THE EMPIRE WILL STRIKE BACK: THE OVERLOOKED DIMENSION TO THE PARALLEL IMPORT DEBATE

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Parallel importing, the act of importing non-counterfeit products from other countries in which the product is sold more cheaply, has the potential to significantly benefit Australian consumers. First, the availability of the parallel imported product is likely to intensify price competition in the local market. Secondly, it may result in greater product choice as many parallel imported products would not otherwise find their way to the local marketplace. Given these benefits, it is not surprising that there have been many calls to abolish parallel import restriction provisions in Australia's various intellectual property statutes. This article does not revisit the debates on the merits or otherwise of parallel import restrictions. Instead it takes the repeal of the parallel import restrictions as a given and considers strategies manufacturers are likely to adopt in response. A conclusion is reached that many of the manufacturer responses which have the potential to undermine the benefits that the relaxation of parallel import laws would otherwise bring about would not amount to a breach of competition law. Given this finding, the article concludes by considering alternate methods of supporting parallel import activity.

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I Introduction

In late July 2013, it was once again recommended that the Commonwealth government remove all restrictions on parallel imports.[1] This time the recommendation was made by the House of Representatives Standing Committee on Infrastructure and Communications ('IT Pricing Committee') that was charged with investigating why Australians pay higher prices for IT products. The recommendation is largely based on benefits brought about by a reduction in trade barriers such as lower prices and greater choice. It will be interesting to see whether the Coalition government, elected in September 2013, accepts this recommendation, given the decision by the former Labor government to ignore the Productivity Commission's less far-reaching recommendation, namely to remove parallel import restrictions that prevent the importation of genuine books.[2]

This article does not seek to predict how the government will respond to the IT Pricing Committee's recommendation, nor does it revisit the debates on the merits or otherwise of parallel import restrictions. Rather, it considers an important issue that, to date, has not received much (if any) attention from policymakers: the likely response of manufacturers to any relaxation of parallel import restrictions. Such responses have the potential to undermine many of the benefits that the relaxation of parallel import laws would otherwise bring. Part II sets out the nature of the parallel import restrictions that currently apply to intellectual goods. Part III then considers the many recent inquiries into the appropriateness of parallel import restrictions, focussing on the recommendations made by such inquiries and the basis of those recommendations. Part IV then identifies the various ways in which parallel imports can harm manufacturers before examining the strategies that manufacturers may adopt to curb 'grey market'(the market in which parallel imports are said to be sold) activity. The extent to which such strategies would breach competition laws is considered in Part V. Finally, as most manufacturer responses will not be caught by competition laws, Part VI considers alternate methods of

[1] House of Representatives Standing Committee on Infrastructure and Communications, Parliament of Australia, *At What Cost? IT Pricing and the Australia Tax* (2013) ('*IT Pricing Report*') xii–xiii (recommendation 4):

> The Committee recommends that the parallel importation restrictions still found in the *Copyright Act 1968* (Cth) be lifted, and that the parallel importation defence in the *Trade Marks Act 1995* (Cth) be reviewed and broadened to ensure it is effective in allowing the importation of genuine goods.

[2] Productivity Commission, 'Restrictions on the Parallel Importation of Books' (Research Report, June 2009) xxv (recommendation 1) ('*Productivity Commission Report*').

promoting grey market activity and the competition it brings so as to increase the likelihood that the policy goals that underpin any relaxation of parallel import laws will be achieved.

II Current Restrictions on Parallel Imports

Before discussing the protracted reform process and ways in which intellectual property owners may respond to any relaxation of parallel import restrictions, it is first necessary to provide a brief account of those restrictions. With respect to goods in which copyright subsists, no parallel import restrictions apply when it comes to genuine copies of sound recordings, computer programs, periodicals and sheet music. There are also no restrictions on the parallel importation of electronic literary works. Books and DVDs, on the other hand, can only be imported for commercial purposes with the consent of the copyright owner.

Although s 13 of the *Patents Act 1990* (Cth) prohibits the unauthorised importation of patented goods, in most instances patented goods can in fact be freely imported into Australia. This is because the courts have accepted that contracts involving the sale of patented goods contain an implied licence that gives the purchaser the absolute right to deal with the goods as she thinks fit, including the right to sell the good in any country.[3] Thus, unless the contract in which the patented goods are sold includes a clause that restricts the purchaser's right to resupply the goods, the purchaser is free to do so.

The situation is much more complicated when it comes to trade marked goods as there is uncertainty about whether the act of parallel importation amounts to infringement. The parallel importation of trade marked goods will only amount to infringement if, inter alia, the parallel importer or the retailers of parallel imported goods can be said to be using the registered mark *as a trade mark*. Prior to the introduction of the parallel import defence in 1995,[4] the parallel importation of trade marked goods was often found not to involve use of the trade mark and, therefore, not to amount to infringement.[5] For example, in *Atari Inc v Fairstar Electronics Pty Ltd*, Smithers J stated that:

3 *Betts v Willmott* (1871) LR 6 Ch App 239. See also *Société Anonyme des Manufactures de Glaces v Tilghman's Patent Sand Blast Co* (1883) 25 Ch D 1.

4 *Trade Marks Act 1995* (Cth) s 123(1).

5 See cases discussed in Mark Davison, 'Parallel Importing: Who's Using What and When and What Happens Then?' (2009) 20 *Australian Intellectual Property Journal* 71, 71–4. See also *R & A Bailey & Co Ltd v Boccaccio Pty Ltd* (1986) 4 NSWLR 701.

> once a manufacturer puts a trade mark on his goods and sends them into the course of trade on the billowing ocean of trade, wherever people bona fide deal with those goods under that name and by reference to that trade mark … they are simply not infringing the trade mark. They are not 'using' the mark in the relevant sense.[6]

However, when the parallel import defence was introduced, the focus shifted from whether the parallel importer could be said to be using the trade mark to whether the parallel import defence applied. The defence provides that

> a person who uses a registered trade mark in relation to goods that are similar to goods in respect of which the trade mark is registered does not infringe the trade mark if the trade mark has been applied … by, or with the consent of, the registered owner.[7]

Thus, attention is now focussed on whether the trade mark owner can be said to have consented to the application of the mark rather than whether they could be said to be using the mark as a trade mark.[8]

III The Protracted Reform Process

Australia's parallel import restrictions have been reviewed many times in the last two and a half decades, with most reviews recommending that such restrictions be abolished. In 1988, the Copyright Law Review Committee ('CLRC') reviewed the parallel import restrictions contained in the *Copyright Act 1968* (Cth) ('*Copyright Act*').[9] The reform agenda began quietly. The CLRC did not recommend the removal of parallel import restrictions, although it did recommend that parallel importation be allowed where the goods in which copyright subsists will not, within a reasonable time, be available in Australia from the copyright owner or its authorised distributors.[10] It also recommended that the *Copyright Act* be amended so that there will be no copyright infringement if an article is imported and copyright subsists only in

6 (1982) 50 ALR 274, 277.

7 *Trade Marks Act 1995* (Cth) s 123(1). 'Registered owner' means, 'in relation to a registered trade mark, the person in whose name the trade mark is registered': *Trade Marks Act 1995* (Cth) s 6(1) (definition of 'registered owner').

8 This is by no means a straightforward issue, for reasons discussed in Arlen Duke and Matthew E Taylor, 'Parallel Import Restrictions: Core Intellectual Property Rights or Unjustified Restraints on Trade' (2014) *Competition and Consumer Law Journal* (forthcoming).

9 CLRC, Parliament of Australia, *The Importation Provisions of the Copyright Act 1968* (1988).

10 Ibid 3–4 (recommendation 1(a)).

a work comprised in a label, packaging or accessory (such as instructions) that comes with the goods.[11] The first of these recommendations saw the introduction of what is known as the '30/90 day rule' some three years later.[12] Under the rule, which is designed to ensure that Australian consumers can access books in a timely fashion, the commercial importation of books will not amount to an infringement if the book is not released through authorised channels within 30 days of it being published elsewhere in the world, or if the authorised channels are unable to meet demand for the book within 90 days.

From this point on, all government commissioned review bodies have recommended the repeal of parallel import restrictions. In 1989, only one year after the CLRC released its report, the Prices Surveillance Authority ('PSA') surveyed book prices in Australia, the United Kingdom and the United States and found that prices in Australia were considerably higher.[13] In its report, the PSA recommended that almost all parallel import restrictions contained in the *Copyright Act* be abolished.[14] The following year, the PSA undertook a similar inquiry, this time into the prices charged for sound recordings in Australia. This inquiry made similar findings and recommendations as those made in relation to books.[15] In 1995, the PSA updated its report on book prices, finding that whilst the introduction of the '30/90 day rule' had improved availability, it had done little to lower the prices Australian consumers paid for books.[16] Between 1991 and 1996, recommendations 'for the dismantling of import restrictions on recorded music went to federal cabinet five times with no result'.[17]

The Coalition took power in 1996. This provided an opportunity for the issue to be re-agitated. In 1998, in response to the PSA's 1990 report on the prices charged for sound recordings in Australia,[18] the Coalition government passed legislation allowing the importation of legitimate or genuine copies of

[11] Ibid 6 (recommendation 3).

