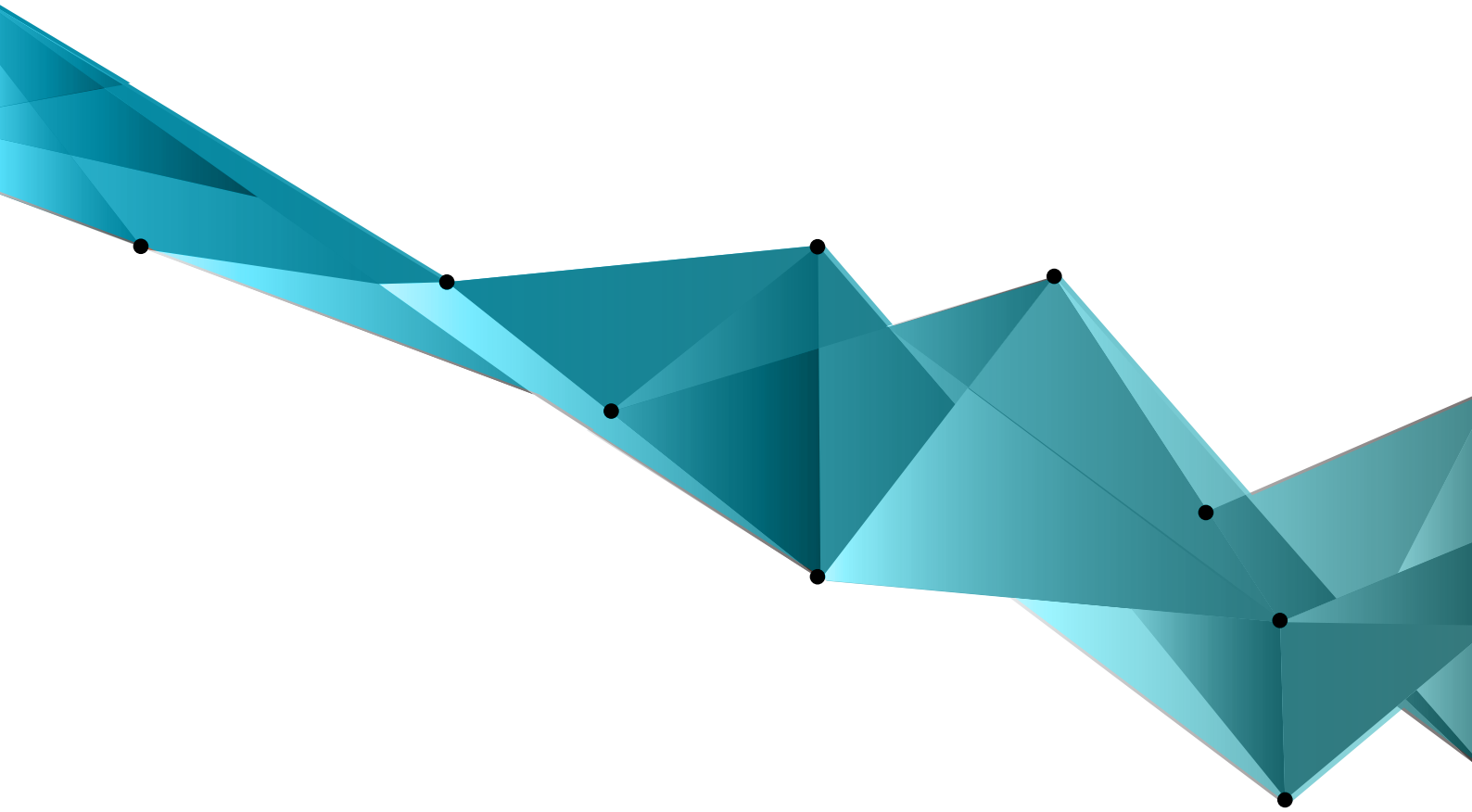


# Intellectual Property Newsletter - May 2019



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To view the 2018 Intellectual Property Newsletter [click here](#)

# Welcome

Welcome to the May 2019 Edition of Gadens' Intellectual Property Newsletter.

