of their difficulty.

Perhaps one way of dealing with the problem would be to prescribe the place at which the reproduction, distribution and transmission of copyright material is to be treated as having occurred. It may be possible for copyright legislation to provide that

65 This issue is further complicated by the need to consider who is the copyright owner in this context. Is it the person who owns the copyright in the place from which the transmission originates or the person who owns the copyright in the place where the transmission is received?

66 The Copyright Treaty, Article 10 relating to Limitations and Exceptions suggests this may be possible. Art 10(1) provides in part "Contracting Parties may ... provide for limitations or exceptions ... in certain special cases that do not conflict with a normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the author." The Agreed Statements Concerning the WIPO Copyright Treaty state that Article 10 permits Contracting Parties to devise new exceptions and limitations that are appropriate in the digital network environment.

a reproduction or distribution by way of transmission is to be treated as having occurred where the transmission originated. Similarly, the right of transmission could be treated as applying to the place from which a transmission originates. These rights would then dictate only the place from which a transmission originates rather than the place of its receipt. Nevertheless, a copyright owner could still use these rights to control parallel importing. It could do this by imposing a condition on the assignment or the licensing of these rights that transmissions only be made to specified destinations.[67] In order to overcome this problem, one of two possible solutions could be implemented. The more radical of these solutions would be to prohibit conditions on assignments or licensing of these rights that restrict the place of receipt of transmissions. The effect of this would be to prevent the rights being used to prevent parallel importing.

The second solution would be to provide expressly that conditions restricting the place of receipt of transmissions have contractual effect only. That is, a breach of such a condition would not give rise to an action for breach of copyright. At most, it would constitute a breach of contract. The advantage of this from a regulatory perspective is that such contractual restrictions, in turn, can be more easily regulated by individual governments. For example, any government could simply deem such contractual terms void and illegal if it wished to prevent the rights being used to prevent parallel importing.

Alternatively, such contractual provisions would be subject to restrictive trade practices legislation. For instance, it would no longer be open to a copyright owner to argue in response to a claim under s 46 of the Trade Practices Act that it was exercising its copyright rather than using its market power when preventing parallel importing. A refusal to license any particular individual to transmit material to Australia would be more likely to constitute a breach of s 46.[68] A refusal to permit any person but its exclusive distributor to transmit material to Australia may constitute a breach of s 45 or s 47 of the Trade Practices Act.[69] In addition, it would be arguable that s 51(3) of the Trade Practices Act would no longer be applicable to such provisions because they are purely contractual rather than flowing from copyright. In any event, the option would be open to any government to amend its restrictive trade practices legislation in such a way as to prevent inappropriate restrictions on parallel importing.[70]

Implementation of this solution would obviously require a uniform international standard. It would also require consideration and resolution of private international law questions such as the choice of law in infringement proceedings. This is a complicated issue and can be even more complicated by multi-national infringements resulting from one act of infringing transmission.[71] It would be less of a problem if there was uniform agreement that parallel importing by way of transmission did not constitute infringement of copyright. It would remain a problem in circumstances where different nations took different approaches to parallel importing. In those

67 Copyright Act 1968 (Cth), s 196.

68 TPC, above n 39 at 32.

69 Ibid.

70 Article 8(1) of TRIPS acknowledges the entitlement of member countries "to prevent the abuse of intellectual property rights by rights holders or the resort to practices which unreasonably restrain trade ...".

71 J Ginsburg, "Global Use/Territorial Rights: Private International Law Questions of the Global Information Infrastructure" (1995) 42 *Journal of the Copyright Society of the USA* 318.

circumstances, rules concerning choice of forum and choice of law would have to be made and implemented that respected the decisions of individual nations concerning the legality of parallel importing.

There may be other more appropriate solutions, but, in any event, an onus rests on those determining copyright laws at both national and international levels to consider the impact of new technology on parallel importing. To date, the response to advances in technology at both levels has been to advocate new, broader rights for copyright owners. While there seems to be a consensus amongst international delegations to WIPO about the need for changes to copyright to deal with the transmission of copyright in digital form,[72] the impetus for implementing rapid changes to the international copyright regime appears to have come from developed countries such as the United States and members of the European Community.[73] The proposals for the greatest protection for copyright owners have also come from these countries.[74] For example, the United States proposed the exclusive right of importation and the inclusion of transmissions within a right of distribution.[75]

In the area of parallel importing at least, the advent of new technology and its impact on the significance of geography suggest that the rights of copyright owners should be reduced rather than increased. Both existing rights such as reproduction and any new rights that are introduced should be adjusted to limit the rights of copyright owners in circumstances where that is appropriate. Parallel importing is one such case. The manner in which the importation issue is addressed may well be a litmus test of the motives of those who are seeking changes to copyright laws. Are these changes being sought in order to obtain an appropriate balance between the rights of copyright owners and copyright users in a digital age or is the digital age simply being used as a Trojan horse to hide and advance the interests of copyright owners at the expense of copyright users? The consistent failure of national and international fora to suggest any significant reductions in the exclusive rights of copyright owners in a digital age leaves the writer with an uncomfortable feeling about the answer to that question.

---

72 WIPO, *Draft Report of the Committee of Experts on a Possible Protocol to the Berne Convention*, WIPO Document BCP/CE/VI/16 (February 1996) at 14 and 46.

73 Ibid at 9 and 10-11. In contrast, developing nations such as China and India have indicated the need for more caution in proceeding. See 13-14 and 15.

74 In the context of databases, the response has been to advocate the creation of a separate and additional right. The impetus for this move has come from the European Community and the USA. WIPO, *Basic Proposal for the Substantive Provisions of the Treaty on Intellectual Property in Respect of Databases to be considered by the Diplomatic Conference*, WIPO Document CRNR/DC/6 (August 1996) at 2-3.

75 WIPO, *USA Proposal presented to the Committee of Experts on a Possible Protocol to the Berne Convention*, WIPO Document BCP/CE/VI/8 (February 1996).