[12] *Copyright Amendment Act 1991* (Cth) ss 5, 8, inserting ss 44A, 112A into the *Copyright Act*.

[13] PSA, 'Inquiry into Book Prices' (Report No 25, 19 December 1989) 7.

[14] Ibid. The Authority's recommendation was subject to two exceptions: pirate editions, and books by Australian resident authors with separate Australian publishing contracts. The latter 'would operate for ten years, to provide support for an "infant industry"': at 7.

[15] PSA, 'Inquiry into the Prices of Sound Recordings' (Report No 35, 13 December 1990) 152–3.

[16] PSA, 'Inquiry into Book Prices and Parallel Imports' (Report No 61, 28 April 1995) 66–7.

[17] Malcolm Maiden, 'Publishing Report a Closed Book', *The Age* (Melbourne), 13 November 2009, 16.

[18] Commonwealth, *Parliamentary Debates*, House of Representatives, 20 November 1997, 10971–3 (Daryl Williams).

sound recordings without the licence of the copyright owner.[19] In 2003, in response to two pricing reports released by the Australian Competition and Consumer Commission ('ACCC'),[20] import restrictions on computer software, and the electronic form of books, periodicals and sheet music were abolished.[21]

With another change in government came renewed interest in the possibility of relaxing parallel import restrictions further. On 7 November 2008, the Minister for Competition Policy and Consumer Affairs requested the Productivity Commission to examine the restrictions on the parallel importation of books.[22] The Productivity Commission recommended that the restrictions be lifted.[23] The government chose to ignore this recommendation. It formed the view that such reforms were unnecessary as the local industry was already under significant competitive pressure from the likes of online book retailers such as Amazon and The Book Depository who were able to sidestep traditional methods of distribution and sell direct to the customer.[24]

The government also rejected the need to make any modifications to the '30/90 day rule', stating that 'changing the regulations governing book imports is unlikely to have any material effect on the availability of books in Australia'.[25] However, by the middle of 2012, it changed its position and announced that the '30/90 day rule' will be reduced to a '14/14 day rule'.[26] This would mean that the parallel importation of books would not amount to an infringement if the book is not released through authorised channels within 14

[19] *Copyright Amendment Act (No 2) 1998* (Cth).

[20] In 1999 and 2001, the ACCC undertook its own inquiries, which involved extending the price analysis undertaken by the PSA. Both reports released by the ACCC recommended the repeal of parallel import restrictions: ACCC, *Potential Consumer Benefits of Repealing the Importation Provisions of the Copyright Act 1968 as They Apply to Books and Computer Software* (March 1999); ACCC, *Summary of the Commission's March 1999 Report on the Potential Consumer Benefits of Repealing the Importation Provisions of the Copyright Act 1968 as They Apply to Books and Computer Software — Including Price Updates for Books, Computer Software and Sound Recordings* (April 2001). See also ACCC, Submission No 260 to the Productivity Commission, *Study into Copyright Restrictions on the Parallel Importation of Books*, January 2009, 1, 17.

[21] *Copyright Amendment (Parallel Importation) Act 2003* (Cth).

[22] Chris Brown, 'Parallel Import Restrictions on Books to be Reviewed' (Media Release, No 094, 7 November 2008).

[23] *Productivity Commission Report*, above n 2, xxv (recommendation 1).

[24] Craig Emerson, 'Regulatory Regime for Books to Remain Unchanged' (Media Release, 11 November 2009).

[25] Ibid.

[26] Kate Lundy, 'New Council to Lead Book Industry Change' (Media Release, 25 June 2013).

days of it being published elsewhere in the world, or the authorised channels are unable to meet demand for the book within 14 days.

Finally, the IT Pricing Committee raised the issue of parallel imports, albeit indirectly. On 29 July 2013, the Committee released its report which contained, inter alia, a recommendation that the parallel import restrictions found in the copyright and trade mark statutes be lifted.[27] At the time of writing, the government had not responded to these recommendations.

IV Responding to Parallel Importation

All of the reviews and reports discussed in the previous Part have adopted the same assumption, namely that the mere relaxation of parallel importation laws will bring about the well-known benefits of free trade. Free trade introduces more players to the marketplace. This limits the extent to which local suppliers are able to charge supra-competitive prices and in turn promotes allocative efficiency. The competitive discipline imposed on local distributors will force them to conduct their operations more effectively, thus promoting productive efficiency. However, the assumption that the relaxation of parallel imports will necessarily bring about these benefits is questionable. As will be explored in this Part of the article, manufacturers have strong incentives to do all that they can to curb the distribution of parallel imports, which are said to be sold in the grey market. The policy goals that underpin the removal of parallel import restrictions may very well be thwarted unless additional measures are taken to counter the effects of potentially anti-competitive responses by manufacturers keen to preserve at least some control over their global marketing strategies.

A *The Parallel Import Problem*

Parallel imports are on the rise because of reductions in the cost of transport, the decreasing cost of price information, increased international marketing efforts, as well as the relaxation of trade barriers that have previously prevented such activities.[28] Such activity can harm multinational manufacturers in several ways.[29] First, it may create unwanted intra-brand competition that

[27] *IT Pricing Report*, above n 1, xxii–xxiii (recommendation 4).

[28] See generally Johny K Johansson, *Global Marketing: Foreign Entry, Local Marketing and Global Management* (McGraw-Hill, 5th ed, 2009) 504.

[29] S T Cavusgil and Ed Sikora, 'How Multinationals Can Counter Grey Market Imports' (1988) 23(4) *Columbia Journal of World Business* 75, 76. This article includes interesting but dated

cannibalises sales made through authorised channels at higher prices. Secondly, relations with the manufacturer's authorised distributors are likely to become strained.[30] Thirdly, grey markets complicate sales forecasting as the number of grey market products available on the market is often unknown. Finally, the manufacturer's reputation may be harmed.[31] Consumers may be disappointed if the parallel imported product is inferior (or even just different) to the authorised product. Even if the goods are identical, parallel importers may offer less after-sales service. When the local distributor refuses to offer after-sales service (because it did not sell the goods) the manufacturer's reputation may be harmed if consumers feel wronged by the brand.

Given the significant harm that grey markets can cause manufacturers, the incentive to respond to the removal of the protection offered by parallel import restrictions by designing strategies aimed at minimising the grey market problem is high. This part considers the likely responses of manufacturers and authorised distributors to any decision by the Australian government to further relax parallel import restrictions.[32]

B *Immediate Reactive Responses*

When grey markets begin to emerge, manufacturers may adopt a variety of reactive strategies, discussed below, that are designed to deal with a frustrated and often hostile local distribution network. Several measures can be adopted almost instantly to assist authorised local dealers. The manufacturer could grant temporary price reductions or rebates to authorised agents to allow them to remain competitive on price. The manufacturer could also provide promotional allowances or support to allow authorised distributors to run advertising campaigns that highlight the benefits of dealing with authorised dealers and undertake creative merchandising (such as offering interest free terms of extended warranties).[33] In some instances, manufacturers will assist

statistics and examples of the types of losses that grey markets can cause. See also B Rachel Yang, Reza H Ahmadi and Kent B Monroe, 'Pricing in Separable Channels: The Case of Parallel Imports' (1998) 7 *Journal of Product & Brand Management* 433.

30 Kersi D Antia, Mark Bergen and Shantanu Dutta, 'Competing With Gray Markets' (2004) 46(1) *MIT Sloan Management Review* 63, 65; Robert C Bird and Peggy E Chaudhry, 'Pharmaceuticals and the European Union: Managing Gray Markets in an Uncertain Legal Environment' (2010) 50 *Virginia Journal of International Law* 719, 726.

31 Johansson, above n 28, 506.

32 For a clear and concise overview of such strategies, see Cavusgil and Sikora, above n 29.

33 Ibid 79.

dealers to buy and then distribute the grey goods themselves to remove them from the market.

C *Legal Strategies*

The manufacturer may seek to prevent parallel importation by bringing a range of legal actions. Whilst a detailed examination of these alternate legal avenues is beyond the scope of this article, this section provides an overview of the laws that may potentially be relied upon to challenge parallel importation activity.

1 *Tort of Passing Off*

Manufacturers and authorised local distributors may look to the tort of passing off to prevent the distribution of parallel imported goods if by selling the branded parallel import, consumers will assume that the parallel importer is affiliated with or authorised by the owner. After all, this tort aims to prevent the misappropriation of a trader's reputation and goodwill. In order to make out a claim for passing off, the manufacturer or authorised local distributor would, generally speaking, need to prove three things: (a) the manufacturer or local distributor had a reputation; (b) the defendant engaged in deceptive conduct directed toward prospective customers; and (c) damage or threat of damage to the plaintiff as a result of the deceptive conduct.[34]

It is possible that consumers will assume that a parallel importer has a connection with the manufacturer or authorised local distributors. The distribution of parallel imported goods may be viewed as representing that the goods were sold with the approval of the manufacturer. Generally speaking, for the defendant to succeed in a passing off claim, the authorised and parallel imported goods must have different qualities. For example, in *Pioneer Electronics Australia Pty Ltd v Lee*,[35] Sundberg J held that the parallel importation and distribution of Pioneer electronic equipment amounted to passing off. It was accepted that Pioneer Australia had a 'substantial reputation by reference to the [Pioneer] trade marks and the Pioneer name in connection with the sale, service and repair of Pioneer'.[36] The marketing and distribution of the parallel imported goods satisfied the second requirement by falsely representing a connection between the parallel importer and the owner of the

[34] See, eg, *ConAgra Inc v McCain Foods (Aust) Pty Ltd* (1992) 33 FCR 302.