In this edition we explore the impact of changes to Australian trade mark, copyright and consumer laws on intellectual property owners and shine the spotlight on two Australian cases which provide further guidance on the laws concerning 'authorised use' and 'innocent infringement'. We appreciate the opportunity to provide insights into the Australian landscape to our international colleagues and welcome suggestions for articles of particular interest.

We hope you enjoy our May edition.

### Chief Editors



Erica Huntley  
Associate & Trade  
Marks Attorney



Alana Long  
Senior Associate

### Trade Mark Team Key Contacts



Donna Bartlett  
Partner

T: +61 2 9163 3025  
E: donna.bartlett@gadens.com



Adam Walker  
Partner

T: +61 3 9252 2515  
E: adam.walker@gadens.com



Kerry Awerbuch  
Partner

T: +61 3 9252 2573  
E: kerry.awerbuch@gadens.com



Hazel McDwyer  
Partner

T: +61 2 9163 3052  
E: hazel.mcdwyer@gadens.com

# Part 1 changes to Australia's IP laws now in force

## Part 2 still to come

Authored by: Alana Long, Senior Associate

IP rights holders should be aware of the key changes introduced by *The Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Act 2018* (Australia) (**the Act**), which are now in force. A second round of amendments, proposed under *The Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Bill 2018* (**the Bill**), which make significant changes to Australia's patent system, appear to be on hold pending the upcoming Federal election. We will continue to monitor the progress of the Bill and report on developments as they arise.

In the meantime, we provide an update on the following key changes (which are particularly relevant to trade mark owners), introduced by the Act:

### Parallel importation

Section 123(1) of the *Trade Marks Act 1995* (Cth) (TMA) has been repealed and replaced with new section 122A, which outlines the circumstances in which the parallel importation of trade marked goods does not infringe a registered trade mark. New section 122A reflects the Government's policy position to facilitate the parallel importation of goods into Australia, to the benefit of consumers, by limiting the strategic use of restrictions by registered trade mark owners. Historically, these restrictions included the use of various corporate or contractual arrangements to circumvent the Government's intent to allow parallel imports.

Notably, the amendment seeks to clarify the issue of 'consent,' the interpretation of which Australian courts have grappled with since the parallel importation defence was introduced in 1995. New section 122A(1) provides that if a parallel importer has made 'reasonable inquiries' in relation to the trade mark and is satisfied that the trade mark has been applied with the consent of one of the following individuals/entities, then they can rely on the defence:

- a) the registered owner of the trade mark;
- b) an authorised user of the trade mark;
- c) a person permitted to use the trade mark by the registered owner;
- d) a person permitted to use the trade mark by an authorised user who has the power to give such permission;
- e) a person with significant influence over the use of the trade mark by the registered owner or an authorised user; or
- f) an associated entity of the above.

The amendment should give parallel importers greater guidance on whose consent can be relied on, however we suspect several of the categories (particularly (d) and (e) above), will remain open to considerable interpretation.

Further, the Explanatory Memorandum for *The Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill 2018* (**Memorandum**) indicates that the threshold for the 'reasonable inquiries' required of a parallel importer under the section are relatively low. For example, paragraph 15 of the Memorandum provides that:

*"If the goods are purchased from a retailer widely known to be the licensed distributor of the trade mark owner at the normal price of genuine goods in the relevant market, then no further inquiries may be needed".*

This suggests that parallel importers may be entitled to draw fairly broad assumptions about the legitimacy of the goods being imported in order to rely upon the section 122A defence.

