

Chapter 4

The Challenges of Trans-Tasman Intellectual Property Coordination

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4.1 Introduction

The historical and economic relations and geographical proximity between New Zealand and Australia suggests that harmonisation of intellectual property law would be beneficial. However, as two of us discussed in our chapter in the first volume of the New Zealand Law Foundation Regulatory Reform Project, there are many differences in the details of the intellectual property laws of the two nations.¹ Some of the reasons for the distinctions have been explained, but other differences have arisen for less easily explicable reasons. In that chapter, we explored areas where further harmonisation might be feasible and useful, as well as areas where coordination short of harmonisation might be a preferable or at least a more practicable approach.

At this stage we turn more specifically to the relationship between harmonisation and coordination in the intellectual property sphere. As we noted in our earlier chapter, there is an important relationship between coordination and harmonisation. Coordination can be a stepping stone on the path to harmonisation or coordination can be a goal in its own right, which is short of harmonisation and

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¹ Susy Frankel and Megan Richardson "Trans-Tasman Intellectual Property Coordination" in Susy Frankel (ed) *Learning from the Past, Adapting for the Future: Regulatory Reform in New Zealand* (LexisNexis, Wellington, 2011) 527.

may be preferable where harmonisation is not possible or desirable.

In this chapter, we look at three areas of intellectual property law and policy which involve a potential combination of trans-Tasman coordination and harmonisation. These are: the proposed single trade mark regime; shared patent examination; and parallel importing regulations. We conclude that these areas present certain challenges for harmonisation and even coordination – although at the same time we suggest that there may be some useful opportunities here for law reform for the benefit of both countries.

In the Appendix, we examine further parallel importation of copyright works. This is one area where there is no harmonisation or coordination as yet, since New Zealand has moved earlier than Australia to liberalise its law. As we discuss, however, viewed from an economic perspective this is an area where the two countries might be thought to have common interests, and a harmonisation (or at least coordination) programme might therefore usefully foster beneficial change. Also, parallel importing may be an area where territorialised regulation is becoming increasingly redundant as innovation changes the structure of the market and behaviour of the participants.

4.2 Coordination and harmonisation

Legal or economic theory does not, by itself, give general insights into the optimal mix of cooperation or harmonisation that should occur between Australia and New Zealand in any particular sector. The lessons from the beginning of Closer Economic Relations (CER) and a multitude of other agreements developed over the past 20 years is that the political, economic and institutional arrangements matter and are likely to determine whether cooperation and or harmonisation are possible. Further, this can only be determined by a careful case-by-case assessment.

Of particular currency are the characteristics and state of markets that are affected by intellectual property law. Patents, for example, are only consistently prominent among a few industries, such as pharmaceuticals, fine chemicals, and agricultural chemicals.² These markets are characterised by high barriers to entry, large players, and slow growth in innovation. Copyright products which are being parallel imported or are trade marked are likely to have a range of growth characteristics, entry barriers and possibly quite diverse business models. Therefore, the impact of harmonisation or cooperation is likely to differ depending on the structure and behaviour in each industry.

The Single Economic Market (SEM) programme, which includes the goals of a single trans-Tasman trade mark registration regime and shared patent examination, has elements of both coordination and harmonisation.³ To have a single trade mark

² Benn Steil, David Victor and Richard Nelson (eds) *Technological Innovation & Economic Performance* 2002 (Princeton University Press, Princeton (NJ), 2002) at 11.

³ See Chris Nixon and John Yeabsley “Australia New Zealand Therapeutic Products Authority: Lessons from the Deep End of Trans-Tasman Integration” in Susy Frankel (ed) *Learning from the Past, Adapting for the Future: Regulatory Reform in New Zealand* (LexisNexis, Wellington,

regime, the trade mark laws of the two countries need to be harmonised, at least as far as registration goes. Theoretically, laws relating to infringement could be different. After all, separate and sovereign courts will determine infringement. However, it makes little sense to have laws that differ too much over infringement. Especially as the best defence to infringement is the submission that the trade mark in dispute should not have been registered in the first place. It may be that because of the details of harmonisation the single trade mark regime negotiations are harder to progress than the shared patent examination discussion. On the face of it, shared patent examination does not, at least initially, require harmonisation of the law, but is a regulatory coordination approach.⁴ However, for a number of reasons discussed further below we question whether, in the patent examination context, a clear line can be or perhaps ought to be drawn between the two concepts.

Broadly, harmonisation of intellectual property law would seem to make sense between two countries that have significant trade with each other and where, as is the case with Australia and New Zealand, from many third party perspectives the countries are one market or related markets. There are quite persuasive arguments that overall harmonisation would reduce costs for government bureaucracy, improve the combined pool of resources and would reduce transaction costs for those with trans-Tasman interests – as well as opening up the possibility for substantive improvements in the law in cases where one party’s law is clearly better than the other’s and this law becomes the basis of harmonisation. However, one difficulty is where the details of harmonisation are more reflective of the larger party’s economic and social conditions, or perceived interests, rather than the smaller party’s conditions and concerns – and even any serious consideration of what is the better approach. Thus, in the trans-Tasman context, the fear is that Australia’s interests might be determined not by its relationship with New Zealand or by serious considerations of what is the better law, but rather, for instance, by its relationship with other trading partners which are given greater priority especially the United States.⁵ (Of course, New Zealand is not immune from the same criticism, although in this context its likely model is United Kingdom and European law rather than the law of the United States.) In answer, we suggest that both Australia and New Zealand may achieve more by working together than by not doing so – although we appreciate that there may be many challenges.

One reason for this apparent lack of harmonisation or even coordination at a political level, and with effects beyond the scope of this chapter, is Australia’s perception of itself as a middle power with strategic interests that do not necessarily include New Zealand. From the New Zealand perspective the question

2011) 491 at 496–497.

⁴ It may be noted also that there are certain international regimes for regulatory coordination regarding registration of patents and trade marks, viz the Patent Cooperation Treaty and Madrid Protocol. Australia and New Zealand are members of both treaties. Since these regimes extend beyond Australia and New Zealand they will not be discussed further in this chapter.

⁵ See also the discussion in Susy Frankel, Meredith Kolsky Lewis, Chris Nixon and John Yeabsley “The Web of Trade Agreements and Alliances and Impacts on Regulatory Autonomy” (ch 2) in this volume.

then becomes whether harmonisation or coordination with Australia is beneficial in any event. Difficult decisions need to be made about whether New Zealand interests, if different from what is on offer from Australia, should prevail and how. Conversely, when should the harmonisation or coordination interest prevail? As part of the discussion we assess what Australia can learn from New Zealand and vice-versa.

4.2.1 Decision criteria

To assist in judging whether harmonisation or coordination will be beneficial we have adapted decision criteria from Nixon and Yeabsley.⁶ The key judgments that need to be made for trade marks, patent examination and parallel importing are:

- (a) How simple are the arrangements?
- (b) How much certainty is required?
- (c) How much influence on the decision making is required?
- (d) How much flexibility is required to accommodate one-offs and unique situations?
- (e) How feasible is the option?

In each of these areas examined, the factors of influence can be highlighted and the pros and cons weighed up (see Table 4.1).