[35] (2000) 108 FCR 216.

[36] Ibid 227 [24].

trade mark.[37] Lastly, the damage requirement was met because the parallel imported goods were not suitable or safe for use in Australia (because they were supplied with unsafe transformers). Because of the representation of an association between the parallel imported product and Pioneer Australia, Pioneer Australia's reputation was therefore damaged.[38] However, it may not be essential to establish that the products distributed through authorised channels and those that have been parallel imported are in some way different (or inferior) to the authorised product. For example, in *Remus Innovation Forschungs-Und Abgasanlagen-Produktionsgesellschaft mbH v Hong Boon Siong*,[39] a decision of the High Court of Singapore, a parallel importer was enjoined from passing itself off as an authorised dealer as only the authorised dealer was able to offer the manufacturer's warranty.

2 *Statutory Prohibition against Misleading Conduct*

The marketing, offering for sale and actual sale of parallel imported goods may also contravene s 18 of the *Australian Consumer Law* ('*ACL*')[40] (formerly s 52 of the *Trade Practices Act 1974* (Cth)), which prohibits misleading or deceptive conduct in trade or commerce. It is not necessary to show harm in order to show breach of s 18 or to seek an injunction.[41] However, a manufacturer will need to show harm if they wish to seek damages for any loss suffered as a result of the misleading conduct.[42]

The marketing and distribution of goods clearly amounts to conduct in trade or commerce. Further, the marketing and distribution of parallel imported goods could create the misleading impression that a relationship exists between the manufacturer and the parallel importer. It could also create the impression that the goods are of the same quality and are covered by the same warranty as authorised products. If these impressions are false, s 18 is likely to be breached. Whether such impressions are false will very much depend on the form that the marketing takes. If goods are simply distributed to retail outlets with no attempts to differentiate them from authorised goods, a misleading impression may very well be created. However, some parallel importers are very upfront about the nature of the products and differing

[37] Ibid 233 [42].

[38] Ibid 233 [44].

[39] [1999] 1 SLR 179.

[40] *Competition and Consumer Act 2010* (Cth) sch 2 ('*CCA*').

[41] *ACL* s 232.

[42] *ACL* ss 236–7.

warranty policies. Some retailers even expressly acknowledge that the goods are parallel imported. For example, in Australia, the Kogan website explains how its international sourcing of products, combined with cutting out agents, importers, wholesalers and retailers allows it to offer cheaper prices.[43] New Zealand's largest parallel import retailer is even more explicit, trading under the name 'Parallel Imported' and are explicit about the types of warranty services they offer. The retailer's website also contains an explanation of the concept of parallel importing and how it leads to cheaper prices for consumers.[44]

3 *Tort of Inducing Breach of Contract*

As will be discussed in more detail below, manufacturers often allocate regions to particular distributors and require those distributors to contractually agree not to sell goods outside of their allocated region. If the parallel importer is aware of the contract and deliberately interferes with the contract by inducing the authorised distributor to sell goods for supply outside of the authorised distributor's allocated territory, the parallel importer may very well have committed the tort of intentional interference with a contract.[45] It should be noted though that as the negotiations between the parallel importer and the authorised dealer will most likely take place overseas, the action will have to be instituted in the foreign state in which the conduct occurred and the claim will be decided by applying the laws of that foreign state. This could create practical enforcement difficulties for the manufacturer.

4 *Intellectual Property Statutes*

As the various types of intellectual property may be treated differently, in some countries the legality of parallel imports will depend on the forms of intellectual property embedded in or applied to the goods. For example, Australia has adopted the principle of international exhaustion with respect to trade marks.[46] However when it comes to copyright, the international

43 See Kogan, *About Kogan* (10 December 2013) <http://www.kogan.com/au/about>.

44 See Parallel Imported, *Why Are Our Prices Cheaper?* (2012) <http://www.parallelimported.co.nz/why-are-our-prices-cheaper>.

45 See *Allstate Life Insurance Co v Australia & New Zealand Banking Group Ltd* (1995) 58 FCR 26.

46 Under the principle of international exhaustion, the intellectual property right holder loses the ability to exercise control over goods when it makes its first sale of those goods anywhere in the world. The Australian parallel import defence, which is contained in the *Trade Marks Act 1995* (Cth) s 123, provides that if the trade mark is applied with the consent of the owner,

exhaustion principle is adopted with respect to some types of copyright works (eg, musical works and computer software)[47] whereas a principle of national exhaustion[48] applies to other types of works (eg, literary works). Where goods embody more than one form of intellectual property, the manufacturer will be able to curb grey market activity by relying on the intellectual property regime that is the most restrictive when it comes to parallel importation.

Patent law is unlikely to be of assistance. As noted above, when patented goods (or goods made using a patented process) are sold, and no contractual restrictions on its resupply are imposed, the purchaser will have the absolute right to deal with the goods as she thinks fit, including the right to sell the good in any country.[49] Similarly, because the principle of international exhaustion has been adopted when it comes to trade marks, manufacturers are unlikely to be able to rely on trade mark law to prevent parallel imports (unless dealings are structured so as to restrict the availability of the parallel import defence).[50]

Copyright law may offer some protection. Section 37 of the *Copyright Act* provides that copyright in artistic works is 'infringed by a person who, without the licence of the owner of the copyright, *imports* an article into Australia'[51] for commercial purposes, provided 'the importer knew, or ought reasonably to have known', that copyright would be infringed if the article had been made in Australia. In *QS Holdings Sarl v Paul's Retail Pty Ltd*,[52] the applicants successfully relied on copyright law to prevent the importation of items of clothing bearing trade marks in which copyright subsisted. The respondent was found to have infringed copyright even though the items of clothing were genuine articles and importation did not amount to trade mark infringement.

The ability to rely on copyright law to prohibit the importation of trade marked or patented goods is, however, limited in two ways. First, the international exhaustion principle is being applied, albeit it on a piecemeal basis, to a

the trade mark owner loses his or her ability to control subsequent dealings in the goods or services to which the mark has been applied.

47 *Copyright Act* ss 44D, 44E.

48 Under the principle of national exhaustion, the intellectual property right holder does not lose the ability to exercise control over goods until it makes its first sale in Australia. National exhaustion will apply when there are no piecemeal amendment provisions (ie, *Copyright Act* ss 44D, 44E) as s 37 confers upon the creator the power to import the item.

49 *Betts v Willmott* (1871) LR 6 Ch App 239.

50 See text accompanying below n 68.

51 Emphasis added.

52 (2011) 92 IPR 460.

growing number of copyright works (eg, musical works and computer programs).[53] Secondly, s 44C of the *Copyright Act* provides that copyright in a work is not infringed by the importation of an artistic work if the reproduction is embedded in a non-infringing accessory that comes with goods. The word 'accessory' is defined to mean labels, packaging, instructions or sound of film recordings that accompany goods.[54]

D *Proactive Strategies: Tightening Control over the Supply Chain*

If the manufacturer is unable to rely on intellectual property or other laws to prevent parallel importation, there are other longer-term strategies that the manufacturer can put in place to reduce the likelihood of parallel importation. Theoretically at least, restrictive contractual devices should resolve the problem completely. However, problems associated with detection and enforcement of any breach of such clauses mean that other strategies discussed below are also likely to be employed.

1 *Uniform Pricing Policy*

Pricing has been found to be one of the most decentralised decision areas, most likely because of a belief that local management will be the most familiar with local conditions.[55] The most frequently observed pricing policy is to 'charg[e] the highest feasible price in each country according to the local market's willingness to pay'.[56] Such a pricing strategy is unlikely to be optimal for a manufacturer operating in multiple markets as it causes different prices to be adopted in different countries, creating opportunities for arbitrage and, in turn, the emergence of grey markets that threaten to disrupt the distribu-

[53] *Copyright Act* ss 44D, 44E.

[54] Ibid ss 10(1) (definition of 'accessory'), 10AD(1). Prior to the introduction of s 44C, copyright law could be relied upon to protect against the importation of trade marked goods where the copyright subsisted in the trade mark or in accessories to the goods such as instruction manuals. In *R & A Bailey & Co Ltd v Boccaccio Pty Ltd* (1986) 4 NSWLR 701, the applicant relied upon copyright and trade mark law to object to the importation of Baileys Irish Cream products that had been purchased from a Dutch distributor. The trade mark claim failed because the principle of international exhaustion was held to apply. However, the court held that the importation of the goods sourced in Holland breached copyright laws. For an application of s 44C, see, eg, *Polo/Lauren Co LP v Ziliani Holdings Pty Ltd* (2008) 173 FCR 266.