In addition, subsection 122A(2) provides guidance on how the issue of 'consent' should be interpreted. It expressly includes consent subject to a condition (for example, a geographical restriction on where a licensee may sell the trade marked goods) and consent that can be reasonably inferred from the conduct of a relevant person. Consistent with the Government's policy position, the intention of subsection 122A(2) is to capture a broad range of scenarios and behaviours so that the provisions operate to permit genuine parallel imports, regardless of how or the circumstances in which, the consent was given.

Section 122A applies to any infringement actions brought on or after 25 August 2018, even if the infringing conduct is alleged to have occurred before that date. Trade mark owners should anticipate the widening of the parallel importation defence in their licensing and distribution arrangements.

### Non-use

Previously, an application to revoke a trade mark on the basis of non-use under section 92(4)(b) of the TMA (continuous period of 3 years non-use or use in good faith), could only be made after five years from the filing date of the trade mark. As of 24 February 2019, new section 93(2) of the TMA provides that an application can be made after three years from the date of registration. These amendments only apply to trade mark applications filed on or after 24 February 2019.

The amendment is intended to address concerns that many trade marks on the Trade Marks Register remain unused. Brand owners will need to be alert to the reduced grace period and ensure that they use their marks within three years of the date of registration to avoid registrations becoming vulnerable to revocation on the basis of non-use.

### Additional damages

New provisions to the TMA, *Patents Act 1990* (Cth), *Designs Act 2003* (Cth) and *Plant Breeder's Rights Act 1994* (Cth), which came into force on 24 February 2019, give powers to a court to award additional damages against a person who makes unjustified threats of proceedings for infringement. In considering the quantum of additional damages the court may have regard to:

- a) the flagrancy of the threat; and
- b) the need to deter similar threats; and
- c) the conduct of the defendant that occurred after the defendant made the threat; and
- d) any benefit shown to have accrued to the defendant because of the threat; and
- e) all relevant matters.

In addition, new section 130A of the TMA provides that mere notification of the existence of a registered trade mark does not constitute a threat to bring an action. The same amendment does not apply under the Patents, Designs or Plant Breeder's Rights legislation.

The possibility of additional damages should cause IP rights holders to carefully consider the merits of their claims before making infringement allegations.



**Alana Long**

Senior Associate

T: +61 3 9252 2565

E: [alana.long@gadens.com](mailto:alana.long@gadens.com)

# New Copyright Protection Terms from 1 January 2019

Authored by: Erica Huntley, Associate

Changes to Australia's copyright duration laws under the *Copyright Act 1968* (Cth) came into effect on 1 January 2019. The new copyright terms apply to:

- new copyright material created from 1 January 2019;
- existing copyright material that was not published or otherwise made public before 1 January 2019; and
- Crown copyright material.

A summary of the key copyright terms (incorporating these changes) is provided below:

## Literary, dramatic and musical works

- For published and unpublished literary (other than computer programs), dramatic and musical works, copyright protection lasts for 70 years after the author's death.
- However, if the author died before 1 January 1955, and the work was published before January 1955, then copyright has already expired. This is because the previous law was that the copyright term lasted for the life of the author plus 50 years.

## Sound recordings and films

- For sound recordings and films, the duration of copyright is either:
  - 70 years after creation; or
  - if it is within 50 years of being made, then 70 years after first being made public.

## Crown (Commonwealth, State or Territory) works

- If the material is a work, sound recording, or cinematograph film, and the Commonwealth, State or Territory government is the owner or would otherwise be the owner (but for an agreement), then copyright subsists in the material for 50 years after the calendar year in which the material was made.

## Works with unknown author

For works where the author is unknown the copyright term is now either:

- 70 years after creation; or
- if it is within 50 years of when the work was made, then 70 years after the work was first made public.

## Major implications of the new laws

- The copyright term for unpublished works is no longer perpetual. For the first time in Australia, copyright terms will apply to materials that are not published (or otherwise made public).
- For unpublished works made before 1948, the new terms will have the effect that copyright in the material expired by 1 January 2019.