Table 4.1: Decision making criteria

	Simplicity	Certainty	Influence	Flexibility	Feasibility
Harmonisation	Highly dependent on the regulatory regime adopted	Likely to increase certainty	Depends on how rules are developed. Are they imposed or developed cooperatively ?	Likely to decrease flexibility	Easy to implement, however will it describe how economic behaviour occurs?
Cooperation (coordination)	Highly dependent on the regulatory regime adopted	Depends on the characteristics of the rules developed	Likely to increase influence	Likely to increase flexibility	Depends on the nature of the cooperation

Source: NZIER (2011)

⁶ Chris Nixon and John Yeabsley “Australia New Zealand Therapeutic Products Authority: Lessons from the Deep End of the Trans-Tasman Integration” in Susy Frankel (ed) *Learning from the Past, Adapting for the Future: Regulatory Reform in New Zealand* (LexisNexis, Wellington, 2011) 491 at 514–521.

4.2.2 Counterfactuals

In each case it is necessary to compare and contrast a base case against harmonisation and cooperation decision making criteria. To illustrate the pros and cons of each approach the base case is defined as the current regulatory settings, although how markets might evolve has been built into the analysis. While there is potential for regulatory settings to change over the medium term, the reason for using current regulatory settings is that they provide a useful peg in the ground that illustrates the advantages and disadvantages of each approach.

4.3 A harmonised trans-Tasman trade mark regime

Overall, a single trade mark regime is likely to benefit both Australia and New Zealand. For many entities, including small and medium sized enterprises (as well as more substantial ones of course), trade marks are often the most important intellectual property right the enterprise will hold⁷ – either on their own account or in conjunction with other forms of intellectual property, including copyright, patents and trade secrets. When the entity trades in both Australia and New Zealand there is often a high level of recognition of their common reputations. Multinational companies, in particular, often treat Australia and New Zealand as a single market (or as part of a single market which include also other countries within the Asia-Pacific region).

At the time of writing, the single trade mark regime does not seem to be progressing with any priority. This may change further down the track. However, there are a number of issues in trans-Tasman trade mark harmonisation which may be difficult to resolve, and which may operate as an impediment to the success of a single trans-Tasman trade mark regime. There may be issues about the practical ways in which regulatory coordination can occur between the two intellectual property offices; IP Australia and the Intellectual Property Office of New Zealand (IPONZ), but such issues are often operational in nature, reflecting transaction costs which while important in the short-term, may well be surmountable in the longer term if coordination is thought worthwhile – this chapter does not focus on those issues.⁸ Rather, this chapter discusses issues of substantive law which may be

⁷ See, for example, Christine Greenhalgh and Mark Rogers *Intellectual Property Activity by Service Sector and Manufacturing Firms in the UK, 1996-2000* (Intellectual Property Research Institute of Australia, Working Paper No 3/06, February 2006); Kimberlee Weatherall, Elizabeth Webster and Lionel Bently *IP Enforcement in the UK and Beyond: A Literature Review* (SABIP Report No EC001, 18 May 2009), available at <www.ipo.gov.uk/ipresearch-right-tm.htm>; Australian Bureau of Statistics *Innovation in Australian Business, 2008-09* (26 August 2010) <www.abs.gov.au/AUSSTATS> at Table 1 (Innovation-active Businesses: Intellectual property protection methods, by employment size, by industry, 2008–2009).

⁸ The single trade mark trial showed that some of the difficulties included differences in computer systems. See discussion of the trade mark trial in Susy Frankel and Megan Richardson “Trans-Tasman Intellectual Property Coordination” in Susy Frankel (ed) *Learning from the Past, Adapting for the Future: Regulatory Reform in New Zealand* (LexisNexis, Wellington, 2011) 527 at 547–548.

difficult to harmonise and might consequently require a limited form of opt-out mechanism. These substantive issues include the issue of highly localised trade marks that cover only part of the joint territory (localised trade marks), and the issue of whether trade marks may be precluded from registration as culturally offensive to a particular segment of the population (culturally offensive trade marks).

4.3.1 *Localised trade marks*

For a trade mark to be registered in New Zealand the applicant need not have traded in New Zealand. The same is so in Australia. Trade marks can be registered on the basis that their owner proposes to use the trade mark. However, problems can arise when there has been trade on one side of the Tasman and not the other.

In New Zealand, overseas reputations have sometimes conflicted with the traditional territorial view of business reputation. In the age of global trade and the Internet some of those territorial barriers remain, but they are becoming fewer and may be less justifiable.

Under the law of passing off, which protects a trade mark's reputation regardless of whether or not the trade mark is registered in the jurisdiction,⁹ localised reputation has generally found protection in preference to recognising international reputation; although courts have moved beyond requiring actual trade in the jurisdiction before a passing off action can be established.¹⁰ In the 1933 case of *GJ Coles & Co Ltd v GJ Coles (NZ) Ltd*,¹¹ the Australian chain store Coles could not prevent a New Zealand store from setting up with the same name, since Coles Australia had not established shops in New Zealand. The Judge found that many New Zealanders would recognise "Coles" as referring to the Australian stores, but Coles' lack of New Zealand stores meant that it had not suffered, and was not likely to suffer, sufficient damage to justify an injunction. However, by the 1980s, New Zealand courts followed Australian courts in taking a more flexible approach to international reputation.¹² In particular, in a case decided in 1984, it was held that the strong reputation of an Australian company, extending to New Zealand at the relevant time, removed any requirement that there had to be trade in New Zealand: thus an Australian oil company, which had not traded

⁹ For a full discussion of this law in New Zealand see Susy Frankel *Intellectual Property in New Zealand* (2nd ed, LexisNexis, Wellington, 2011) at 607–613. There are several excellent texts dealing with the law in Australia but, for an up-to-date discussion, see Mark Davison, Ann Monotti and Leanne Wiseman *Australian Intellectual Property Law* (2nd ed, Cambridge University Press, Cambridge, 2012).

¹⁰ For an extended analysis of Commonwealth case law, ultimately favouring the more liberal approach, see the judgments of Lockhart and Gummow JJ in *ConAgra Inc v McCain Foods (Aust) Pty Ltd* (1992) 33 FCR 302, (1992) 23 IPR 193 (FCA), (1992) 106 ALR 465. As was accepted in that case, a statutory claim for misleading or deceptive conduct, under the then s 52 of the Australian Trade Practices Act 1974 (Cth), does not specify any requirement of local trading activity – and the same applies to the current s 18 of the Australian Consumer Law (Schedule 2 of the Competition and Consumer Act 2010 (Cth)). For the equivalent New Zealand provision, see the Fair Trading Act 1986, s 9.

¹¹ *GJ Coles & Co Ltd v GJ Coles (NZ) Ltd* [1933] NZLR 1189 (SC).

¹² See *Gallaher Ltd v International Brands Ltd* (1976) 1 NZIPR 43 (SC); *Esanda Ltd v Esanda Finance Ltd* [1984] 2 NZLR 748 (HC).

in New Zealand, was granted an injunction to prevent a New Zealand mining company from using “Crusader”. Jeffries J said:¹³

New Zealand and Australia have historically a common affinity. I do not wish to examine it factually for it is so obvious it can rest on the assertion. That affinity is growing and has been immeasurably stimulated by the CER Treaty. ... New Zealand and Australian courts must be prepared by their equity decisions to apply the principles to the way this part of the world is developing.