[55] Gert Assmus and Carsten Wiese, 'How to Address the Grey Market Threat Using Price Coordination' in Isobel Doole and Robin Lowe (eds), *International Marketing Strategy: Contemporary Readings* (International Thomson Business Press, 1997) 316, 324–5.

[56] Yang, Ahmadi and Monroe, above n 29, 435.

tion of authorised goods in high profit countries. Adopting a uniform pricing policy[57] reduces the opportunities for arbitrage.

However, even if a uniform pricing policy is adopted, this will not necessarily eradicate grey markets completely. Fluctuations in exchange rates mean that there will always be differences in prices between countries.[58] Further, not all grey market activity is driven by price and could potentially arise without significant fluctuations in exchange rates. Even if the parallel importer pays the same (or a very similar) price to that paid by the authorised dealer, the parallel importer's operations may be profitable because it is able to free-ride on the promotional efforts of the authorised dealer and, in turn, operate on a much lower cost base.[59] Additionally, parallel importation activity can also be driven not by price but by the fact that certain products are not available (at all or yet) in particular countries.[60]

2 *Volume Discounts*

Tying discounts to volume creates an incentive for over-ordering by distributors, especially when the discount increases with volume.[61] Distributors who find themselves with surplus stock may very well turn to grey markets to dispose of it. If the protection offered by parallel import restrictions is removed, manufacturers may begin offering less generous discounts to large volume purchases so as to curb potential grey market activity.

3 *Product Differentiation*

Manufacturers can respond by adding exclusive features to goods sold through authorised dealers in countries in which the manufacturer is able to charge a high price. This differentiates the authorised goods from parallel imports. When parallel import restrictions on music were lifted, Australian record companies responded by adding bonus tracks to locally produced

[57] In fact, it is not necessary that prices are exactly the same in each country. A similar result could be achieved by setting prices in such a way that ensures that parallel importing will not be profitable once delivery and other incidental costs are taken into account.

[58] See Johansson, above n 28, 477.

[59] Bird and Chaudhry, above n 30, 726.

[60] Johansson, above n 28, 504.

[61] Frank V Cespedes, E Raymond Corey and V Kasturi Rangan, 'Gray Markets: Causes and Cures' (1988) 66(4) *Harvard Business Review* 75.

compact discs in the hope that this would encourage consumers to purchase the more expensive locally produced product.[62]

4 *Product Packaging*

Manufacturers may design packaging so that it draws consumers' attention to the fact that the product is not being distributed by an authorised dealer and may not come with the same level of support that comes with authorised products. The application of local certification marks[63] can also be an effective way to promote the product as parallel importers will not be able to apply such marks to their packaging.

5 *Technology*

Some manufacturers are able to use embedded technology to retain some control over the goods after sale, especially when the manufacturer sells directly to consumers in different countries.[64] Geoblocking can also be used to protect authorised channels of distribution. Historically, geoblocking techniques have included programming products to include regional access codes. For example, computer games and DVDs often contain regional access codes that prevent the discs from working in devices outside of the region in which they are intended to be sold. Today, IP addresses and other means of electronic identification are being used to block internet sales or restrict access to online content based on the geographic location of the consumer. For example, such technology prevents Australian consumers from purchasing from the United States iTunes store. Such methods can be very profitable indeed: it has been estimated that Australian consumers pay approximately 50 per cent more than consumers in the United States for music from the iTunes store as a result of Apple's geoblocking.[65]

[62] John Martin, 'Intellectual Property Rights and Competition Law — Making Them Co-Exist' in Tzong-Leh Hwang and Chiyuan Chen (eds), *The Future Development of Competition Framework* (Kluwer Law International, 2004) 109, 120.

[63] See generally *Trade Marks Act 1995* (Cth) pt 16.

[64] Ryan L Vinelli, 'Bringing Down the Walls: How Technology is Being Used to Thwart Parallel Importers amid the International Confusion concerning Exhaustion of Rights' (2009) 17 *Cardozo Journal of International and Comparative Law* 135.

[65] Choice, Submission No 75 to House of Representatives Standing Committee on Infrastructure and Communications, Parliament of Australia, *Inquiry into IT Pricing*, 16 July 2012, 7–12.

6 *Refusal to Deal*

Another way to curb grey market activity is to cut off supply to distributors or retailers that supply grey markets, assuming of course that it is possible to determine the source of goods that find their way to grey markets. The manufacturer could also announce that they will terminate any distributor that sells to unauthorised dealers. Such a strategy only makes sense if the profits lost because of grey market activities exceed the profits that would have been earned on the sale of goods to the renegade distributor.

7 *Contractual Devices: Assignment of Intellectual Property Rights*

In certain circumstances, placing the ownership of intellectual property rights in the hands of local distributors by way of an assignment can assist the manufacturer or authorised distributor to block parallel imports. Assigning ownership of a trade mark may avoid the application of the parallel import defence contained in s 123 of the *Trade Marks Act* 1995 (Cth). This defence only applies if the parallel importer is able to establish that the registered owner (who, as a result of the assignment, is the authorised Australian distributor) consented to the application of the mark when the goods were manufactured overseas. The manufacturer is unlikely to seek the express consent of the Australian distributor. Further, the Australian owner is unlikely to play any role in the application of the mark overseas.[66] The issue thus becomes whether the Australian distributor can be said to have impliedly consented to the application of the mark. Where the mark is owned in Australia and overseas by different, unrelated entities, a parallel importer may find it difficult to establish that the Australian owner consented to the application of the mark by the unrelated overseas owner.[67] The Australian distributor is likely to be viewed as impliedly consenting to goods destined for Australia,[68] because the mark helps distinguish goods from others in the

[66] See, eg, *Lonsdale Australia Ltd v Paul's Retail Pty Ltd* [2012] FCA 584 (5 June 1012) [50] (Gordon J).

[67] *Ward Group Pty Ltd v Brodie & Stone plc* (2005) 143 FCR 479, 492–3 [48]–[54] (Merkel J).

[68] Mark J Davison, 'Parallel Importing of Trade Marked Goods — An Answer to the Unasked Question' (1999) 10 *Australian Intellectual Property Journal* 146, 149. Consent is implied because if the Australian distributor wants the mark to be applied to the goods it orders, and there is no way of separating out goods intended for the Australian market, the Australian distributor would need to consent to the application of the mark to all goods produced overseas. This would ensure that those that end up making their way to Australia bear the mark. Further, sales of the goods may be driven by the mark's international reputation, providing another reason why the Australian distributor might be viewed as impliedly consenting to its application to the goods in question.

market. However, the courts are likely to be more cautious about inferring consent to the application of the mark on goods not destined for the Australian market. The granting of such consent is likely to be against the interests of the authorised distributor because such goods could be parallel imported into Australia and sold in competition to the goods offered by the Australian distributor. This makes it unlikely that they would have consented to the application of the mark on goods destined for other countries. However, it may not be clear at the time of manufacture whether the goods are being manufactured for Australia or other parts of the world. Davison suggests that this may make courts more likely to infer consent by the Australian distributor to the application of the mark.[69]

It may be possible to limit the availability of the parallel import defence without transferring ownership of the intellectual property right to the local distributor. For example, trade marks could be licensed on the condition that the mark is not applied to goods destined for supply outside a defined geographical area. Two recent decisions of the Full Federal Court suggest that this strategy may very well limit the ability of a parallel importer to rely on the parallel import defence.[70] As Nicholas J observed (at trial) in *Sporte Leisure Pty Ltd v Paul's International Pty Ltd [No 3]*:

> Where a registered owner consents to another person applying the registered mark to goods on condition that the goods must not to [sic] be supplied outside a designated territory, the registered owner would not usually be regarded as having consented to the application of the mark to goods which the other person knows at the time he or she applies the mark are to be supplied by him or her outside the territory.[71]

8 *Contractual Devices: Clause Restricting the Right to Resupply*

Manufacturers can wrestle some control over the supply chain back through improved contracting practices with distributors.[72] To the extent that it is commercially feasible, manufacturers are likely to include clauses in their distribution agreements that restrict the geographic regions in which the

69 Ibid.

70 *Paul's Retail Pty Ltd v Sporte Leisure Pty Ltd* (2012) 202 FCR 286; *Paul's Retail Pty Ltd v Lonsdale Australia Ltd* (2012) 294 ALR 72, 78 [37] (Keane CJ, Jagot and Yates JJ).

71 (2010) 275 ALR 258, 273 [78]. The trial judge's finding was upheld on appeal: *Paul's Retail Pty Ltd v Sporte Leisure Pty Ltd* (2012) 202 FCR 286.

72 See generally Cavusgil and Sikora, above n 29.

goods can be resupplied.[73] Contractual restrictions on the right to resupply create a discipline mechanism by providing the manufacturer with an action for breach of contract against those distributors that supply to grey markets.