**Erica Huntley**  
Associate

T: +61 3 9252 2545  
E: erica.huntley@gadens.com

# Hells Angels Australia authorised to burst Redbubble for trade mark infringement

Authored by: Tristan White, Lawyer

Following the strict requirements imposed in *Lodestar Anstalt v Campari America LLC* [2016] FCAFC 92 (**Lodestar**) to demonstrate an 'authorised user' under section 8 of the *Trade Marks Act 1995* (Cth) (**TMA**), the Federal Court has acknowledged that the circumstances surrounding licensing arrangements are highly relevant to the question of 'control' of a licensee: *Hells Angels Motorcycle Corporation (Australia) Pty Limited v Redbubble Limited* [2019] FCA 355.

## Background

Redbubble Limited (**Redbubble**) operates an online marketplace where artists (or just anyone who thinks they can draw) can upload creative works to its site. These works can then be applied to a range of products, which are on-sold to consumers. Redbubble oversees this process, facilitating both the engagement of third parties to apply the artwork to products, and the delivery of those products to consumers.

Hells Angels Motorcycle Corporation (**Hells Angels US**) owns a number of trade mark registrations in Australia, and its Australian entity, Hells Angels Motorcycle Corporation (Australia) Pty Limited (**Hells Angels Australia**) has an exclusive licence to use those marks down under.

In this case, images of Hells Angels US' trade marks were uploaded by artists onto Redbubble's website and then applied to products which were made available to consumers. Hells Angels Australia claimed trade mark and copyright infringement and misleading or deceptive conduct under the Australian Consumer Law, against Redbubble. Hells Angels Australia was partly successful in its trade mark infringement claim, but failed in its copyright and misleading or deceptive conduct claims. In this article, we will focus only on the 'authorised use' aspect of the trade mark infringement claim.

## Authorised use

Redbubble was found to have infringed three of the four registered trade marks owned by Hells Angels US, by facilitating the supply of products bearing the trade marks. Redbubble faced a nominal damages award – only \$5,000 because the infringing trade marks published on the website had a limited number of views and only three sales had occurred before Redbubble removed the images from its site.

But first, and importantly, the Court had to consider whether Hells Angels Australia had standing to sue Redbubble for trade mark infringement. It could only do so if it was authorised to use the trade marks by the registered owner of the marks – being Hells Angels US.

Greenwood J found that, despite the apparent lack of evidence of 'control' over Hells Angels Australia's use of the marks (for instance, there were no examples of manuals or guidelines or standards documents issued by Hells Angels US governing the issues of 'quality control' over particular goods or services), the relationship between the Australian and US entities was "one where obedience to the trade mark owner was so intuitive and so complete that no formal instruction as to quality control was necessary."

His Honour emphasised the importance of taking context carefully into account. He placed particular reliance on:

- a) the fact that neither Hells Angels US or Hells Angels Australia are major commercial undertakings dedicated to producing products with a commercial network of national and international distributors and licensees;
- b) the core undertaking of Hells Angels US and Hells Angels Australia is supporting members of the Hells Angels motorcycle club; and

- c) the 'arrangement' between Hells Angels US and Hells Angels Australia which is in the nature of one where it is common ground between the two entities that it is not necessary for the owner to give directions or instructions or issue guidelines or standards documents setting out didactic supervisory protocols as these two organisations understand that Hells Angels Australia will faithfully comply with its obligation to present the trade marks in the way that Hells Angels US, put simply, wants and requires.

Accordingly, Greenwood J was satisfied that Hells Angels Australia was an authorised user of the trade marks, and therefore had the requisite standing to sue Redbubble.

## Observations

This case can be distinguished from the Full Federal Court decision in *Lodestar*, where the licensor was found not to have exercised sufficient control over use of its marks under a license agreement, because it did not monitor the licensee's use of the marks, and there was no evidence to suggest that the licensor took steps to ascertain whether there was compliance with the control provisions in the licence agreement.

