Submission to IP Australia on the draft legislation: Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill and Regulations 2017

The International Trademark Association (INTA) welcomes the opportunity to provide comments to IP Australia on the Exposure Draft of the Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill (the Draft Legislation). This submission relates to proposed changes to the laws regulating parallel importation under the Trade Marks Act 1995 (Cth) (the Act) through the introduction of a new section 122A and the repeal of part of section 123 under Part 1 of the Draft Legislation.

INTA submits that the Draft Legislation should be amended to include a statutory "material difference" clause and a new clause which clarifies the term "put on the market".

**Material Difference test**

**(a) Background**

The Draft Legislation, through the proposed clause 122A (1)(b), seeks to implement the principle of "international exhaustion" to trade mark rights in Australia. As previously submitted, INTA supports and strongly recommends the adoption of a standard of national or regional exhaustion. However, where international exhaustion is applied, INTA’s position is that there should at least be a limitation on the application of this principle so as to exclude parallel imports that are materially different from products that originate in the Australian domestic market or have been imported into Australia by or under license from the registered trade mark owner.

The basis for excluding products which are materially different is because the role of a registered trade mark is to function as a guarantee of the quality of the goods to which the trade mark has been applied. Consumers purchasing goods bearing a particular trade mark expect that the goods will adhere to particular standards and will act in reliance on that trade mark. Goods which have been imported via trade channels which are not authorized by the trade mark owner may not have been intended for sale in Australia and may not meet the quality expectations of consumers in this market. However, as these goods are branded with the registered owner’s mark, the registered owner will be blamed for the discrepancy, undermining the goodwill associated with the mark.

Most jurisdictions that adhere to the principle of international or regional exhaustion have some form of material difference standard\(^1\) which helps to protect the reputation of a registered mark and limits potential confusion for consumers.

**(b) Scope**

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\(^1\) Sometimes a material difference test is framed as a 'legitimate reasons' test, as in the European Union under Article 7(2) of Directive 2008/95/EC.
INTA favors a 'material differences' test that reflects the scope given to that term by the US Courts. In the US, a 'material difference' is any difference between goods that may deceive consumers as to the origin, nature or quality of the goods. Even minor differences may cause the product to be materially different if consumers would consider the difference a relevant factor when purchasing the product.\(^2\)

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. INTA submits that this is an appropriate approach for Australia to adopt, focusing on any differences between the products that a consumer would deem relevant to a purchasing decision.

\textit{(c) Proposed amendment to the Draft Legislation}

INTA recommends the following amendments to the Draft legislation, which seek to codify a material difference test based on the US model.

- A new sub clause 122A(4)(a) which states:

  \textit{Clause 122A(1) does not apply where there is a Material Difference between the imported goods and goods put on the market in Australia by, or with the consent of:}

  (i) the registered owner of the trade mark; or  
  (ii) an authorised user of the trade mark; or  
  (iii) a person authorised to use the trade mark by a person mentioned in subparagraph (i) or (ii), or with significant influence over the use of the trade mark by such a person; or  
  (iv) an associated entity (within the meaning of the Corporations Act 2001) of a person mentioned in subparagraph (i), (ii) or (iii).

- A definition of Material Difference would be inserted in the Act, which states:

  \textit{Material Difference means a difference between goods that may cause confusion as to the origin or nature of the product, and may include differences in formulation, fragrance, color, calories, lot code removal, size, fill-volume, technical functions, packaging, language, guarantees, labelling, manuals, instructions and ability to control the quality of the goods through the distribution chain.}

Under the proposed Clause 122A (4)(a), goods that are materially different from the goods which have been authorized by the trade mark owner for importation and sale in Australia would infringe the registered trade mark in Australia.

\textsuperscript{2} See eg Zino Davidoff SA v. CVS Corporation 571 F.3d 238, 243-46 (2d Cir. 2009).
'Put on the market'

(a) Background
INTA is concerned that the current use of the term 'put on the market' in clause 122A(1)(b) is ambiguous and potentially too broad. As it stands, if the registered trade mark owner distributes samples of goods for promotional purposes or for demonstration purposes they may be taken to have put those goods on the market for the purposes of the Act and therefore have exhausted their ownership rights without having the opportunity, or intending, to commercially exploit those products. INTA submits that this is not the intended purpose of the Draft Legislation which seeks to grant the registered trade mark owner exclusive rights in associated goods until those goods have been commercially exploited.

In the European Union, Article 7(1) of the Directive 2008/95/EC also provides an exhaustion of rights where the trade marked goods are 'put on the market'. That directive does not define what 'put on the market' means, but the European Court of Justice in *Peak Holdings v Axolin-Elinor AB* [2004] ECR I-11313 in analyzing the term 'put on the market' held that goods are put on the market where the trade mark holder sold goods bearing the trade mark to a third party: a sale which allowed the proprietor to realize the economic value of the trade mark.

INTA proposes adding a clause that clarifies when goods are put on the market in line with this interpretation.

(b) Proposed amendment to the Draft Legislation
INTA recommends the following amendment to the Draft legislation.

A new sub clause in Section 122A (4)(c) which states:

For the purpose of Clause 122A(1)(b) goods are not taken to have been put on the market if they have not been sold to a third party by or with the consent of the trade mark owner.