SUBMISSION TO IP AUSTRALIA ON DRAFT LEGISLATION:
INTELLECTUAL PROPERTY LAWS AMENDMENT (PRODUCTIVITY
COMMISSION RESPONSE PART 1 AND OTHER MEASURES) BILL AND
REGULATIONS 2017

1. IP Australia has sought comments on the exposure draft legislation proposed
by the government: the Intellectual Property Laws Amendment (Productivity
Commission Response Part 1 and Other Measures) Bill and Regulations 2017
(the Draft Bill). In particular, IP Australia is concerned with any unintended
consequences of the Draft Bill or any drafting concerns.

2. As a holder and licensor of intellectual property rights in Australia, we
welcome the opportunity to make a submission to IP Australia in the course
of this consultation process.

3. This submission focuses on the new section 122A and consequential
amendments to section 123 of the Trade Marks Act 1995 (Cth) (Act), which is
of particular interest and concern to our company and its authorised
licensees.

4. By way of summary, our position is that:
   (a) the proposed amendments are weighted too heavily in favour of
       parallel importers and go beyond the recommendation of the
       Productivity Commission.

   (b) the Draft Bill operates to impose an unreasonable restriction on brand
       owners and in particular multinational companies, as to how they
       conduct business in Australia – it exceeds even the protection afforded
       to countries which adopt international exhaustion of rights.

   (c) the Draft Bill does not address territorial differences in reputation and
       goodwill attached to trade marks.

   (d) this impost may impact upon the willingness of multinational
       companies to conduct business and invest in the Australian market.

   (e) the drafting of new section 122A the Act, rather than protecting
       consumers, will have the reverse impact on consumer choice, product
       quality and safety.

5. We elaborate on these concerns below.

Introduction

6. Shimano Oceania Holdings Pty Ltd is the holding company for almost all of
the trade marks in Australia relating to fishing and cycling products sold in
Australia under the Shimano brand.
7. Iron Works, the predecessor of Shimano Inc., was established in 1921 by Shozaburo Shimano in Sakai city, Osaka Japan. The company originally manufactured bicycle parts. The company was incorporated in January 1940 in Japan. In 1951, the company's name changed to Shimano Industrial Co. LTD.

8. The first overseas sales office, Shimano American Corporation (currently Shimano North America Holding, Inc.), was established in 1965. Shimano Singapore Pte. Ltd. was the first overseas manufacturing base in 1973.

9. In 1991, the company changed its name to Shimano Inc. Since then, it has expanded worldwide with consolidated subsidiaries in Japan, Asia, Europe, North and South America and Oceania.

10. Shimano branded products arrived in Australia in the early 1980s. In 1981 an independent company, Dunphy Sports Pty Ltd was the distributor of Shimano branded fishing goods. Shimano Australia Cycling Pty Ltd was a second independent company established in Sydney in 1992 as the Australian distributor of Shimano bicycle components. As both businesses expanded over the years, so too did Shimano's local equity investment in both companies.

11. In 2011, planning started around the merger of the Shimano Cycling and Fishing divisions in Australia. In 2015, both companies, Shimano Australia Cycling Pty Ltd and Shimano Australian Fishing Pty Ltd, moved locations into its current, purpose-built facility in Caringbah. Shimano Oceania Holdings Pty Ltd is the holding company of the Shimano related intellectual property in Australia and licenses the intellectual property rights to Shimano Australia Cycling Pty Ltd and Shimano Australian Fishing Pty Ltd.

12. At the date of this submission, there are 252 trade mark registrations on the Australian Trade Marks Register in the name of Shimano Oceania Holdings Pty Ltd.

13. Shimano Australia Cycling Pty Ltd and Shimano Australian Fishing Pty Ltd provide perform all sales and marketing of Shimano-branded products to the Australian market. Each provides warranties to consumers in respect of the Shimano branded products they supply and after sales service.

14. Given the technical nature of many of the products supplied and serviced, the after sales service side of the business is very important to us. It is key to our business that we know the product we supply and we can ensure that our after sales service is in respect of product that we supply appropriate to this specific market. This is very important where safety is paramount, for example, for bicycles parts.

General comments on the legislative changes

15. As a result of the recommendations in the Productivity Commission's Final Report (PC Report), the government has produced the Draft Bill to address a number of issues including parallel importation. The Productivity Commission observed, among other things, that "while the Trade Marks Act contains provisions about when parallel imports may be allowed, recent legal cases have muddied the
waters'...amending the Act to make clear that parallel imports are allowed, would resolve the uncertainty and ultimately benefit the community".

16. The recommendation 12.1 is as set out below:

RECOMMENDATION 12.1
The Australian Government should amend the Trade Marks Act 1995 (Cth) to:

- reduce the grace period from 5 years to 3 years before new registrations can be challenged for non-use
- remove the presumption of registrability in assessing whether a mark could be misleading or confusing at application
- ensure that parallel imports of marked goods do not infringe an Australian registered trade mark when the marked good has been brought to market elsewhere by the owner of the mark or its licensee. Section 97A of the Trade Marks Act 2002 (New Zealand) could serve as a model clause in this regard.