To see an example of how effective such contractual restrictions can be, one need only look at the extent to which price discrimination still occurs when it comes to the distribution of digital copyright content. Because parallel import restrictions do not apply to electronic literary or music items,[74] the considerably higher prices paid by Australians are due to contractual restrictions that prevent distributors selling to the Australian market.

V Can Competition Laws Be Relied upon to Challenge Anti-Competitive Responses to the Relaxation of Parallel Import Restrictions?

To date, policymakers appear to have been operating on the assumption that the parallel import restrictions are the only thing standing in the way of the emergence of thriving grey markets. However, this is simply not the case. Many of the potential responses of manufacturers considered in the previous part of this article have the potential to undermine the benefits that the relaxation of parallel import laws would otherwise bring. This part of the article considers whether any anti-competitive responses by manufacturers would amount to a breach of Australia's competition laws. If such responses escape the reach of competition laws then it will be necessary to consider other measures to support grey market activity so as to ensure that the policy goals that underpin the relaxation of parallel import restrictions are achieved.

A *Can Anti-Competitive Responses Be Challenged Using Competition Laws?*

Most of the manufacturer responses discussed previously will not involve breaches of competition law, especially when the response is designed and implemented overseas. In the case of the immediate responses, this is because temporary price reductions and improved marketing efforts are competitive responses we would expect to see an incumbent adopt when faced with a vigorous new competitor. Whilst increasing marketing efforts is absolutely a competitive response, marketing campaigns must not mislead consumers or

[73] In some instances, it may also be necessary to require the distributor to include similar restrictions in its contracts with its customers. There have been instances of parallel imports being sourced from retail businesses in jurisdictions where the product is sold very cheaply.

[74] *Copyright Act* s 44F.

the manufacturer will find itself in breach of the *ACL*. Advertising campaigns that are a direct response to parallel import activity often emphasise the warranties provided by the authorised distributor. However, where consumer goods are involved this would be a risky strategy as such goods will come with non-excludable statutory guarantees that the retailer of the parallel import good must honour, provided the sale was made in Australia. Although the provisions have not been extensively tested, in many instances it is reasonable to suggest that the level of protection offered by the statutory warranty would be very close to the express contractual warranties offered by the authorised distributor.[75]

1 *Section 46: Misuse of Market Power*

Section 46 of the *CCA*, which prohibits the misuse of market power, could potentially apply to any of the contemplated responses if they were implemented in Australia. However, the likelihood that s 46 will be breached as a result of such responses is low for three reasons. First, the prohibition only applies to businesses that have a substantial degree of power in a market.[76] Even manufacturers of popular brands are likely to face competition from other brands of similar products. Most manufacturers are unlikely to have a substantial degree of power in a market as intellectual property rights rarely confer market power on their owner.[77]

Secondly, not all forms of anti-competitive conduct engaged in by a business with substantial market power are caught.[78] If the business would be likely to engage in the conduct if the market were more competitive (or, to put it another way, if the business did not have substantial market power), then the conduct will not involve a 'taking advantage' of market power. As manufacturers have the incentive to limit grey market activity whether or not they have substantial market power, it is unlikely that the various responses discussed above could be said to involve a taking advantage of market power.

This explains why the courts have yet to find that actions involving the enforcement of intellectual property rights involve a misuse of market

75 For an excellent overview of the recently introduced consumer guarantees, and how they differ from the old statutory implied terms regime, see Jeannie Marie Paterson, 'The New Consumer Guarantee Law and the Reasons for Replacing the Regime of Statutory Implied Terms in Consumer Transactions' (2011) 35 *Melbourne University Law Review* 252.

76 *CCA* s 46(1).

77 Organisation for Economic Co-operation and Development, 'Competition Policy and Intellectual Property Rights' (Report, 1989) 15.

78 Arlen Duke, 'The Need to Close the "Take Advantage" Gap in the Regulation of Unilateral Anti-Competitive Conduct' (2008) 15 *Competition and Consumer Law Journal* 284.

power.[79] In *Broderbund Software Inc v Computermate Products (Australia) Pty Ltd*,[80] Beaumont J dismissed the respondent's cross-claim that a copyright infringement action involved the misuse of market power. It was held that the applicant did not have substantial market power because it faced competition from numerous other game manufacturers.[81] Although his Honour's market power finding resolved the issue, Beaumont J also found that as the applicant did not go beyond what was necessary to fulfil the essential function of copyright, it could not be said that the applicant took advantage of any market power it had.[82] To put it another way, even those without market power enforce their intellectual property rights. As a result, it is not possible to find the requisite causal connection between the bringing of the enforcement action and any market power the manufacturer may have.

The implementation of distribution systems in which each distributor is allocated a defined segment of the market, and supply is refused to those outside the distribution network, is also unlikely to amount to a taking advantage of substantial market power even if the distribution system is global in nature. In *Melway Publishing Pty Ltd v Robert Hicks Pty Ltd* ('*Melway*'),[83] the applicant had been refused supply by Melway because such supply would disrupt Melway's distribution system. Melway allocated each distributor a particular segment of the market (defined by reference to customer type) and refused requests for supply from non-authorised distributors. It did so in the hope that the exclusivity conferred would give each distributor the incentive to maximise sales in their allocated segment without the fear that others would free-ride on their promotional efforts. The implementation of this system was held not to involve a taking advantage of market power. The Court viewed Melway's refusal to supply as a manifestation of the distribution system that Melway had in place to efficiently manage its marketing strategy. As there was 'no reason to believe that [Melway] would not be both willing and able to continue that [distribution] system in a competitive market',[84] Melway could not be said to be taking advantage of its market power. However, it should be noted that the Court was able to be confident in reaching this decision because Melway had adopted its segmented distribution system

[79] S G Corones, *Competition Law in Australia* (Lawbook, 4th ed, 2007) 470–1 [8.290].

[80] (1991) 22 IPR 215.

[81] Ibid 238–41.

[82] Ibid 241–3.

[83] (2001) 205 CLR 1.

[84] Ibid 26 [62] (Gleeson CJ, Gummow, Hayne and Callinan JJ), citing with approval *Melway Publishing Pty Ltd v Robert Hicks Pty Ltd* (1999) 90 FCR 128, 134–5 [21] (Heerey J).

before it acquired its substantial market power, limiting the ability to draw general conclusions from the *Melway* judgment. It may therefore be necessary for a manufacturer with substantial market power to argue that carefully controlled distribution channels are efficient and would be employed even if the manufacturer did not have market power.

Similarly, as a business without any significant market power would also be likely to cut-off supply to a distributor that was disrupting global marketing efforts by supplying the grey market, such conduct is unlikely to satisfy the 'take advantage' requirement.

Finally, it may be possible to argue that policies are brought for the purpose of maintaining an efficient distribution system, not for one of the proscribed anti-competitive purposes.

2 *Section 47: Vertical Restraints of Trade*

Clauses that restrict the ability of the distributor to resupply the goods are also regulated by the prohibition against exclusive dealing in s 47 of the *CCA*. Attaching conditions that restrict the distributor's right to resupply the goods will only breach s 47 if the conduct has the purpose, effect or likely effect of substantially lessening competition in a market.[85] Contractual clauses that restrict the right to resupply goods are unlikely to have the effect of substantially lessening competition. Whilst such clauses restrict intra-brand competition, this is unlikely to translate into a lessening of competition in the relevant market unless the goods in question have few or no substitutes (or, to put it another way, unless the manufacturer has significant market power).[86] In most instances, the manufacturer will face significant inter-brand competition and simply will not be able to influence the competitive dynamics at work in the marketplace by imposing restrictive terms on its distributors.[87]

[85] *CCA* s 47(10).

[86] National Competition Council, 'Review of Sections 51(2) and 51(3) of the *Trade Practices Act 1974*: Final Report' (Report, March 1999) ('*NCC Report*') 149, 188.

[87] European Union courts have ruled that distribution agreements that prohibit the sale of goods outside the country in question violate art 81 of the *Treaty Establishing the European Community*, opened for signature 7 February 1992, [1992] OJ C 224/6 (entered into force 1 November 1993), the European prohibition that is closest to s 47. However, such findings are more likely explained by the fact that the promotion of the common market is one of the primary goals of the European competition provisions. Note that art 81 was replaced by art 101 in the *Consolidated Version of the Treaty on the Functioning of the European Union*, opened for signature 13 December 2007 [2010] OJ C 83/47 (entered into force 1 December 2009). See also Margaret K Kyle, 'Parallel Trade in Pharmaceuticals: Firm Responses and Competition Policy' in Barry E Hawk (ed), *International Antitrust Law and Policy* (Fordham Competition Law Institute, 2010) 339, 352.