The key difference in this case was the *purpose* of the Hells Angels US trade marks. Unlike *Lodestar* which dealt with the commercial production of wine, the focus

of Hells Angels US' core undertaking was supporting members of the Hells Angels club throughout the various chapters in the United States and members of the various chapters in the non US territories. The focus of Hells Angels US' use of its trade marks was 'primarily' to indicate membership in the club, or chapters, and to that end, Hells Angels US had sought to standardise how the trade marks were to be presented as a badge of membership of the club or chapter. This context led Greenwood J to his conclusion that 'control' was implicit in the licensing arrangement between Hells Angels US and Hells Angels Australia.

It is encouraging to see the Court carefully considering the context of the 'authorised use,' for the purposes of section 8 of the TMA, however it remains prudent for all trade mark owners to put in place guidelines and reporting responsibilities demonstrating actual control of their trade marks to satisfy the 'authorised user' provision.

The Redbubble business model is susceptible to IP claims and we suspect that future claims against the company will be brought (in fact, one already has, and is now on appeal to the Full Federal Court). Therefore, it will be no surprise if Redbubble appeals this matter to the Full Federal Court as well. Stay tuned for updates.



Tristan White  
Lawyer

T: +61 3 9252 7743  
E: tristan.white@gadens.com

# Copyright infringement and the innocent infringement defence

Authored by: Kerry Awerbuch, Partner and Madeleine McMaster, Lawyer

The recent Federal Court decision in [The Dempsey Group Pty Ltd v Spotlight Pty Ltd \[2018\] FCA 2016](#) provides further guidance on what constitutes reproduction of a substantial part of a copyright work, innocent infringement and the circumstances relevant to assessing damages, including additional damages.

Dempsey Group and Spotlight manufacture and sell bed linen products under their respective brands, with both parties using the same manufacturing company in China. In 2017, Dempsey Group commenced court proceedings against Spotlight for copyright infringement of three artistic works which it applied to its quilt cover and pillow sets (**Dempsey Works**). It alleged that Spotlight's "KOO Remy", "KOO Jarvis" and "KOO Taj" quilt cover and pillow sets (**Spotlight Products**) were a substantial reproduction of the Dempsey Works.

Justice Davies found in favour of Dempsey Group on the infringement point, however her Honour concluded that Spotlight did not know the Spotlight Products were based on the Dempsey Works until it was put on notice by Dempsey Group. Further, it was not until 2 December 2016 that Spotlight had knowledge of Dempsey Group's ownership of the copyright in the Dempsey Works, as this is when it provided evidence of copyright ownership to Spotlight. Prior to this time, Spotlight was entitled to rely on the manufacturer to notify it of any copyright concerns.

## Innocent infringement

Section 115(3) of the *Copyright Act 1968* (Cth) (**Copyright Act**) provides a defence to a claim for damages, if, at the time of infringement, the defendant was not aware or had no reasonable grounds for suspecting that the act constituted

copyright infringement. If this ground is established, then the plaintiff is only entitled to an account of profits with respect to the infringement.

The Court found that Spotlight satisfied both limbs of the test for the innocent infringement defence until 2 December 2016, namely, it had an active subjective lack of awareness that the act constituting the infringement was an infringement of copyright and objectively considered, it had no reasonable grounds for suspecting that the act constituted an infringement. The defence did not apply, however, to sales of the Spotlight Products after 2 December 2016.

## Damages sought by Dempsey Group

Dempsey Group sought an award of damages amounting to over \$900,000 under a number of heads of damages. However, this amount was considerably reduced by the Court as follows:

**Loss of profits** – Justice Davies found Dempsey Group was only entitled to damages for loss of profits for sales occurring after 2 December 2016. Dempsey Group applied the standard test to calculate the loss, applying a 20% reduction on the basis that not all sales by Spotlight would be Dempsey Group sales. Justice Davies rejected this figure, finding an 80% reduction plus a further 5% was appropriate in circumstances where the parties operated in different markets, Dempsey Group's products were twice as expensive, there was no evidence to suggest that Dempsey Group's sales were impacted and Dempsey Group failed to provide a satisfactory gross profit calculation.