Similarly, Australian courts have recognised that New Zealand companies might have an established reputation in Australia.¹⁴

In a registered trade mark infringement action there is no need to prove reputation because the existence of the registration is the equivalent of proof of reputation.¹⁵ However, reputation may be relevant to trade mark registration when an overseas owner opposes a local registration.¹⁶ An opposition based on confusion with an existing trade mark cannot be successful unless the opponent has a relevant reputation. Where no goods or services have been traded under the trade mark in New Zealand, IPONZ or the courts may find that reputation exists as a result of small amounts of what could perhaps be called “slop-over” reputation.¹⁷ There are limits to this idea of slop-over however.¹⁸ In *Levi Strauss & Co v Kimbyr Investments Ltd*,¹⁹ Barker J stated:²⁰

However, the enquiry as to the scope of the trademark ... the breach of the trademark and whether the trademark should be expunged or varied is purely territorial. It does not matter what the practice of the defendant overseas may or may not be; it is its

¹³ *Crusader Oil NL v Crusader Minerals New Zealand Ltd* (1984) 1 TCLR 211, 3 IPR 171 (HC) at 181. While Jeffries J has rightly been cited in a number of more recent decisions, Herdman J made very similar observations as far back as 1933: see *GJ Coles & Co Ltd v GJ Coles (NZ) Ltd* [1933] NZLR 1189 (SC) at 1201. See also *Dominion Rent A Car Ltd v Budget Rent A Car Systems (1970) Ltd* [1987] 2 NZLR 395 (CA) at 405; *Midas International Corp v Midas Autocare Ltd* (1987) 2 TCLR 491 (HC).

¹⁴ See *Fletcher Challenge Ltd v Fletcher Challenge Pty Ltd* [1981] 1 NSWLR 196 (NSWSC); *Chase Manhattan Overseas Corp v Chase Corp Ltd* (1985) 63 ALR 345, (1985) 6 IPR 59 (FCA).

¹⁵ However, infringement is territorial in the sense that use in the jurisdiction is required, and here the law may be different as between Australia and New Zealand: see *Ward Group Pty Ltd v Brodie & Stone plc* (2005) 143 FCR 479 (FCA) (targeting the jurisdiction required in order for infringement to be established) and *DB Breweries Ltd v Domain Name Co Ltd* (2001) 52 IPR 280 (HC) (holding a domain name for the purpose of sale sufficient for the award of an interlocutory injunction).

¹⁶ When opposing registration on the basis that the mark would cause confusion or deception with another, but not a registered trade mark, the opponent must establish its reputation in that other trade mark.

¹⁷ See *Pioneer Hi-Bred Corn Company v Hy-Line Chicks Pty Ltd* [1978] 2 NZLR 50 (CA) at 61 and 63.

¹⁸ See *Pioneer Hi-Bred Corn Company v Hy-Line Chicks Pty Ltd* [1978] 2 NZLR 50 (CA) at 56, where Woodhouse J said “foreign advertising alone would not constitute prior use or prior assertion of proprietorship”. In *Watson v Dolmark Industries Ltd* [1992] 3 NZLR 311 (CA) there was not sufficient spillover reputation from Australia to prevent a competitor from using the same trade mark in New Zealand.

¹⁹ *Levi Strauss & Co v Kimbyr Investments Ltd* (1991) 4 TCLR 402 (HC).

²⁰ *Levi Strauss & Co v Kimbyr Investments Ltd* (1991) 4 TCLR 402 (HC) at 406.

reputation in New Zealand that the Courts will be concerned with. ... I can see nothing advanced today which persuades me from applying what is the clear law on territoriality. As I have indicated earlier, passing off cases involving “reputation slop-over” may be extra-territorial; ... [for instance] where a well-known commercial organisation in another country with a reputation in New Zealand is sought to be passed off by some New Zealand trader there can be a cause of action; this is not [so] in the trade mark area which is a statutory jurisdiction confined to breaches in this country.

Where a trade mark applicant has appropriated the trade mark from a foreign source, Australian courts have been prepared to find a reputation sufficient to satisfy an opponent’s onus to prove reputation from the smallest amount of Australian connection. In *Seven Up Co v OT Ltd*, Williams J stated:²¹

The court frowns upon any attempt by one trader to appropriate the mark of another trader although that trader is a foreign trader and the mark has only been used by him in a foreign country. It therefore seizes upon a very small amount of use of the foreign mark in Australia to hold that it has become identified with and distinctive of the goods of the foreign trader in Australia. It is not then a mark which another trader is entitled to apply to register under the *Trade Marks Act* because it is not his property but the property of the foreign trader.

Williams J reasoned that the mark of a foreign trader could have a reputation in Australia achieved through the circulation of advertisements in Australia. Such a reputation would be sufficient to establish the basis for opposing a trade mark registration.

If there is a trans-Tasman single trade mark regime then these details of Australian or New Zealand reputation will disappear. The notion of reputation of a foreign trader will be a trader from outside of Australia or New Zealand. The relevant jurisdiction for considering if an opponent has a sufficient reputation will be trans-Tasman. There remains the possibility that in certain cases passing off may be used to differentiate between reputations on either side of the Tasman. As indicated above, passing off has developed so that a small amount of local reputation may be enough for a plaintiff to rely on.²² We think, however, that if trade marks become trans-Tasman then that may provide a reason for the common law doctrine to develop in the same direction.

The problem of localised trade marks is not particular to the trans-Tasman

²¹ *Seven Up Company v OT Ltd* (1947) 75 CLR 203 (HCA) at 211 per Williams J. See also *Re the registered trade mark Yanx; Ex Parte Amalgamated Tobacco Corp Ltd* (1951) 82 CLR 199 (HCA); and *Moorgate Tobacco Co Ltd v Philip Morris Ltd (No 2)* (1984) 156 CLR 414 (HCA). See further *The New Zealand Clothing Co Ltd v Pinwise Ltd* [1999] NZIPOTM 12, where Assistant Commissioner Frankel followed the Australian approach in the absence of any New Zealand authority directly on point.

²² There may still be cases where a passing off claim (or equivalent statutory claim for misleading or deceptive conduct) will depend on a localised reputation within the trans-Tasman area, but even now it is possible that a localised reputation may exist and yet be sufficient for a remedy to be granted: see *Targetts Pty Ltd v Target Australia Pty Ltd* (1993) 26 IPR 51 (injunction awarded in favour of plaintiff store, situated within Launceston against the mainland Target chain of stores banning the defendant from trading in Launceston).

market. Indeed, historically it was accepted that trade marks might develop a localised reputation, which the statute tolerated provided that the concurrent use was honest.²³

²³ Trade Marks Act 2002 (NZ), s 26(b) and Trade Marks Act 1995 (Cth), s 44(3)(a).