Even if the manufacturer has some degree of market power, it is still arguable that the imposition of the restrictive terms under consideration would not be held to have caused a substantial lessening of competition. The courts assess the competitive effects of conduct using the 'future with' and 'future without' test.[88] In this context this would involve comparing two likely future states: the 'future with' the restrictive condition in place and 'future without' it. It is unclear precisely how the courts will define the relevant 'future without'.[89] If the courts find that in the 'future without' the goods would be supplied but without the restrictive condition, then it is arguable that the restrictive condition causes a lessening of competition as it restricts grey market activity and the competition it brings. However, the courts may also find that in the 'future without', the manufacturer does not appoint distributors at all and instead distributes the products itself. If this is the appropriate 'future without' then it is not all that different to the 'future with' the restrictive condition — geographic market segmentation will be achieved in both situations and grey market activity will be significantly reduced. The Australian courts have yet to apply the 'future with' and 'future without' test in this setting. It is submitted that the 'future without' should take the latter form in recognition of the fact that there is no general duty on manufacturers to supply to distributors.[90] If the courts construe the 'future without' in this way then the imposition of terms that restrict the right to resupply are unlikely to be viewed as anti-competitive.

Section 47 will also be breached if the manufacturer can be said to be acting for an anti-competitive purpose (whether or not the conduct has any effect on competition). It is worth noting that the only time that breach of s 47 has been established solely on the basis of anti-competitive purpose involved attempts by Australian record companies to ward off the threat of parallel imports when parallel importation restrictions on sound recordings were relaxed in 2001. *Universal Music Australia Pty Ltd v Australian Competition and Consumer Commission*[91] involved an allegation that Universal Music and

88 This test originates from the Full Federal Court decision of *Outboard Marine Australia Pty Ltd v Hecar Investments [No 6] Pty Ltd* (1982) 44 ALR 667.

89 Richard R L Hoad, 'Brave New World or Much Ado about Nothing? Practical Effect of Proposed Changes to *Trade Practices Act*, s 51(3)' (2007) 18 *Australian Intellectual Property Journal* 201, 220–1.

90 This approach is consistent with the views expressed by the National Competition Council (see *NCC Report*, above n 86, 176), the Australian competition regulator (see Trade Practices Commission, 'Application of the *Trade Practices Act* to Intellectual Property' (Background Paper, July 1991) 9–10, as well as the views of overseas regulators: Hoad, above n 89, 221.

91 (2003) 131 FCR 529.

Warner Music responded in an anti-competitive fashion when the parallel import restrictions that applied to sound recordings were lifted. The record companies were held to have breached s 47 on the basis that they had a purpose of substantially lessening competition in the wholesale recorded music market. This was because they threatened to refuse (and in some instances actually refused) to supply their products to retailers who engaged in parallel importing of 'non-infringing' copies of sound recordings.[92] Whilst this suggests that attempts to ward off parallel importation may be viewed as being motivated by an anti-competitive purpose, observations made by the majority in *Melway* suggest this will not always be the case. Although the majority in *Melway* upheld the trial judge's finding that Melway acted for an anti-competitive purpose in the context of a s 46 claim,[93] they did note that:

> it is not the case that the adoption by a manufacturer, whether with or without a substantial degree of market power, of a system of distribution involving what are sometimes called vertical restraints necessarily manifests an anti-competitive purpose … When regard is had to the state of competition in the relevant market, the purpose may be pro-competitive.[94]

To illustrate how exclusive distribution systems could in fact be said to be pro-competitive, the joint judgment provides an example that is highly relevant in this context, namely that 'competition in the retail market may be fostered by inhibiting the engagement in certain conduct by wholesalers or other "middle men"'.[95] The fact that grey market activity can pose a serious threat to profitability in the longer term for the reasons discussed above,[96] coupled with the statements by the majority in *Melway*, may make lower courts quite receptive to the argument that contractual clauses that place restrictions on the right of the acquirer to resupply the goods are designed to ensure the efficient marketing of goods, not to achieve an anti-competitive purpose.

[92] See Arlen Duke and Megan Richardson, 'Music Markets and Bad Actors in Copyright and Competition Law' (2008) 16 *Competition and Consumer Law Journal* 203, 209–14.

[93] The trial judge made this finding because the central feature of the distribution system is the absence of competitive conduct between distributors: *Robert Hicks Pty Ltd v Melway Publishing Pty Ltd* (1998) 42 IPR 627, 643 (Merkel J).

[94] (2001) 205 CLR 1, 20 [38] (Gleeson CJ, Gummow, Hayne and Callinan JJ).

[95] Ibid.

[96] See also Aspy P Palia and Charles F Keown, 'Combating Parallel Importing: Views of US Exporters to the Asia-Pacific Region' (1991) 8(1) *International Marketing Review* 47.

B *Territorial Nexus Requirements*

The territorial nexus requirements in ss 46 and 47 pose further complications where the manufacturer responses are implemented outside of Australia's borders. Both sections contain a territorial nexus requirement because the word 'market' is used to define elements of the substantive prohibitions. Section 4E of the *CCA* defines 'market' to mean:

> a market *in Australia* and, when used in relation to any goods or services, includes a market for those goods or services and other goods or services that are substitutable for, or otherwise competitive with, the first-mentioned goods or services.[97]

As a result, s 46 only applies to businesses that can be said to have a substantial degree of power in a market in Australia. What does that mean when the manufacturer supplies its products in what is most accurately described as a global market? Is it necessary to show that the business is dominant in that part of the market that falls within Australia's borders? Or, will it suffice that the business is dominant in the global market and that the global market includes Australia? Similar questions are raised when it comes to s 47's requirement that the conduct have the purpose, effect or likely effect of substantially lessening competition in a market in Australia. Unfortunately, the courts are only just beginning to work out the answers to these questions and, as a result, the extent of the territorial restraint imposed by the words 'market in Australia' remains unclear.

In *Riverstone Computer Services Pty Ltd v IBM Global Financing Australia Ltd*, the first case to consider the meaning of the phrase 'market in Australia', Hill J held that a market need not be wholly in Australia in order to be a 'market in Australia'.[98] However his Honour also suggested that a global market would only be viewed as a 'market in Australia' if sales are made here.[99] Then, in *Auskay International Manufacturing & Trade Pty Ltd v Qantas Airways Ltd*, Tracey J stated that '[b]uyers and sellers of goods and services must negotiate and enter transactions in an area in which suppliers are engaged in close competition with each other. That area must be located

[97] Emphasis added.

[98] [2002] FCA 1608 (20 December 2002) [20]–[21] ('*Riverstone*'). In *Emirates v Australian Competition and Consumer Commission* (2009) 255 ALR 35, 53 [70], Middleton J expressly agreed with this finding.

[99] *Riverstone* [2002] FCA 1608 (20 December 2002) [21] (Hill J).

within Australia'.[100] Tracey J's comments are consistent with Hill J's belief that sales must be made in Australia. However, in a subsequent decision, Tracey J clarified his comments and stated that he did not intend to suggest that there could not be a market in Australia unless contracts between buyers and sellers were negotiated and entered into in Australia.[101] His Honour also appeared to accept that a global market that encompasses the geographic boundaries of Australia is a market in Australia.[102]

Tracey J's revised opinion is consistent with the interpretation given to the phrase 'market in Australia' by Lindgren J in *Australian Competition and Consumer Commission v Qantas Airways Ltd*.[103] Lindgren J was satisfied that the parties were competitive in a market in Australia because they were competitive in the global air cargo market, part of which 'necessarily falls within the territorial boundaries of Australia'.[104] In *Emirates v Australian Competition and Consumer Commission*,[105] the applicant argued that even if the market in question was global in nature, conduct could only be said to have an effect in a market in Australia if buyers and sellers transact in

[100] (2008) 251 ALR 166, 173 [19].

[101] *Auskay International Manufacturing & Trade Pty Ltd v Qantas Airways Limited [No 5]* [2009] FCA 1464 (11 December 2009) [38]–[40]. The Auskay applicants successfully appealed Tracey J's finding: *Auskay International Manufacturing & Trade Pty Ltd v Qantas Airways Limited* (2010) 188 FCR 351. Jessup J (Moore J and Dodds-Streeton J concurring) allowed the appeal, rightly noting that 'an interlocutory strike-out application is not the occasion to test the outer limits of the requirement arising under s 4E': at 368 [47]. In finding the applicant's factual pleadings deficient, Tracey J was too focussed on demand-side substitution possibilities (which were limited by the customer's need to get goods from a particular point to a particular point) and should have better recognised that the applicant's factual case was that the air freight market was global in nature because of the considerable global supply-side substitutability between the various routes, as demonstrated by the facts pleaded.

[102] *Auskay International Manufacturing & Trade Pty Ltd v Qantas Airways Ltd* (2008) 251 ALR 166, 174 [23].

[103] (2008) 253 ALR 89. Lindgren J made similar findings involving other airlines that, like Qantas, admitted liability: see *Australian Competition and Consumer Commission v British Airways PLC* [2008] FCA 1977 (23 December 2008) [22]; *Australian Competition and Consumer Commission v Martinair Holland NV* [2009] FCA 340 (16 February 2009) [16]; *Australian Competition and Consumer Commission v Société Air France* [2009] FCA 341 (16 February 2009) [16]; *Australian Competition and Consumer Commission v Cargolux Airlines International SA* [2009] FCA 342 (16 February 2009) [16].