17. As a result of recommendation 12.1 of the PC Report, the Draft Bill proposes to insert a new section 122A into the Act and repeal subsection 123(1). According to the Draft Explanatory Memorandum to the Draft Bill (Draft EM), the objectives of the amendments are to:

(a) import greater clarity on the scope and application of section 123 and related provisions of the Act;

(b) facilitate and encourage parallel importation of goods into Australia to the benefit of consumers;

(c) endeavour to limit the strategic use of restrictions by registered trade mark owners; and

(d) recognise legitimate commercial or contractual relationships that parties may have with the registered owner.

18. We do not support these amendments for the reasons detailed below.

The proposed amendments are weighted too heavily in favour of parallel importers and go beyond the recommendation of the Productivity Commission

19. The recommendation was to ensure that that parallel imports of marked goods do not infringe an Australian registered trade mark when the marked good has been brought to market elsewhere by the owner of the mark or its licensee.

20. However the proposed Section 122A goes far beyond this recommendation and provides a defence to infringement based on the reasonableness of an assumption of the user of the mark that the mark had been applied to the goods with the consent of any of:

(a) the registered owner;

(b) the authorised user;

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(c) a person authorised by the registered owner or the authorised user or with significant influence over the use of the trade mark by such a person;

(d) an associated entity of any of the persons in (a)-(c).

21. Further the consent which can be "reasonably assumed" is a broad consent — so broad that it can be inferred from conduct, and can comprise conditional consent (Section 122A (2)).

22. So even though the goods have not been brought to the Australian market or any other market with the permission of the registered owner of the trade mark or its licensee, then the defence still arises. This goes far beyond Recommendation 12.1.

23. At its widest the drafting of the provision allows a "user" to import counterfeit goods if it is reasonable to assume that they are genuine in that the circumstances are such that it is reasonable to assume they are genuine products.

24. The importer is not required to investigate the chain of title for trademarked goods. The provisions do not impose any obligation on importers to exercise vigilance and conduct any checks and balances in their commercial dealings. The Draft Bill does not adequately balance competing interests of parallel importers and trade mark owners in a way that would be beneficial to Australian consumers.

25. It has been contended — at the defence under section 123 of the Act imposes too great a burden for parallel importers. The Draft Bill however, sways too far in their favour. The proposed Section 122A grants to importers a licence to reasonably assume that all apparently parallel imported products (whether genuine products, counterfeit products or products to which the application of the mark has not been approved by the registered owner of the trade mark) are:

(a) genuine and not counterfeit; and

(b) goods to which the mark has been applied with the consent of the owner of authorised user in Australia.

The Draft Bill operates to impose an unreasonable restriction on brand owners and in particular multinational companies, as to how they conduct business in Australia — it exceeds even the protection afforded to countries which adopt international exhaustion of rights

26. We are of the view that the Draft Bill oversimplifies the complex commercial relationships that exist between parties and the rights of trade mark owners on an international scale. The current Section 123 at least provides for some clarity that the application of the mark to the goods in question must be with the consent of the registered owner of the trade mark.

27. Section 122A deprives a global company of the entitlement to decide how its marks are held in Australia and who has the rights attaching to those marks.

28. The Productivity Commission observed that "reforming the provision that hinders parallel imports could take different forms, including: one that clarifies how 'use of a mark' and 'consent of ownership' applies to trade marks, and adjusts such terms to
allow for parallel importation; or one that spells out when the rights afforded to trade marks are exhausted”.

29. The option taken in section 122A is international exhaustion, and in fact goes beyond that for the reasons identified in paragraph 25 above. The Draft EM provides: “the overall principle is that the registered owner's rights are exhausted following the initial application of the trade mark to, or in relation to, goods which have been put on the market”. Despite the alternative approaches recommended by the Productivity Commission, the two issues are, in our view, incorrectly merged in the Draft Bill.

30. The principle of exhaustion of trade mark rights ought not to apply where the trade mark is held by different entities in different countries. The European position is inter-Europe exhaustion – which is understandable given the necessity of freedom of trade across the EC. There is no need for Australia to adopt this extremely broad version of international exhaustion.

31. The trade marks held by different entities across the world and the rights attaching to those trade marks are not equivalent in each jurisdiction. Trade marks are capable of acquiring a distinct goodwill in Australia, which is distinct from the goodwill which may be generated overseas.

32. Multinational organisations should be entitled to do business and establish how trade marks under which they operate noting that the outcome of such decisions may determine how and in whose favour goodwill accrues over time within a particular territory.

The Draft Bill does not address territorial differences in reputation and goodwill attached to trade marks and eliminates the ability of a company to control the quality or consistency of products in Australia

33. While Australian consumers may in theory have “greater choice” through parallel importation, there is also the risk that product quality, safety and consistency across the goods bearing the trade mark which permeate the market will be compromised.