**Damage to reputation** – Justice Davies accepted that some damage to reputation was suffered by Dempsey Group's brands, particularly as there was a loss of exclusivity in the designs once they appeared in the inferior quality Spotlight Products. However, her Honour considered the claim for \$100,000 to be inflated and unsubstantiated, awarding \$10,000 for damage to reputation instead.

**Devaluation of the artistic works** – Justice Davies rejected this claim, as there was no evidence of a decrease in the popularity or value of the ranges incorporating the Dempsey Works.

**Additional damages** – Dempsey Group argued that Spotlight's conduct in copying the Dempsey Works and its conduct after being notified of the infringement claim warranted an award of additional damages. The conduct included continued sale of the Spotlight Products, selling the products at a discount and ineffective recalls. However, Justice Davies dismissed Dempsey Group's claim as "fanciful and farfetched", on the basis that Spotlight did not knowingly copy the Dempsey Works and actively addressed the claim against it.

## Key takeaways

It is not unusual for retailers to engage the services of third party designers. It is important to ensure expectations around copyright ownership are very clear and that the design history of the work is well understood prior to purchase. All agreements should be supported by warranties and indemnities in favour of the purchaser/retailer around IP ownership and protection.

When an infringement allegation is made, it is important for the alleged infringer to move quickly to understand the basis of the allegations and to take appropriate action, including notifying lawyers, considering the removal of the product from sale while the allegations are investigated and ensuring any removal or recall is effective in removing the product.

<sup>1</sup> Further discussion on this finding can be found at: <https://www.gadens.com/legal-insights/copyright-infringement-and-the-innocent-infringement-defence-the-dempsey-group-pty-ltd-v-spotlight-pty-ltd-2018-fca-2016/>

<sup>2</sup> *Milwell Pty Ltd v Olympic Amusements Pty Ltd* (1999) 85 FCR 436 at [52]; *Golden Editions Pty Ltd v Polygram Pty Ltd* (1996) 61 FCR 479 at 480.

<sup>3</sup> *Elwood Clothing Pty Ltd v Cotton On Clothing Pty Ltd* [2008] FCAFC 197; *Norm Engineering Pty Ltd v Digga Australia Pty Ltd* [2007] FCA 761 at [266]-[271].



**Kerry Awerbuch**  
Partner

T: +61 3 9252 2573  
E: [kerry.awerbuch@gadens.com](mailto:kerry.awerbuch@gadens.com)



**Madeleine McMaster**  
Lawyer

T: +61 3 9252 7702  
E: [madeleine.mcmaster@gadens.com](mailto:madeleine.mcmaster@gadens.com)

# Intellectual property exception to competition law prohibitions to be removed. Time to review IP dealings for anti-competitive provisions.

Authored by: Adam Walker, Partner

Effective from 12 September 2019, the exception to the prohibitions on restrictive trade practices, contained in Part IV the *Competition and Consumer Act 2010* (Cth) (CCA), for the conditional licensing and assignment of IP will be removed.

The impact from this will be that, effective from that date, all transactions involving IP will become subject to competition law prohibitions in the ordinary course. IP licences and potential assignments of, and other arrangements involving, IP should therefore be reviewed to ensure that those dealings will not be anti-competitive in contravention of the Act.

## What is the exception?

Subsection 51(3) of the CCA provides a limited exception to the prohibitions in Part IV on restrictive trade practices for:

- the imposing of, and giving effect to, conditions in licences and assignments of patents, designs, copyright or protected circuit layouts;
- certification trade marks; and
- provisions in contracts, arrangements and understandings between a trade mark owner and either a registered user of the trade mark or person who may use the trade mark subject to becoming a registered user.