[104] *Australian Competition and Consumer Commission v Qantas Airways Ltd* (2008) 253 ALR 89, 112 [35].

[105] (2009) 255 ALR 35. Singapore Airlines brought identical proceedings. These proceedings were heard together with the Emirates proceedings. Korean Air Lines also challenged the s 155 order it received: see *Korean Air Lines v Australian Competition and Consumer Commission [No 3]* (2008) 247 ALR 781. The meaning of the phrase 'market in Australia' was not in issue.

Australia. Middleton J sensibly held that 'the place of contracting is not determinative of the geographic locality of the relevant market'[106] because the concept of a market 'involves [a] "field of rivalry", not just referrable to the place of contracting'.[107] Middleton J stated that he did not believe that Hill J's comments in *Riverstone* were intended to make it a requirement that the contract under which services were supplied in Australia must be entered in Australia.[108] Rather, according to Middleton J, Hill J was 'simply proffering an example of how one might identify the possible location of competition … not providing a definite statement that buyers and sellers of services must enter into transactions in Australia'.[109]

In *Singapore Airlines Ltd v Australian Competition and Consumer Commission*[110] Singapore Airlines argued that 'even if, as is contended by the ACCC, the market is global, not all trade or commerce that occurs within the global market can be regarded as occurring in a market in Australia'.[111] As the Full Federal Court noted, whilst recent authority indicates acceptance of the view that a global market may be a market in Australia, it does not deal with whether the court would apply the *CCA* only to so much of the global market as falls within Australia.[112] The Full Court did not need to deal with the issue as the matter was resolved on other grounds. As a result, this question remains unresolved. If the courts accept the argument that the prohibitions extend only to conduct occurring in so much of the global market as falls within Australia, then any manufacturer response designed and implemented overseas will be beyond the reach of the competition prohibitions that contain the 'market in Australia' territorial nexus requirement.

C *Extraterritorial Operation of the* CCA

1 *Section 5*

The *CCA* is framed on the assumption that the prohibitions contained within only apply to conduct in Australia unless the operation of the relevant

106 *Emirates v Australian Competition and Consumer Commission* (2009) 255 ALR 35, 52 [66] (Middleton J).

107 Ibid.

108 Ibid 53 [71].

109 Ibid.

110 (2009) 260 ALR 244.

111 Ibid 254 [67].

112 Ibid 254 [71] (Black CJ, Mansfield and Jacobson JJ).

prohibition is extended by s 5(1).[113] Where the response is implemented outside of Australia it will also be necessary to show that the prohibition extends to the impugned conduct. Section 5(1) provides that the core competition law prohibitions (including ss 46 and 47) extend to engaging in conduct outside Australia by a corporation incorporated, or carrying on business, in Australia.

In addition to the extended operation that s 47 has by virtue of s 5(1), that prohibition also extends to conduct engaged in outside Australia by businesses (whether incorporated, or carrying on a business, in Australia or not) in relation to the supply *by those businesses* of goods or services to customers in Australia.[114] However, most of the manufacturer responses considered in this article do not involve the supply of goods or services to Australia. This is because most responses, which aim to cut off supply to grey markets, will need to be implemented in countries that are likely to supply grey markets.

2 *Conduct that Occurs in Australia*

Where the requirements of s 5(1) are not met (ie, the manufacturer is not incorporated in Australia and cannot be said to be carrying on business in Australia), only conduct that it engages in within Australia will be caught. The courts have taken an expansive view of what constitutes conduct in Australia.[115] For example, only some of the conduct that amounts to a contravention need occur in Australia.[116] Further, the sending of communications from outside Australia to Australia[117] and the supply of goods by an overseas manufacturer to an Australian distributor[118] have been found to involve conduct in Australia. Although when combined these principles dramatically increase the range of overseas conduct caught by the *CCA*, most of the manufacturer responses considered in this article do not involve activity in Australia.

[113] *Trade Practices Commission v Australian Iron & Steel Pty Ltd* (1990) 22 FCR 305, 319 (Lockhart J).

[114] *CCA* s 5(2).

[115] Justin Gleeson, 'Extraterritorial Application of Australian Statutes Proscribing Misleading Conduct' (2005) 79 *Australian Law Journal* 296, 306.

[116] *Trade Practices Commission v Australia Meat Holdings Pty Ltd* (1988) 83 ALR 299, 356 (Wilcox J).

[117] *Bray v F Hoffman-La Roche Ltd* (2002) 118 FCR 1, 45–6 [147] (Merkel J).

[118] *Costa Vraca Pty Ltd v Bell Regal Pty Ltd* [2003] FCA 65 (12 February 2003). This was a claim for breach of the consumer protection provisions of the *CCA*, but remains relevant because s 5(1) also defined the scope of those provisions under consideration.

3 *Conduct that Occurs outside Australia*

Where the anti-competitive conduct cannot be said to have occurred in Australia, it will only be caught if the conduct was engaged in by bodies corporate that are incorporated, or carrying on business, in Australia. The entities likely to implement the responses under consideration are unlikely to be incorporated, or directly carrying on business in Australia. For example, contractual restrictions on resupply are likely to be included in supply contracts by distributors in 'low price' countries at the behest of a manufacturer who is domiciled and carries on its main business in a country other than Australia.

Can the manufacturer company be said to be 'carrying on business in Australia' because it provides price and marketing support to local distributors? If it can then the prohibitions will extend to all of its conduct. While it is not necessary to show that the manufacturer has a place of business in Australia,[119] the manufacturer will not be viewed as carrying on a business in Australia simply because its products find their way to the Australian market.[120] Further, the mere fact that the manufacturer is aware that anti-competitive conduct will affect an Australian market will not suffice to establish that it is carrying on business in Australia. In *Bray v F Hoffman-La Roche Ltd*,[121] the applicants and the ACCC submitted that the expression 'carrying on business in Australia' should be broadly interpreted so as to enable the *CCA* to apply to conduct that is intended to have, and has, an adverse effect on competition in Australia. This expansive interpretation could see many of the manufacturer responses caught wherever they took place, assuming that response involves a breach of ss 46 or 47. However, Merkel J rejected the ACCC's argument on the basis that it was not consistent with the legislature's view of comity.[122]

Where the manufacturer owns the Australian distributor it may be said to be carrying on business in Australia through an Australian subsidiary. The courts will only lift the corporate veil in this way if the manufacturer exercises a high level of control over the Australian subsidiary.[123] More than the indirect legal control and commercial capacity of a parent company to direct

[119] *Bray v F Hoffman-La Roche Ltd* (2002) 118 FCR 1, 18–19 [63] (Merkel J).

[120] *Andrews v Bells Sports Australia Pty Ltd* [2006] QDC 249 (2 August 2006).

[121] (2002) 118 FCR 1.

[122] Ibid 18 [60].

[123] David Meltz, 'The Extraterritorial Operation of the *Trade Practices Act* — A Time for Reappraisal?' (1996) 4 *Trade Practices Law Journal* 185, 188.

its subsidiary is required.[124] The decision in *Amalgamated Wireless (Australia) Ltd v McDonnell Douglas Corp*[125] suggests that this level of control may be demonstrated where the parent is using the Australian subsidiary as part of a world-wide distribution system. As Wilcox J observed:

> the degree of involvement of the … parent [may be] so great that it is impossible to characterise this as being merely a case where a company purchases shares in another company and leaves that other company to carry on its own business on its own account. [The parent may be] more than an investor in the Australian subsidiary; it [may be] concerned to use the Australian subsidiary as part of a world-wide … organisation; and ultimately on behalf of the parent company …[126]

D *Conclusion*

Competition laws are unlikely to adequately address anti-competitive manufacturer responses as those responses are unlikely to breach Australia's competition laws. Manufacturers are unlikely to have a degree of market power that enlivens s 46 of the *CCA*. Even if they do, they will not breach this prohibition as most of the contemplated responses make sense whether or not the manufacturer has substantial market power. Clauses that place restrictions on the acquirer's ability to resupply the goods will only be caught by s 47 if their imposition is likely to have an anti-competitive effect or is motivated by an anti-competitive purpose which, for reasons discussed earlier, is unlikely. Even if breach can be established, the territorial nexus requirements introduced by the word 'market' may make establishing breach more difficult when conduct occurs in a truly global market. Further, it is possible that the relevant competition prohibitions will not extend to conduct where it occurs beyond Australia's borders and does not involve the Australian distributor.

VI Other Ways to Support the Greys

As competition laws cannot be relied upon to combat manufacturer's efforts to curb grey market activity, other methods will need to be adopted to support it. One response would be to introduce competition law prohibitions that capture the imposition of exclusive distribution networks. Such a response

124 *Bray v F Hoffman-La Roche Ltd* (2002) 118 FCR 1, 23 [80] (Merkel J).

125 (1987) 16 FCR 238.

