

INDUSTRIAL PROPERTY ADVISORY COMMITTEE

**REPORT ON THE PROVISIONS OF THE
DESIGNS ACT 1906
RELATING TO INFRINGEMENT BY ARTICLES
IMPORTED FROM ABROAD**

20 March 1985

A report to
the Hon Barry O Jones MP
Minister for Science

INDUSTRIAL PROPERTY ADVISORY COMMITTEE

(at 20 March 1985)

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SUMMARY

Section 30 of the Designs Act provides that it is an infringement of a registered design to import, without the consent of the registered owner of the design, articles to which the design has been applied abroad otherwise than by or with the consent of the registered owner.

The Australian Manufacturers' Patents, Industrial Designs, Copyright and Trade Mark Association and the Institute of Patent Attorneys of Australia seek amendment of these provisions to make it an infringement to import, without the consent of the registered owner, any articles to which the registered design has been applied; i.e. they seek to give the registered owner the further right to exclude genuine goods, whether produced by the owner or by the owner's licensees.

Having regard to the various interests of consumers, manufacturers, and owners of designs, the Committee considers that the rights conferred by the Designs Act in respect of goods imported from abroad should be similar to those conferred by the Patents Act. It therefore proposes that articles to which a design has been applied abroad by the registered owner of the design should continue to be able to be imported without the owner's permission. Articles produced abroad by any other person (including a licensee of the registered owner) should be able to be imported only with the owner's permission. The Committee recommends that section 30 of the Designs Act should be amended accordingly.

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INDUSTRIAL PROPERTY ADVISORY COMMITTEE

REPORT ON THE PROVISIONS OF THE
DESIGNS ACT 1906 RELATING TO
INFRINGEMENT BY ARTICLES IMPORTED FROM ABROAD

1. Reference

1.1 The Committee has been asked by the Minister to:

"Consider and report on the provisions of the Designs Act 1906 relating to the infringement of the monopoly in a registered design in circumstances arising out of the importation into Australia of articles to which the design has been applied outside Australia -

- (a) by, or with the authority of, the registered owner of the Australian registration; or
- (b) prior to the date on which the application for registration of the design was lodged in Australia,

and in particular whether those provisions ought to be amended to make it an infringement to import such articles for sale or hire without the licence or authority of the registered owner or to sell or hire or offer or expose for sale or hire articles so imported."

1.2 This reference arose out of submissions to the Minister in identical terms by the Institute of Patent Attorneys of Australia ("the Institute") and the Australian Manufacturers' Patents, Industrial Designs, Copyright and Trade Mark Association ("AMPICTA").

2. Present Law

2.1 The acts constituting infringement of a registered design are set out in section 30(1) of the Act, which reads as follows:-

"A person shall be deemed to infringe the monopoly in a registered design if he, without the licence or authority of the owner of the design -

- (a) applies the design or any fraudulent or obvious imitation of it to any article in respect of which the design is registered;
- (b) imports into Australia for sale, or for use for the purposes of any trade or business, any article in respect of which the design is registered and to which the design or any fraudulent or obvious imitation of it has been applied outside Australia without the licence or authority of the person who was the owner of the registered design at the time when the design or imitation was so applied; or
- (c) sells, or offers or keeps for sale or hire, or offers or keeps for hire, any article -
 - (i) to which the design or any fraudulent or obvious imitation of it has been applied in infringement of the monopoly in the design; or
 - (ii) in respect of which the design is registered and to which the design or any fraudulent or obvious imitation of it has been applied outside Australia without the licence or authority of the person who was the owner of the registered design at the time when the design or imitation was so applied."

2.2 The question referred arises in respect of articles imported from abroad. Under the present law such articles will infringe a registered design if, and only if, the design or a fraudulent or obvious imitation of it has been applied to them -

- (a) outside Australia, and

(b) without the licence or authority of the owner at that time of the (Australian) registered design.

2.3 Thus, it is not an infringement of the registration of the design to import, without the authority of the design owner, articles to which the design has been applied abroad by the owner (or a previous owner) of the registration or by the owner's licensee.

3. Submissions

3.1 In the submission of AMPICTA and the Institute, the present law should be modified in two respects:

(a) it should be an infringement to import or deal in any way with articles imported without the licence or authority of the design owner, even if the design was applied abroad by or with the authority of the owner; and

(b) it should not matter when the design was applied abroad.