The balance between encouraging competition and rewarding innovation can be a challenge for policy makers. Until now, the CCA has provided these exceptions, which applied to most prohibited restrictive trade practices – except misuse of market power or resale price maintenance – on the basis that these prohibitions would otherwise dissuade innovators from engaging in the investment and effort to innovate and develop IP.

## Why is it being removed?

The prevailing view over a number of years, including in the Harper panel's Competition Policy Review in 2015, is that the balance has been skewed too far in favour of IP rights holders, and that there is no sufficiently persuasive argument that subjecting IP rights holders fully to competition law would put a brake on innovation. In the USA, the European Union and Canada, for example, IP rights holders have not enjoyed such exceptions, and thus Australia is adopting a policy position consistent with comparable jurisdictions.

## What is the impact of its removal?

In its review of IP arrangements in 2016, the Productivity Commission cited examples of arrangements that could be impacted by the removal of subsection 51(3):

- Arrangements where competitors faced few or no substitutes of the products and:
  - exclusively cross-license their IP rights;
  - include quantity and/or price restrictions in their licence agreements, enabling them to restrict output of particular products and fix prices; or
  - include territorial restrictions in exclusive cross-licences, which enables them to allocate territories to each other and reduce competition within those territories.
- Licence agreements that required licensees to grant back to the licensor any improvements that a licensee may make in the licensed technology (though it's questionable whether subsection 51(3) actually applies to such arrangements).

- Licence agreements where patent holders impose higher licence fees on users after they have made up front investments that depend on the patented invention (e.g. that forms a technology standard) and thus are effectively compelled to use the patented technology.
- territorial restraints, such as those used in respect of copyright where distribution is constrained to certain geographies at different prices.
- Pay-for-delay arrangements.

Subsection 51(3) has received very limited judicial consideration and therefore the extent of its application has remained unclear. For example, in the case of trade marks, subsection 51(3) refers to trade marks legislation that was repealed over 20 years ago. In any event, for those where the licence or assignment provision has the purpose, effect or likely effect of substantially lessening competition, they should review current arrangements, because the enforcement of any such anti-competitive provision will become unlawful.

Indeed, given the restructure of the misuse of market power prohibition in 2017, this has likely diminished the value of subsection 51(3) anyway. Where IP rights give a rights holder a substantial degree of power in a market, that person has always been exposed to the misuse of market power prohibition. While historically it had been difficult to prove a contravention of that prohibition, the introduction both of the "effects test" and the revised purpose element to that prohibition opens up greater potential for a successful claim against an IP rights holder

whose IP rights afford them market power. The other notable area of risk is arrangements between actual or potential competitors. Subsection 51(3) has provided protection for a claim of cartel conduct where the arrangement fell within the scope of the exception, however that will now fall away in September. Businesses with such arrangements with actual or potential competitors should revisit the terms of those arrangements.

## Final comments

Relying on subsection 51(3) to avoid an allegation of contravening competition law has been fraught with risk due to the significant uncertainty as to scope of the application of the exceptions, and the revision of the misuse of market power prohibition in 2017 has diminished that protection further.

Holders of IP rights should always be mindful of whether current or future arrangements may contravene prohibitions against restrictive trade practices, and the forthcoming repeal of subsection 51(3) provides a timely opportunity to do so.