34. The Productivity Commission was of the view that: “parallel importation restrictions extend IP rights into the process of distribution. They may also lead to inefficient outcomes by providing rewards to creators that are not proportional to the value or risk of their creation and create a public detriment”. We respectfully disagree.

35. Trade marks, which function as a badge of origin, have an important role in representing goods of a certain quality. There may be differences in the formulation between products distributed in different jurisdictions. With technical products such as bicycle products, the trade marks have a secondary role in representing quality and safety, in a manner which travels far beyond the “process of distribution”.

36. Consumers expect quality to be consistent and where it is not, this would undermine the value of the brand. Under the Draft Bill, there is a risk that:

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2 Draft EM, p 9.
3 PC Report p 396.
(a) the condition of parallel imported goods may have been altered without the trade mark owner's consent;

(b) importers may alter with the packaging of the goods, which may for instance, result in product codes being altered or instructions being omitted which is problematic from a product liability perspective;

(c) the products may not be manufactured for the Australian market; and

(d) importers may not carry spare parts or warranties comparable to those provided in relation to the goods supplied in Australia by or with the consent of the Australian trade mark owner.

37. Each of these risks provide powerful reasons why the defence enshrined in the proposed section 122A does not provide a public benefit which outweighs the rights of the trade mark owner.

The drafting of new section 122A the Act, rather than protecting consumers, will have the reverse impact on consumer choice, product quality and safety

38. For the reasons set out in paragraph 36, consumers do not have adequate comfort in relation to product quality, safety or their entitlements to equivalent rights or warranties as offered by trade mark owners or authorised licensees.

39. In circumstances where companies are also required to comply with consumer guarantees under the Australian Consumer Law, the lack of control in distribution channels is also problematic for trade mark owners.

40. Further, the trade mark owner may be responsible for exercising quality control measures such as checking repairs done by authorised distributors, the technical capability and expertise of those undertaking the repairs. This additional work to maintain the quality of goods to which the trade mark is applied contributes towards the good will of the mark, among other things, which the Draft Bill does not appear to adequately recognise.

41. The Productivity Commission expressed the view that certain arguments against lifting the parallel importation restriction, "expect the Trade Marks Act to do too much" and that consumers could rely on other information such as provenance and country of origin labelling.4

42. This does not however, address the fact that the purpose of a trade mark is overlooked and the good will attached to it devalued. Trade marks are regularly used for purposes other than mere product identification.

43. As described in the above section about product consistency being compromised, one potential effect of the amendments is that the trade mark owner will be held responsible for consumers' bad experiences. Poorer quality or inconsistent products can also result in significant reputational damage to trade mark owner and any goodwill acquired in respect of the trade mark in Australia being tarnished and devalued.

4 PC Report, p 396.
Willingness of multinational companies to conduct business and invest in the Australian market

44. Finally, the fact that the legislation is overly burdensome on trade mark owners is potentially problematic for the Australian market. There is a real risk that trade mark owners will be less inclined to continue or invest in operations here due to the unfavourable or burdensome conditions created by the Draft Bill.

45. Alternatively, the cost of ensuring greater control on distribution channels may ultimately be passed down to consumers.

Specific questions

Consultation Question 1: Are there any scenarios not captured by the amendments where the trade mark owner and associated entity could make an arrangement to prevent parallel imports?

46. No.

Are there any scenarios where the amendments operate to excuse conduct that is not legitimate parallel importation?

47. Yes – see our submission at paragraph 25 above.

Consultation Question 2: Should services be captured in the proposed amendment? Are there any scenarios in which a service could be a parallel import? For example, could software, platforms or infrastructure be provided as a service (e.g. providing access to hosting or storage environments) that could be a parallel import?

48. Our view is that services should not be captured as a parallel import.

Comments on drafting

49. If the amendment and new section 122A is to be implemented then it needs to be amended so that the blanket defence based on a "reasonable to assume test" is closer in practice to the current section 123.

50. We submit the following amendments to section 122A to address the above issues:

(a) not providing a blanket defence in the way section does, but allow for the registered owner of the trade mark to negative the defence if it proves that the application of the mark was without its consent;

(b) qualifying subsection 122A(1)(a) by requiring that the importer make enquiries about the provenance of the goods;

(c) qualifying subsection 122A(1)(b) by requiring that the goods to be of equivalent quality on Australian and foreign markets; and

(d) removing the reference to an associated entity (within the meaning of the Corporations Act 2001) in subsection 122A (i) (c) (iv).
51. Finally, it would be prudent for the Draft Bill to include a requirement that the parallel importer clearly label products as a parallel imports or place clear disclaimers that the warranties may be void due to the unknown or unapproved status of the import, hence the cheaper price and compromised quality.

Dated 14 December 2017

Matthew Bazzano
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