3.2 As to the first submission, it is argued by AMPICTA and the Institute that the monopoly conferred by the design registration in Australia should be completely independent of the position abroad. They further argue that to expose a manufacturer in Australia who is the owner or licensee of the registered design to competition from articles produced abroad by the owner or a foreign licensee has the effect of discouraging local manufacture of the article in Australia.

3.3 As to the second submission, AMPICTA and the Institute say that section 30 as it now stands is not effective to prevent importation and sale of articles produced abroad before the registration of the design and they argue that, as the criterion of novelty of a design is domestic and not universal, it should be irrelevant to the question of infringement that the design or an imitation of it was previously applied abroad.

In their view, section 30(1)(b) is open to the interpretation that, until such time as there is a "person who was the owner of the

registered design in Australia", there is no basis for the operation of the section, and therefore no action can be taken in respect of articles produced abroad prior to the date of the registration. Thus a person may, before the design is registered, manufacture abroad copies of articles according to the design, stockpile the articles, and thereafter remain free to import them and sell them in Australia even after the design is registered.

In the view of the Committee this is not a correct interpretation of section 30(1)(b). In the Committee's view, that section does not exempt such articles from infringement, but on the contrary renders them infringing. Until such time as there is a person who is the owner of the registered design in Australia, there is no relevant owner who can license or authorise the application of the design. Articles to which the design is applied abroad before there is an owner of the registered design in Australia will therefore, in the opinion of the Committee, be infringing articles irrespective of who applies the design to them.

The date on which there comes into existence a person who is the owner of the registered design in Australia will, by virtue of section 27A(1) of the Designs Act, be the date of application for registration. That section provides:

"The registration of a design shall be deemed to have come into force on the date on which the application for registration of the design was lodged under this Act ..."

3.4 The Committee therefore considers that the only question to be dealt with is the first question referred. In any event, the amendment to be proposed in relation to that question will have the effect of clarifying the position with respect to the second question.

4. The Basic Issue

The issue raised by the question first referred to us by the Minister is basically this:

Should the owner of an Australian registration be able to exclude from Australia articles to which the design has been applied abroad and put into the chain of commerce by the owner or by the owner's licensee, or should the owner's rights be exhausted by the first use of the design and sale of the articles abroad?

5. The Position under other Legislation

5.1 Copyright Act 1968

The position under the Copyright Act with respect to unauthorised importation of works produced abroad is defined by section 37 of that Act which makes it an infringement to import an article for sale without the licence of the copyright owner if "the making of the article would, if the article had been made in Australia by the importer, have constituted an infringement of the copyright". In the case of Interstate Parcel Express Co Pty Ltd v Time-Life International (Nederlands) BV, 15 ALR 353, the High Court held that the mere selling of the copyright work abroad by the copyright owner or the owner's licensee without restriction did not constitute or imply a licence to import the work into Australia and accordingly the unauthorised importation of the genuine work constituted an infringement.

5.2 Patents Act 1952

The position under the Patents Act is different. The grant of a patent gives to the patentee the exclusive right to "make, use, exercise and vend the invention" the subject of the letters patent (see section 69). It has been held that the unrestricted sale abroad by the patentee of an article according to the patent carries with it an implied licence to further deal freely with the article and accordingly a licence is implied to import the article into Australia and to further deal with it here, unless that right is expressly excluded (see Betts v Willmott, LR 6 Ch App 239). On the other hand, where the articles are produced abroad by a person who is the licensee of the patentee abroad but does not hold a licence under the Australian patent, no licence

for Australia will be implied and it will be an infringement to import the articles into Australia without the authority of the patentee (see SA des Manufactures de Glaces v Tilghmans Patent Sand Blast Co, 25 ChD 1).

5.3 European Economic Community Law

Within the European Economic Community a doctrine of total "exhaustion of rights" is applied. Where the owner of an industrial property right has taken the benefit of that right in one country of the EEC, the owner's rights are exhausted and the owner cannot extract a further benefit in another EEC country. Thus, where a licence is granted in, say, France, articles produced under that licence may be freely dealt with in any other country of the EEC, even if the licence was restricted to France.