In Australia, the doctrine of honest concurrent use was noted in the 1990 “Moo-Moove” case (*New South Wales Dairy Corp v Murray Goulburn*).²⁴ In this case, the confusingly similar trade marks “Moove” and “Moo” had been on the trade marks register for some time, but because their use was in different locales (“Moove” in New South Wales, “Moo” in Queensland), and in the case of “Moo” was rather spasmodic, there had been limited actual confusion in the past. However, by the time of the proceedings, “Moo” had been acquired by the defendant Murray Goulburn who commenced using it in New South Wales. The New South Wales Dairy Corp brought proceedings for rectification under the Trade Marks Act 1955 (Cth). In considering the claim, Mason CJ said that although older Trade Marks Acts had given precedence to the public interest in maintaining the integrity of the register over the private rights of traders that policy had changed with more recent statutes and now a number of provisions of the current Australian Act “are designed to protect the private interests of traders by permitting trade marks to remain in the register” despite a likelihood of deception or confusion.²⁵

Similarly, in the later case of *Campomar v Nike*,²⁶ the Australian High Court, although disagreeing with certain aspects of the High Court’s decision in the *Moo-Moove* case, accepted that honest concurrent use was a long-established statutory principle and noted that:²⁷

Provisions respecting honest concurrent use, whereby identical or nearly identical trade marks for the same goods or description of goods might be registered by more than one proprietor, subject to possible imposition of conditions, had first been made in Australia by s 28 of the 1905 Act. Of the concurrent use provision in s 34 of the 1955 Act, Bowen CJ observed in *Riv-Oland [Marble Co (Vic) Pty Ltd v Settef SpA]*.²⁸

No doubt this provision had its origin in the situation that traders in different parts of the country might be circulating goods within their particular region under marks which were similar and doing so quite honestly. In such circumstances expansion of the respective markets might tend to bring the likelihood of deception or confusion. Notwithstanding this, the policy of the legislation was to enable honest concurrent users to register their marks.

The question here is whether doctrines such as honest concurrent use that already exist in Australian and New Zealand trade mark law²⁹ would be sufficient to address new problems of localised trade marks that may arise under a trans-Tasman market regime. Localised Australasian reputations can exist, but perhaps these are diminishing. If there was a single trade mark regime, the ability to rely on trade mark law to sustain such separate trans-Tasman reputations would also diminish.

We see no reason why the existing rules of localised reputation and honest

²⁴ *New South Wales Dairy Corp v Murray Goulburn Co-operative Co Ltd* (1990) 171 CLR 363 (HCA), (1990) 97 ALR 73.

²⁵ *New South Wales Dairy Corp v Murray-Goulburn Co-operative Co Ltd* (1990) 171 CLR 363 (HCA) at 382, (1990) 97 ALR 73 at 87.

²⁶ *Campomar Sociedad Limitada v Nike International Ltd* [2000] HCA 12, (2000) 202 CLR 45, (2000) 169 ALR 677.

²⁷ *Campomar Sociedad Limitada v Nike International Ltd* [2000] HCA 12, (2000) 202 CLR 45, (2000) 169 ALR 677 at [52].

²⁸ *Riv-Oland Marble Co (Vic) Pty Ltd v Settef SpA* (1988) 19 FCR 569 at 573 (FCA).

²⁹ For instance Trade Marks Act 2002, s 26(b) and Trade Marks Act 1995 (Cth), s 44(3)(a).

concurrent use should not work in much the same way in the trans-Tasman context, as they do in Australia or New Zealand at present. However, the problem may be less easily resolved when it comes to the issues of culturally offensive trade marks.³⁰

4.3.2 *Culturally offensive trade marks*

The ability for anyone, particularly for Māori, to object to the registration of offensive trade marks is not something New Zealand could or would want to trade away. It is unique, and has proved in many ways to be successful. Further, the WAI 262 report recommends that the mechanism should be expanded. The relevant key reform that the Waitangi Tribunal has recommended is:³¹

1. New standards of legal protection governing the use of taonga works, taonga-derived works, and mātauranga Māori.

We recommend that the law be amended to provide for two new mechanisms:

- (a) A general objection mechanism to prohibit the derogatory or offensive public use of taonga works, taonga-derived works, or mātauranga Māori.
Anybody should be entitled to object to the derogatory or offensive public use of taonga works, taonga-derived works, or mātauranga Māori.
- (b) A mechanism by which kaitiaki can prevent any commercial exploitation of taonga works or mātauranga Māori (but not taonga-derived works) unless and until there has been consultation and, where found appropriate, kaitiaki consent.

Only kaitiaki should be entitled to object to any non-derogatory or non-offensive commercial use of taonga works or mātauranga Māori.

2. An expert commission to have wider functions in relation to taonga works, taonga-derived works, and mātauranga Māori.

We recommend a commission be established. It should have multi-disciplinary expertise (encompassing mātauranga Māori, IP law, commerce, science, and stewardship of taonga works and documents) at both commissioner and secretariat levels. It would replace the Trade marks advisory committee currently operating within the Intellectual Property Office.

To date the equivalent protection of Australian indigenous cultural interests has not been a political reality. In our earlier chapter, we suggested that this sort of New Zealand law might be the very export from New Zealand to Australia that could be beneficial on both sides of the Tasman. We recognise, as does the WAI 262 report, that in some instances these kinds of problems might be dealt with through public pressure for changed practices rather than law. As, for instance, occurred with Lego's disputed use of Māori words in its *Bionicle* range of toys, in 2001³² –

³⁰ We touch on these issues in our previous work. See Susy Frankel and Megan Richardson "Trans-Tasman Intellectual Property Coordination" in Susy Frankel (ed) *Learning from the Past, Adapting for the Future: Regulatory Reform in New Zealand* (LexisNexis, Wellington, 2011) 527 at 530.

³¹ Waitangi Tribunal Report *Ko Aotearoa Tēnei: A Report into Claims Concerning New Zealand Law and Policy Affecting Māori Culture and Identity* (Te Taumata Tuarua, Volume 1, 2011) at 99. These recommendations are about more than trade marks. Taonga works incorporates works of art and culture that are, from an intellectual property perspective, copyright works rather than trade marks, but the recommendations apply to both.

³² See "Lego Agrees to Stop Using Maori Names" *BBC News* (United Kingdom, 30 October

although the approach seems to have worked less well for other uses of Māori symbols and words and that is precisely one of the reasons why the claimants brought the WAI 262 complaint.

The question addressed here is, practically speaking, how feasible would it be to have a common trans-Tasman trade mark regime with a specific carve-out for Māori interests. The related question is: If it is not feasible, should this be a barrier to a single trans-Tasman harmonised trade mark? Might it still be feasible to carve out a different treatment of these issues under the Australian and New Zealand trade mark regimes? And, if so, what would that mean for trade marks which may be considered culturally offensive in New Zealand, but can still be registered and used as trade marks in Australia?³³

The statutory ground for refusing registration as a trade mark, which as a matter of fact only applies to some trade marks applications and not to others, can only be considered equitable if, as a legal matter, the ground for registration is potentially applicable to all. Indeed, the provisions that enable the prevention of registration of culturally offensive trade marks are not confined to Māori objections, although Māori objections are expressly mentioned in the relevant provision.³⁴ Thus the difficulty with maintaining a culturally offensive provision that extends only to New Zealand, in the context of a single trans-Tasman trade mark regime, is not that it is only relevant to some trade marks, but the same basis for exclusion does not exist in Australia.³⁵ A trade mark may be found offensive in New Zealand but be registered in Australia, causing offence to a significant number of those in New Zealand (and possibly in Australia as well, given the number of New Zealanders living there).