126 Ibid 240–1.

would be unwise. Competition law prohibitions would be inconsistent with the treatment of such conduct internationally and their enforcement is therefore likely to raise issues of comity. Rather, it is suggested that enforcement actions under the *ACL* and consumer education campaigns could be used to support the emergence of grey markets should the government finally decide to abolish all parallel import restrictions.

A *Public Enforcement: Challenging Efforts to Tarnish*

Some of the manufacturer strategies were designed to suggest that the parallel import products were in some way inferior to the products sold through authorised channels. For example, claims are often made about the superior warranty services offered by authorised dealers. Such claims should be scrutinised carefully by the ACCC and public enforcement actions should be taken against manufacturers found to be making false claims. One of the ACCC's enforcement priorities should be to challenge misleading statements about warranties that are designed to paint parallel imports in a bad light. Any suggestion that parallel imported products do not come with warranties when sold by an Australian retailer is misleading and will amount to a breach of the general prohibition against misleading conduct contained in s 18 of the *ACL*. Such suggestions would also amount to a misrepresentation about the existence of such warranties in breach of s 29(m) of the *ACL*.[127] Whilst breach of the provisions mentioned can also be enforced privately, public enforcement actions are justified, at least initially so as to develop the law. Such actions would also send signals to the retail sector more generally about the seriousness with which the ACCC regards attempts to misrepresent rights provided for under the *ACL*.

B *Channelling the Disgruntled Consumer*

Strategies that channel the growing resentment consumers feel towards global price discrimination practices are likely to be the most effective when it comes to supporting grey markets. The *IT Pricing Report* noted that '[m]any consumers have also become aware of, and frustrated by, regional pricing strategies that prevent them from taking advantage of cheaper prices overseas'.[128] Whilst manufacturers remain largely free to implement distribution

[127] Where parallel imports are sold to consumers by Australian retailers, they will come with the guarantees provided for in the *ACL* pt 3-2 div 1.

[128] *IT Pricing Report*, above n 1, 3 [1.15]. See generally 11–12 [2.9]–[2.14].

systems of their choosing, it must not be forgotten that this does not give them complete control over the distribution of their products. The parallel import infringement cases referred to in this article[129] demonstrate that cracks will inevitably form in even the most tightly controlled distribution channels, and grey market goods will find their way to the Australian market. Further, if parallel import restrictions are completely lifted, it seems reasonable to suggest that those who have sourced supply as a result of these cracks will be very interested in selling the product in Australia because of the high prices that prevail in this country.

It is important that consumers feel comfortable about purchasing grey market goods. Often as a result of the way the parallel import is packaged, the retail channels through which such goods are typically sold, as well as deliberate strategies by the manufacturer, some consumers remain hesitant about purchasing parallel products even from an Australian bricks and mortar retailer. The ACCC should design and implement an education program that raises awareness about the nature of parallel imports, namely that they are not counterfeit and have often been manufactured by the same manufacturer that made the authorised local version of the products. The price findings made in the *IT Pricing Report* could be used to demonstrate the extent to which Australian consumers pay significantly higher prices for identical or near-identical goods. To some extent, retailers such as Australia's 'Kogan' and New Zealand's 'Parallel Imported' do this already by providing information on their sites and in their stores about parallel importing, stressing that such products are genuine and highlighting the cheaper prices they are able to offer on near-identical goods.[130] However, a measured campaign by Australia's competition regulator is likely to carry more weight than claims made by a retailer that is trying to convince the consumer to purchase goods in unfamiliar circumstances.

It has been suggested that uncertainties about warranty protection inhibit consumers from seeking to access lower prices online.[131] This reluctance is likely to be exacerbated in the case of parallel imported goods. Any education program developed could alert consumers to the fact that all consumer goods sold by Australian retailers come with non-excludable statutory guarantees,

[129] See, eg, *Pioneer Electronics Australia Pty Ltd v Lee* (2000) 108 FCR 216; *QS Holdings Sarl v Paul's Retail Pty Ltd* (2011) 92 IPR 460; *Polo/Lauren Co LP v Ziliani Holdings Pty Ltd* (2008) 173 FCR 266.

[130] See Kogan, above n 43; Parallel Imported, above n 44.

[131] *IT Pricing Report*, above n 1, 117 [4.114].

whether or not the goods in question were intended by the manufacturer for sale in Australia.

The education programs should make consumers feel more comfortable about purchasing parallel imported goods that make their way to Australia. The provision of accurate information about the nature of parallel imported goods and warranty protection that stems from the *ACL* is likely to lead to an increase in grey market activity. If a sufficient number of consumers switch to the grey market, manufacturers and local distributors and retailers will be forced to respond or risk losing the ever increasing number of customers seeking better prices online. Local distributors may also be able to point to the loss of sales to overseas retailers when negotiating terms of supply with the manufacturer.[132] Thus, even those manufacturers who manage to tightly control their distribution network may very well be forced to reconsider their Australian pricing strategies in the face of the increased competition brought by the parallel imports.

It is interesting to note that the IT Pricing Committee was of the view that education programs may help overcome the anti-competitive effects of geoblocking.[133] For example, many overseas retailers do not ship to Australia, possibly as a result of restrictions on the right to resupply imposed by or at the behest of the manufacturer. Consumers may also be blocked from purchasing online content (such as music or ebooks) from overseas retailers once an Australian IP address or credit card is detected.

Favouring an education program, the IT Pricing Committee resisted calls for the *Copyright Act* to be amended so that attempting to remove, disable or circumvent geoblocking mechanisms should not be subject to civil or criminal sanctions.[134] The Committee noted that there are several ways that savvy consumers might be able to get around some geoblocking mechanisms.[135] For

[132] For example, in March 2012, in response to a significant increase in competition from online retailers who were able to supply brand name goods at significantly lower prices, David Jones commenced its global Cost Price Harmonisation program with international brand suppliers: see David Jones Ltd, 'David Jones Announces Its Future Strategic Direction' (ASX and Media Release, 21 March 2012). This program was designed to address the price differentials that exist between Australian and international department stores, which Australian retailers have been forced to address due to the prevalence of smart phone technology that allows customers to compare prices offered by Australian retailers with those offered by retailers around the world.

[133] *IT Pricing Report*, above n 1, 14 [2.23].

[134] Submissions recommending such an approach were made by the Australian Digital Alliance, the Australian Libraries Copyright Committee and Choice Australia.

[135] *IT Pricing Report*, above n 1, 102–3 [4.62]–[4.65].

example, proxy servers and virtual private networks can give consumers access to content that would otherwise be geoblocked. They may also allow online content to be acquired from overseas retailers that would not otherwise sell to Australian consumers, with freight-forwarding services being used when the retailer does not deliver to an Australian address.[136] The Committee was of the view that consumers should be encouraged to circumvent geoblocking mechanisms where it is legal to do so. It recommended that the government investigate options to educate Australian consumers and businesses as to: the extent to which they can circumvent geoblocking so as to access cheaper, legitimate goods; the tools and techniques that they can use; and the resulting affect upon their rights under the *ACL*.[137]

Finally, education campaigns that overcome concerns about the quality of grey market goods will also promote another form of conduct. In a global marketplace consumers are often able to bypass authorised distribution channels altogether. For example, consumers may be able to purchase directly from retailers in 'low price' countries or even individuals who purchase the goods cheaply in 'low price' markets and sell them via auction sites such as eBay.[138] Whilst such activity does not come within the traditional conception of grey markets, which are generally thought to involve the commercial importation and distribution of goods, it will nevertheless subject local distributors (and in turn manufacturers) to further competitive constraints.

VII Conclusion

The lengths and expense that some Australian consumers will go to in order to access overseas markets demonstrate the extent to which parallel import restrictions, as well as contractual restrictions imposed by manufacturers, raise prices paid by Australian consumers. The fact that Australian consumers can incur the expense of establishing virtual private networks and engaging

[136] The customer provides the address of the freight-forwarding service, who will then forward it to the Australian customer, enabling delivery to be made that would otherwise be geoblocked.

[137] *IT Pricing Report*, above n 1, 108 (recommendation 6). The Committee also recommended that the *Copyright Act* be amended so that the line between circumvention of geoblocking devices (which is legal) and circumvention of technological protection measures (which is not legal) is more clearly drawn: see recommendation 5.

[138] Even if the manufacturer has thought to ensure that the retailer is contractually obliged not to sell outside of the country in which it operates, the reality is that contractual restrictions are unlikely to be enforced. 'Low price' markets tend to be in developing countries, often with underdeveloped and unpredictable legal systems.

freight-forwarding services and still pay less than the price prevailing in the Australian marketplace does not reflect well on the level of competition in some key markets. Whilst the removal of parallel import restrictions is a definite step in the right direction, manufacturers are likely to tighten their control over the supply chain in the hope of cutting off supply to grey markets and discrediting parallel imported goods. Such efforts by manufacturers will almost certainly fall outside the reach of Australia's competition laws. However, competition laws should not be amended. Rather, education campaigns designed to overcome the reluctance some consumers feel about buying from the grey market are crucial. If consumers embrace grey markets, manufacturers and local distributors will have no choice but to meet the increased competition that grey markets bring by charging lower prices and improving product offerings.