6. Policy Options

6.1 The question for decision by this Committee is whether the exercise of the monopoly conferred by the registration of a design in Australia should be -

- (a) completely independent of events elsewhere, as in the case of copyright, and as submitted by the Institute and by AMPICTA;
- (b) exhausted only to the extent that articles to which the design is applied abroad by the registered owner or by a licensee under the Australian registration may be freely imported, as in the case of a patent right; or
- (c) fully exhausted by application of the design abroad by or with the consent of the owner of the design, as is the case under the Designs Act at present, and in the EEC.

6.2 The economic interests to be balanced in deciding this question are the interests of Australian consumers on the one hand and those of manufacturers and designers who are the owners of design registrations

on the other. It is of interest to the consumer to have access as widely as possible to articles incorporating registered designs. The interest of the design owner, on the other hand, is to have maximum control over the distribution of articles incorporating the design.

In considering these competing interests it is relevant, from the national interest point of view, to enquire who are the owners of Australian design registrations. Statistics provided to us from the Australian Patent, Trade Marks and Designs Office indicate that approximately 75% of designs registered in Australia are owned by Australians. Accordingly, in considering the the balance of interests referred to above, the question of balancing Australian interests against foreign interests does not appear to be of major significance.

The balance is to be sought essentially between the interests of Australian consumers and the interests of Australian designers and manufacturers.

6.3 The object of protection under the registration of a design is ordinarily an industrial object; it is not a work of art or a literary or musical work. The protection is dependent on the establishment of a degree of novelty, as distinct from mere originality, in the work, and infringement is not dependent upon copying. The right conferred by registration is therefore more akin to that conferred by a patent than it is to copyright. On this basis, there would be a degree of consistency in treating the matter of infringement in the same way as under the Patents Act.

6.4 To follow the copyright approach would enable the design owner to exclude genuine foreign-produced goods from the Australian market and to control their distribution within Australia.

This may have the effect of maximising the return which the design owner can obtain from the design, but it may correspondingly place the Australian consumer at a disadvantage compared to persons purchasing the goods abroad. It works only to the advantage of manufacturers who choose to supply the Australian market from abroad.

6.5 On the other hand, the present law, which adopts, in effect, the principle of exhaustion of rights, may act as a disincentive to the licensing abroad by Australians of their registered designs. The adoption of this principle within the EEC arises out of different circumstances. In its report on the patent system ("Patents, Innovation and Competition in Australia", at Section 4.8) this Committee pointed out that -

"the EEC applies the principle only as between its member States. It does not apply the principle to the importation into member countries of goods first put into circulation in countries outside the EEC".

The majority of the Committee went on to say that it did not -

"see that any useful purpose would be served by widening the existing exhaustion of rights principle to extend its application to goods put into circulation outside Australia by particular types of persons who are licensed by or otherwise connected with the patentee. Adoption of this approach could operate to discourage licensing by Australians of their inventions abroad since to do so would then expose them to competition from their foreign licensees in the Australian market. It would also introduce a positive bias against Australian manufacturers for the reason that in other parts of the world, including the EEC considered as a whole, the wider principle of exhaustion does not apply."

6.6 These considerations are, in our opinion, equally applicable to the registration of designs. The majority of Australian registered designs are Australian owned, and we do not think that their owners should be discouraged from licensing manufacture abroad for fear that articles manufactured under such licence will be able to compete in the Australian market with the goods of the registered owner. We think that the position which applies under the patent law would reach a reasonable balance between the interests of consumers and the owners of registered designs. The Committee considers therefore that the partial exhaustion principle embodied in the patent law should apply to designs and the Designs Act should be amended accordingly.

Articles to which a design has been applied abroad by the registered owner of the design should therefore be able to be imported without the owner's permission. This is the case under the current legislation as we understand it, and no amendment to the Designs Act would be required in consequence.

Articles produced abroad by any other person (including a licensee of the registered owner) should, however, be able to be imported only with the owner's permission. It should therefore be an infringement to import, sell or hire, without the permission of the registered owner of a design, articles to which the design was applied abroad by any person other than the registered owner. This would represent an extension of the scope of acts which constitute infringement and section 30(1)(b) and (c)(ii) of the Designs Act should be amended accordingly.

7. Recommendation

The Committee recommends that section 30 of the Designs Act be amended to provide that it be an infringement of the monopoly in a registered design to import, sell or hire, without the licence or authority of the owner of the design, articles to which the design was applied abroad by any person other than the owner.

INDUSTRIAL PROPERTY ADVISORY COMMITTEE

J. Stonier
Chairman

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