Thus, unless Australia is prepared to recognise cultural offensiveness as a ground for refusing registration, then any trans-Tasman single trade mark regime will most probably have to be less than 100 per cent harmonised. Culturally offensive trade marks will continue to not be registered in New Zealand and, as mentioned above, there is not any and is unlikely to be any political will to change this.³⁶

The fact that a trade mark could not be registered on one side of the Tasman, but could on the other does not necessarily mean that there cannot be a single trade mark regime. In our view as a single regime would be desirable, it is better that Australia considers the possibility of reforming its law to make cultural offensiveness as a ground to refuse registration. It could do so by extending its

2001). See also Susy Frankel and Megan Richardson “Traditional Knowledge and Traditional Cultural Expressions in Australia and New Zealand” in Christoph Antons (ed) *Traditional Knowledge, Traditional Cultural Expressions, and Intellectual Property Law in the Asia-Pacific Region* (Kluwer Law International, Netherlands, 2009) 273 at 282–283.

³³ Although they might still be considered *scandalous* trade marks within the general meaning of s 42(a) of the Trade Marks Act 1995 (Cth).

³⁴ Trade Marks Act 2002, s 17.

³⁵ As noted above, the nearest equivalent is the scandalous trade mark provision, but this may not be wide enough. See discussion in Susy Frankel “Trademarks and Traditional Knowledge and Cultural Intellectual Property Rights” in Graeme Dinwoodie and Mark Janis (eds) *Trademark Law and Theory: A Handbook of Contemporary Research* (Edward Elgar, Cheltenham, 2008) 433.

³⁶ The longer reach of the WAI 262 recommendations beyond trade mark registration of course are confined to New Zealand.

existing provision regarding the registration of scandalous trade marks.³⁷ Assuming this does not occur (at least in the short term), however, achieving a single regime may be considered a higher priority than abandoning the project. If so, as a second-best solution, we would prefer to see a tailored opt-out provision to address this issue. That is desirable because it recognises the uniquely New Zealand position as well as recognising the potential utility of a single trade mark regime.

There is a precedent for such an opt-out facility, which is found in New Zealand and Australia's most integrated regulatory body: Food Standards Australia New Zealand (FSANZ).³⁸ FSANZ has offices in both Canberra and Wellington, and all employees are members of the Australian public service, including those employed in New Zealand.³⁹ FSANZ's primary statutory objective is to develop and review food standards and variations of food standards, in order to protect public health and safety.⁴⁰ Alongside this regime New Zealand retains a New Zealand-based Food Safety Authority, which has the main function of developing safety standards for New Zealand, around matters such as additives and contaminants, as well as complaints about premises.⁴¹ A further model is the Trans-Tasman Mutual Recognition Act 1997, which currently exempts all intellectual property.⁴² So already there are models in place that can be adapted for the purposes of a trans-Tasman trade mark regime. This might specify, for instance, that any trade mark deemed culturally offensive or scandalous in one part of the trans-Tasman area (for instance, New Zealand) could not be covered by the trans-Tasman regime, and so could not benefit from that regime.⁴³

4.3.3 Implications for the decision criteria

Table 4.2 sets out the factors relevant to trade marks when considering the choice between harmonisation and cooperation. For brand building purposes and transaction costs reasons⁴⁴ harmonisation is expected to provide the most benefit.

³⁷ See discussion noted in n 33 and n 35 above.

³⁸ See Susy Frankel and Meredith Kolsky Lewis "Trade Agreements and Regulatory Autonomy: The Effect on National Interests" in Susy Frankel (ed) *Learning from the Past, Adapting for the Future: Regulatory Reform in New Zealand* (LexisNexis, Wellington, 2011) 411 and Chris Nixon and John Yeabsley "Australia New Zealand Therapeutic Products Authority: Lessons from the Deep End of Trans-Tasman Integration" in Susy Frankel (ed) *Learning from the Past, Adapting for the Future: Regulatory Reform in New Zealand* (LexisNexis, Wellington, 2011) 491.

³⁹ See Food Standards Australia New Zealand "About FSANZ" <www.foodstandards.gov.au>.

⁴⁰ Food Standards Australia New Zealand Act 1991 (Cth), s 2A.

⁴¹ See New Zealand Food Safety Authority "The New Zealand Food Regulatory Environment" (March 2008), available at <www.foodsafety.govt.nz/elibrary/industry/NZ_Food_Regulatory_Environment_March_2008.pdf>.

⁴² Trans-Tasman Mutual Recognition Act 1997, ss 75–87.

⁴³ A trade mark found to be culturally offensive in New Zealand but found acceptable in Australia might still be registered under the general provisions of the Trade Marks Act 1995 (Cth), as a matter of Australian law (and by the same token a trade mark deemed scandalous in Australia but not in New Zealand, might still be registered under the general provisions of the New Zealand Act).

⁴⁴ While we expect trade marks from a brand building perspective to be important for large

The process would be simple (everyone on a similar playing field), provide certainty (one rule in both countries), and is feasible (cheap and efficient to implement). The key questions are around influence and flexibility. Will New Zealand – the smaller party – have enough influence to build in exceptions to a harmonisation rule and therefore provide the flexibility for both parties to be satisfied with the outcome? We argue that localised trade marks can be dealt with under doctrines such as honest concurrent use and, while dealing with culturally offensive trade marks is problematic, exceptions could be made under an opt-out approach.⁴⁵

Under a cooperative agreement, approaches could be devised that would assist businesses; however, those agreements could not match the simplicity or certainty of harmonisation. New Zealand would have a strong influence on the outcome which implicitly implies enough flexibility built into any agreement to deal with exceptions. Australia is unlikely to be interested, however, given the higher transaction costs of negotiating and implementing such an agreement relative to a harmonisation approach (albeit with an exception around culturally offensive trade marks).

Table 4.2: Decision criteria for trade marks

	Simplicity	Certainty	Influence	Flexibility	Feasibility
Harmonisation	✓✓✓	✓✓✓	? Will depend on willingness of Australia to allow exceptions	? Will depend on how exceptions are dealt with	✓✓✓ Will depend on culturally offensive exception
Cooperation	✓	✓	✓✓✓	✓✓✓	?

4.4 Shared patent examination

The shared patent proposal is to coordinate examination, but not to harmonise the patent regime. The fundamental reason for shared patent examination is that few countries can properly resource a patent office to examine the prior art⁴⁶ necessary for an effective determination of patentability – and also transaction cost benefits for those seeking registration. At present, New Zealand does not fully examine

and small businesses, having the same regulatory regime will also reduce administrative and transaction costs for setting up and maintaining trade marks in both markets.

⁴⁵ As has occurred with Food Standards Australia and New Zealand (FSANZ).