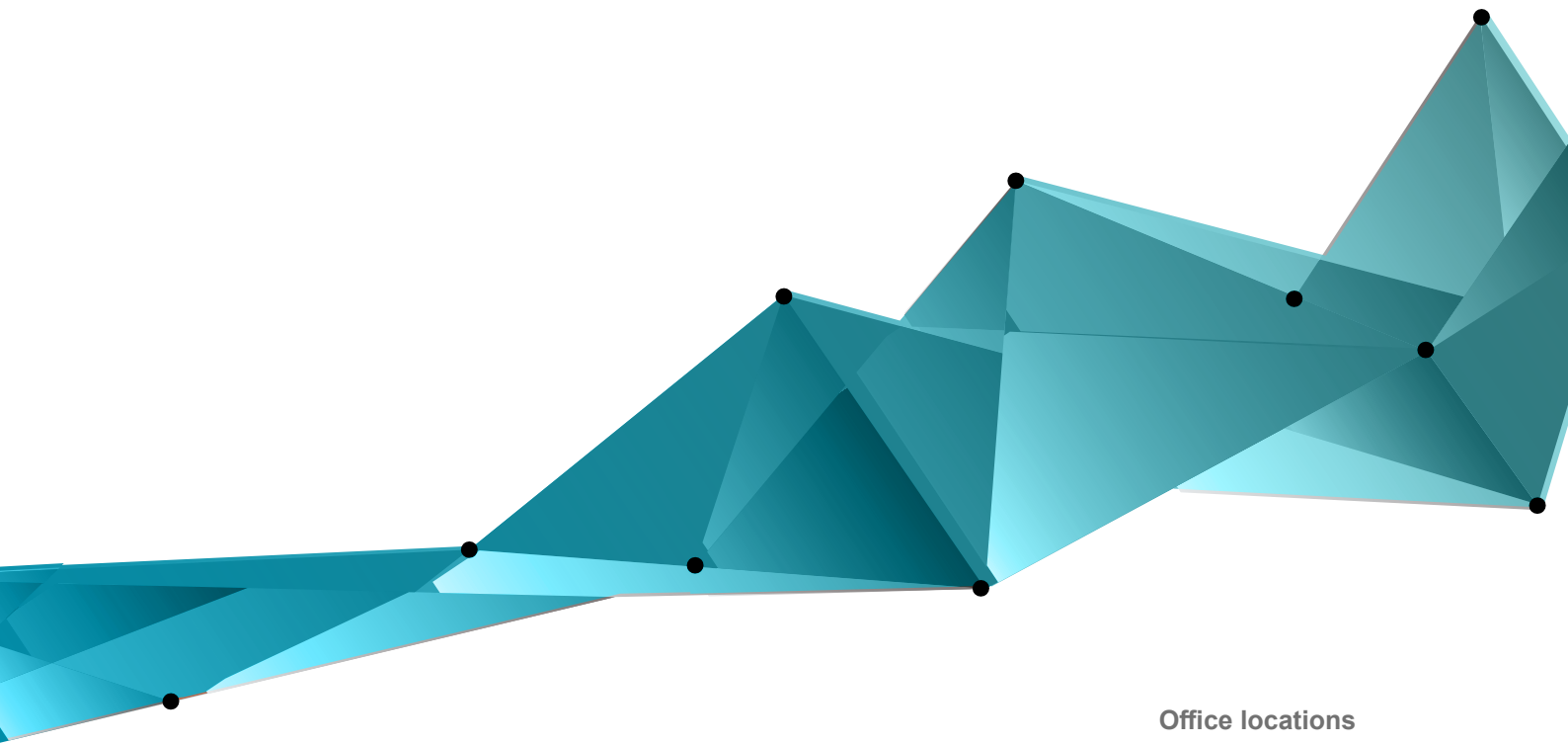


Adam Walker

Partner

T: +61 3 9252 2515

E: adam.walker@gadens.com



## Office locations

### **Adelaide**

Level 1  
19 Gouger Street  
Adelaide SA 5000  
T + 61 8 8233 0600

### **Brisbane**

Level 11, ONE ONE ONE  
111 Eagle Street  
Brisbane QLD 4000  
T + 61 7 3231 1666

### **Melbourne**

Level 25, Bourke Place  
600 Bourke Street  
Melbourne VIC 3000  
T + 61 3 9252 2555

### **Sydney**

Level 40, Gateway  
No.1 Macquarie Place  
Sydney NSW 2000  
T +61 2 9231 4996

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