⁴⁶ Prior art means the existing knowledge of persons skilled in the relevant field about whether the patent applied for is novel and involves an inventive step. If it is novel and involves an inventive step it is not part of the prior art and thus can be patented.

patents, but a Bill before the House proposes that it will do so when a request is made.⁴⁷ This proposed law is based on the Australian law.⁴⁸

The SEM proposal is that examination of patents for registration in New Zealand is shared with Australia. It makes sense for New Zealand to share examination with a larger country to reduce the cost of each application (economies of scale). The larger country also benefits (economies of scope) because it gains more examiners and other related expertise. Both countries can specialise, so there is no duplication. Australia is also involved in negotiating patent examination for Singapore. Under the current SEM proposal, New Zealand and Australia would retain sovereignty over patent registration. So, even if examination is shared, a patent may be registered in Australia, but not registered in New Zealand or vice-versa. This would mean that New Zealand would not be compelled to register patents that it would otherwise exclude under its Act. At present, this would include the exclusion of methods of medical treatment.⁴⁹ The Patent Bill may also exclude computer programs and matters of “ordre public”⁵⁰ that relate to Māori values. As in the case of trade marks, some of these differences may be resistant to any harmonisation efforts (and full harmonisation may not even be desirable). There may be certain respects in which harmonisation is desirable if not essential, however, especially once a coordination programme is in place.⁵¹

Peter Drahos has argued that it is in a country’s interest, especially their innovation interests, to keep control over its patent office.⁵² In relation to the Australian/New Zealand relationship he suggests that New Zealand should not wholly outsource its patent examination to Australia, but the two offices should work together.⁵³ This is particularly important since those filing the patent can be well resourced and adept at exploiting differences in patent examination. The current single economic market proposal is to work together. In effect this means that although New Zealand will likely heavily rely on Australia to examine patents, New Zealand should retain an ability to examine patents and therefore some say in the standard of patent examination. Drahos notes:⁵⁴

Instead of contracting out examination, the NZ and Australian offices could become a joint entity of some kind. The problem with any such merger of patent sovereignty is

⁴⁷ See Patents Bill 2008 (235-2), now reported back from the Select Committee.

⁴⁸ See Patents Act 1990 (Cth), s 44 (regarding standard patents; for innovation patents, see s 101A).

⁴⁹ See *Pfizer Inc v Commissioner of Patents* [2005] 1 NZLR 362 (CA).

⁵⁰ “Ordre public” is a term found in article 27 of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement which, in sum, means values fundamental to a society.

⁵¹ One might ask whether it could be in New Zealand’s interest to consider obtaining patent examination from an office other than Australia. New Zealand’s law is in some aspects more reflective of United Kingdom and European Union law than Australian law. But for reasons of regionalism and social and political connection, examination of patents by the United Kingdom or European Patent Office makes little sense.

⁵² Peter Drahos *The Global Governance of Knowledge: Patent Offices and their Clients* (Cambridge University Press, Cambridge, 2010).

⁵³ Peter Drahos *The Global Governance of Knowledge: Patent Offices and their Clients* (Cambridge University Press, Cambridge, 2010) at 322–323.

⁵⁴ Peter Drahos *The Global Governance of Knowledge: Patent Offices and their Clients* (Cambridge University Press, Cambridge, 2010) at 322–323.

how much of a voice the smaller player retains in the new organization. Would, for example, the smaller player be able to influence examination standards? Most small to mid-size offices have sovereignty concerns ...

Sovereignty over regulatory administration is not a one-size-fits all solution. Shared organisation can be very beneficial. As discussed above, the most successful trans-Tasman shared regulatory resource is perhaps FSANZ.⁵⁵ The, as yet, unformed Australian New Zealand Therapeutics Authority is an example where the benefits of regulatory cooperation have, at least on the New Zealand side, not yet outweighed the perceived ceding of New Zealand sovereignty.⁵⁶ It is arguable, however, that these sorts of sovereignty stances are not all the same. Harmonisation of food safety standards, and possibly therapeutic standards, are perhaps a different kind of regulatory harmonisation from patent harmonisation. The former's central objective is health and safety; put simply, the consumer interest is a direct goal. Patents are often described as a social contract,⁵⁷ and although the public interest might arguably be part of a broader governmental policy, it is not typically a statutory objective of patent offices. Neither IP Australia nor IPONZ describe themselves as acting in the public interest. Drahos' work shows how patent offices are often working for their clients who are predominantly patent applicants. Although the public may have interest in patents being registered, that is not the same as the public interest in keeping the patent system balanced – although it may reasonably be argued that patent offices *should* be the guardian of the public interest (especially bearing in mind the costs as well as the benefits that may flow from patents).

In many instances, patent applicants may be the same on both sides of the Tasman, but also they may not be. However, the identity and nature of patent applicants is not the point. A more particular question is whether New Zealand will effectively cede control of the key determinant of property rights in inventions to the drivers that are primarily Australian interests. There is a very real concern (as we have noted above with respect to trade mark coordination) that any advantages of regulatory resources savings and harmonisation will be outweighed by the negative impact on the economic interests at the heart of patent law, especially on the part of New Zealand as the smaller economy. In short, the potential downside of shared examination is that New Zealand will lose some control of its patent regime, because patentability criteria, such as whether an invention is novel or inventive, will likely become a common standard between the two countries – a standard that may reflect more Australian interests. This may again provide an

⁵⁵ See Susy Frankel and Meredith Kolsky Lewis "Trade Agreements and Regulatory Autonomy: The Effect on National Interests" in Susy Frankel (ed) *Learning from the Past, Adapting for the Future: Regulatory Reform in New Zealand* (LexisNexis, Wellington, 2011) 411 and Chris Nixon and John Yeabsley "Australia New Zealand Therapeutic Products Authority: Lessons from the Deep End of Trans-Tasman Integration" in Susy Frankel (ed) *Learning from the Past, Adapting for the Future: Regulatory Reform in New Zealand* (LexisNexis, Wellington, 2011) 491.

⁵⁶ At the time of writing a new round of negotiations is underway.

⁵⁷ The contract is that in exchange for the property rights of a patent for a limited term, the patentee discloses its invention to the public.

opportunity to revisit the question of what precisely the standards should be for both of the partners.

As noted in our earlier paper, the patentability criteria in New Zealand and Australia are not the same – and this currently seems set to continue even with the enactment of the aptly named Intellectual Property Laws Amendment (Raising the Bar) Act in Australia.⁵⁸ Under the SEM proposal, the different laws could be applied in examination, meaning that an examination report could find something theoretically to be inventive in New Zealand but not in Australia. We think, however, that this separate laws approach does not paint the full picture,⁵⁹ and, in the long term, may be undesirable unless there is some careful planning. Although the current SEM proposal suggests different laws, the lack of clarity over some aspects of patentability in both jurisdictions means that there will be some harmonisation through the examination system. That, we think, is realistic, but that it ought to be planned and evaluated rather than occurring by default without the policy being clear.

A related question is why New Zealand and Australia have different patent laws. This question is certainly worth closer examination. The details of the law in each country have rich histories that are not easily changed, but are also not necessarily justified in terms of modern “own interest” innovation policies.

Indeed, it is remarkable how little the trans-Tasman relationship is taken into account when it comes to questions of law reform. For instance, in 2012 Australia announced a review of pharmaceutical patents to consider, among other things:⁶⁰

... whether the system for pharmaceutical patents is effectively balancing the objectives of securing timely access to competitively priced pharmaceuticals, fostering innovation and supporting employment in research and industry.

We suggest that the trans-Tasman relationship should be part of that review, rather than an afterthought or no thought at all.

4.4.1 Implications for the decision criteria

While harmonisation offers simplicity and certainty for a patent examination regime, New Zealand would have little influence on the decisions made and no flexibility (see Table 4.3). Patent coordination is not as simple or certain, relative to harmonisation; however, it provides influence and the flexibility required to protect New Zealand’s patent regime interests, or at least costs. Although once the system is in place flexibility is likely to be limited.

⁵⁸ Intellectual Property Laws Amendment (Raising the Bar) Act 2012 (Cth).

⁵⁹ The standard applied to determine non-obviousness or inventive step is not so clear-cut that it can be said with precision that the standard in New Zealand is one standard and the standard in Australia is clearly another.

⁶⁰ IP Australia “Public Consultations: Review of Pharmaceutical Patents in Australia”, Terms of Reference, available at <www.ipaustralia.gov.au>.

Table 4.3: Decision criteria for patent examination

	Simplicity	Certainty	Influence	Flexibility	Feasibility
Harmonisation	✓✓✓	✓✓✓	X	X	X Potential loss of control of the patent regime
Cooperation	✓	✓	✓✓✓	✓✓	✓✓✓ Coordination possible between patent offices

We are inclined to suggest, therefore, that there is a unique opportunity in the patent coordination project for the two countries to work out the best law between them. We accept that this is not easy, but it is certainly easier trans-Tasman than worldwide.⁶¹ The question is whether, given the obvious interest for both countries to sort out some intense issues over patentability between them, they will continue to work towards substantial harmonisation on a trans-Tasman scale, so reducing the risk that standards will be imposed instead by a third party that does not match either countries' needs.

Parallel importing is exactly such an issue where, although differences had in the past some apparent justification, those justifications have all but evaporated. Further, there is emerging evidence that harmonisation of parallel importing laws will benefit both countries when, as a result of the Internet and online trade, such harmonisation may simply be inevitable.

4.5 Parallel importing

Over the past 30 years New Zealand has made many reforms to trade policy that have fundamentally changed the way its citizens and businesses have connected with the world. The aim of these changes has been to increase the efficiency of New Zealand's connection with the world and, by doing so, improve per capita income. This has involved government stepping back from regulating foreign exchange transactions and trade flows and allowing citizens to make individual decisions about where they put their money, who to trade with and determine how they interact with the rest of the world.

⁶¹ In this project we discuss the pros and cons of harmonising trans-Tasman as compared with the top-down trade agreement agenda from elsewhere. See Susy Frankel and Meredith Kolsky Lewis "Trade Agreements and Regulatory Autonomy: The Effect on National Interests" in Susy Frankel (ed) *Learning from the Past, Adapting for the Future: Regulatory Reform in New Zealand* (LexisNexis, Wellington, 2011) 411 and Susy Frankel, Meredith Kolsky Lewis, Chris Nixon and John Yeabsley "The Web of Trade Agreements and Alliances and Impacts on Regulatory Autonomy" (ch 2) in this volume.

As part of the attempt to improve New Zealand's connection with the rest of the world and increase competition, parallel importing restrictions were removed. In this part of the chapter, we examine the relevance (if any) of trans-Tasman cooperation and/or harmonisation.

The New Zealand restrictions on parallel importing of copyright material were lifted in May 1998, allowing importation of copyright material through means other than the authorised channels of distribution.⁶² Australia has a much more patchy record on parallel imports. The restrictions on parallel imports of sound recordings as well as computer programs have now been removed, but those on print music and books remain (although exceptions are made for books privately purchased over the Internet and eBooks)⁶³ – despite a Productivity Commission report published in 2009 which recommended their reform on economic grounds.⁶⁴ This discrepancy in legal approaches raises the question of the efficiency of having such distinctly different approaches to parallel imports of books on both sides of the Tasman. In recent years, a number of studies have been conducted to investigate the impact of removing parallel import restrictions on books, music and sound recordings, DVDs and computer software.⁶⁵ Our cost-benefit analysis in Appendix A explores some of the results of those studies as a way of illustrating the value of removing parallel importing restrictions.

4.5.1 Implications for the decision criteria

Harmonisation with the objective of removing barriers to parallel importing is the preferred option since it improves competition and trans-Tasman market efficiency. It is simple and provides certainty. Influence or flexibility is not required since it would be up to the private sector to work out the best way to deliver goods and services to the market. A key consideration for policy makers is to assess whether or not de facto harmonisation will occur with or without trans-Tasman government intervention.⁶⁶ Therefore, the feasibility of such a regulatory intervention is in question.

⁶² See Copyright Act 1994, ss 12(3) and 35.

⁶³ See Copyright Act 1968 (Cth), ss 37–38 (44A and following) and 102–103 (102C and following). There are other qualifications on parallel imports of books in the current provisions, including a “30-day rule” and the “90-day resupply rule” which effectively mean that if a book is not released in Australia within 30 days of its being published elsewhere or there is no capacity to resupply it within 90 days the parallel import restrictions do not apply.

⁶⁴ See Australian Productivity Commission *Restrictions on the Parallel Importation of Books* (Research Report, June 2009), available at <www.pc.gov.au/projects/study/books/report>.

⁶⁵ See, for example, Network Economics Consulting Group *The Impact of Parallel Imports on New Zealand's Creative Industries* (Ministry of Economic Development, Wellington, 2004); NZIER *Parallel Importing: A Theoretical and Empirical Investigation* (Report to Ministry of Commerce, Working Paper 98/4, February 1998); NZIER *Parallel Importing Review: The Economic Effects of Lifting the Ban in NZ* (Report to the Australian Federal Government, February 2000); Australian Productivity Commission *Restrictions on the Parallel Importation of Books* (Research Report, June 2009), available at <www.pc.gov.au/projects/study/books/report>.

⁶⁶ There are parallels here with the open policy that has developed, albeit from rocky foundations, in both countries.

Cooperation that restricts some trades is likely to fail. The main reason for this is that the trans-Tasman governments are unlikely to be able to stop consumers from purchasing goods from alternative supply sources such as the Internet. As technology develops this is likely to become harder and harder to control. If attempts were made at trans-Tasman cooperation it would not be simple or certain since it would involve complicated controls that attempted to stop certain trades. In any case, the market influence of such cooperation would be eroded as traders found ways around any rules and flexibility would be limited. Feasibility would be compromised since enforcement would become increasingly costly and unrealistic.

Therefore, regulation associated with parallel importing is unlikely to be a high priority for either government.

Table 4.4: Decision criteria for parallel importing

	Simplicity	Certainty	Influence	Flexibility	Feasibility
Harmonisation	✓✓✓	✓✓✓			?
Cooperation	X	X	X	X	How enforceable would it be?

4.6 Implications

In Table 4.5 we set out a summary of regulatory approaches that could be used by trans-Tasman governments for trade marks, patent examination and parallel importing. In each case, there are different options that can be taken and the development of the decision criteria is a guide only. What actually happens depends on a series of judgments about timing of any regulatory intervention made by politicians, stakeholders, and policy makers; and the strength of political will to undertake further reforms.

Table 4.5 compares current regulatory settings with the potential for changing under harmonisation and cooperative approaches. There are different conclusions about the way forward because there is no generic optimal approach that we can rely on. The way forward depends on careful case-by-case analysis that takes into account the structure of the market, the behaviour of stakeholders and the impact of regulators on performance.

For trade marks (albeit with some exceptions) harmonisation is the preferable option because simplicity and certainty in the market are the dominant characteristics that reduce transaction costs for businesses. For patent examination, influence and flexibility are more important since New Zealand needs control over its innovation regime; therefore cooperation is the preferred option. In the case of parallel importing further regulation may ultimately be redundant since technology (in the form of the Internet) has opened up new avenues to reach the consumer. Therefore, the ability of regulators to intervene, while not impossible, has become

more costly and complex.

Table 4.5: Summary of decision criteria

	Simplicity	Certainty	Influence	Flexibility	Feasibility
Base case: assumed to be the current regulatory settings					
Trade Marks					
Harmonisation	✓✓✓	✓✓✓	? Will depend on willingness of Australia to allow exceptions	? Will depend on how exceptions are dealt with	✓✓✓ Will depend on culturally offensive exception
Cooperation	✓	✓	✓✓✓	✓✓✓	?
Patent examination					
Harmonisation	✓✓✓	✓✓✓	X	X	X Potential loss of control of the patent regime
Cooperation	✓	✓	✓✓✓	✓✓	✓✓✓ Coordination possible between patent offices
Parallel importing					
Harmonisation	✓✓✓	✓✓✓			?
Cooperation	X	X	X	X	How enforceable would it be?

4.7 Conclusions and implications for trade agreements

The single trade mark regime shows significant potential for trans-Tasman regulatory coordination and for benefiting both traders within Australia and New Zealand and for those further afield exporting to both markets. In most areas, harmonisation of trade marks is the preferred option because of the importance of simplicity and certainty. We have concluded that existing trade mark laws can be used to work out issues of regional reputation and related issues of honest concurrent use between different traders. The major differences that we see in the law are the issues relating to culturally offensive marks. There, our preferred solution is that Australia creates a provision equivalent to New Zealand law. However, as there is no apparent political

will to do that, we suggest that opt-out provisions could be adapted to address the New Zealand concerns.

Shared patent examination, we also consider, could have significant benefits in developing trans-Tasman interests. There, however, we conclude that the details of the law resulting from that coordination needs to be properly analysed so that the best result is reached, rather than the result being by default. Flexibility and influence are of prime importance to protect the innovation regime.

One area where we can learn from the past and adapt for the future is that of parallel importing. Both Australia and New Zealand may have been better off to have coordinated their laws in this area earlier.

Parallel importing restrictions have costs and benefits. Welfare economics suggests that the costs of restriction are borne by consumers and the benefits accrue to the innovators who produce the goods and services.⁶⁷ Since 1998, a number of studies have been commissioned to illustrate the relative costs and benefits of removing parallel importing restrictions on the sectors and overall economy (see Appendix A to this chapter). All studies unequivocally suggest that removing the restrictions has been positive for the New Zealand economy.

Over time, however, the impact of removing parallel importing restrictions has declined as new technology and business models have been developed, particularly in books, CDs, DVDs and computer software. As a result, the relevance of parallel importing is quickly declining and will be even less important in the future; but we are not there yet. Thus, New Zealand and Australian coordination in this area could be redundant, in the long-term.

In the trans-Pacific Partnership (TPP) negotiations the leaked texts reveal a stance on the part of the United States to erect territorial walls to increase control over parallel importing, even in the online world.⁶⁸ This stance is problematic since the rules are potentially costly in the short-run and mostly likely to be ineffective in the long-run, as technology is likely to find ways around potential regulatory barriers. Erecting walls against parallel importing seems regressive, since the value of having an exclusively localised market for the domestic copyright holder is likely

⁶⁷ See, for example, NZIER *Parallel Importing: A Theoretical and Empirical Investigation* (Report to Ministry of Commerce, Working Paper 98/4, February 1998) and NZIER *Parallel Importing Review: The Economic Effects of Lifting the Ban in NZ* (Report to the Australian Federal Government, February 2000).

⁶⁸ This may not sit entirely well with domestic developments in the United States, which are questioning this territoriality approach. See *Kirtsaeng v John Wiley & Sons* 654 F 3d 210, 212–213 (2d Cir 2011) in which the defendant imported textbooks and resold them in the United States. Both the trial court and the Court of Appeal found there was a copyright infringement. An appeal to Supreme Court was heard on 29 October 2012 and, at the time of going to press, the Supreme Court has just issued a decision in favour of the importer, Kirtsaeng. The central issue is interpretation of § 602(a)(1) of the Copyright Act (US), which prohibits importation of a work “without the authority of the owner” of the copyright. Under the same statute, at § 109(a), is what is known as the first-sale doctrine, which allows the owner of a copy “lawfully made under this title” to sell the copy without permission of the copyright owner. The central issue is, therefore, how these provisions apply to a copy that was made and legally purchased abroad and then imported into the United States. See also *Costco Wholesale Corp v Omega, SA*, 131 S Ct 565 (US 2010).

to diminish further as technology advances. To prevent parallel importing of copyright goods is, thus, counterproductive and potentially expensive. It is in the trans-Tasman interest not to do so in the TPP negotiations. It could be argued that what New Zealand and Australia are likely to give up by signing an agreement with parallel importing restrictions built into it, will arguably be relatively smaller and getting smaller as time goes on. But it is not so simple, because it is also likely to impose unnecessary costs and arguably discourages the adaptation of copyright industries to new business models. Additionally, within the United States there is, at the time of writing, litigation before the Supreme Court which may change the domestic rules on parallel importation. It would not be desirable for the United States to relax its rules for its own benefit, while strengthening parallel importing rules abroad.

Appendix: Parallel Importing

We examine the relevance of parallel importing restrictions on New Zealand through a cost-benefit lens to further understand:

- (1) the impact of removing parallel import restrictions in New Zealand given a single economic market with Australia;
- (2) the relevance of parallel import restrictions in a globalised world; and
- (3) the implications for trade agreements with parallel importing restrictions.

A4.1 What is parallel importing?

Parallel importing involves the sourcing of legitimate copyright goods for re-sale through distribution channels other than the authorised copyright owner.⁶⁹ There are a number of situations which may amount to parallel importing, but which potentially raise different issues. These situations include where:⁷⁰

- (a) a good is exported, then imported back into the originating country;
- (b) unauthorised imports are competing with domestic goods; and
- (c) unauthorised imports are competing with authorised imports.

Unauthorised imports are legitimate copies, but they enter the country through other than the authorised channel. The third scenario is the most common case of parallel importing.

By lifting the restrictions governing parallel imports, government's objectives are designed to change the way market participants behave, that is, to act more

⁶⁹ We focus on copyright goods; but note that New Zealand also allows parallel imports of trade marked goods. For full discussion of New Zealand's law in this area see Susy Frankel *Intellectual Property in New Zealand* (2nd ed, LexisNexis, Wellington, 2011) at 84–112. For the Australian provisions see Mark Davison, Ann Monotti and Leanne Wiseman *Australian Intellectual Property Law* (2nd ed, Cambridge University Press, Cambridge, 2012) at 157–161.

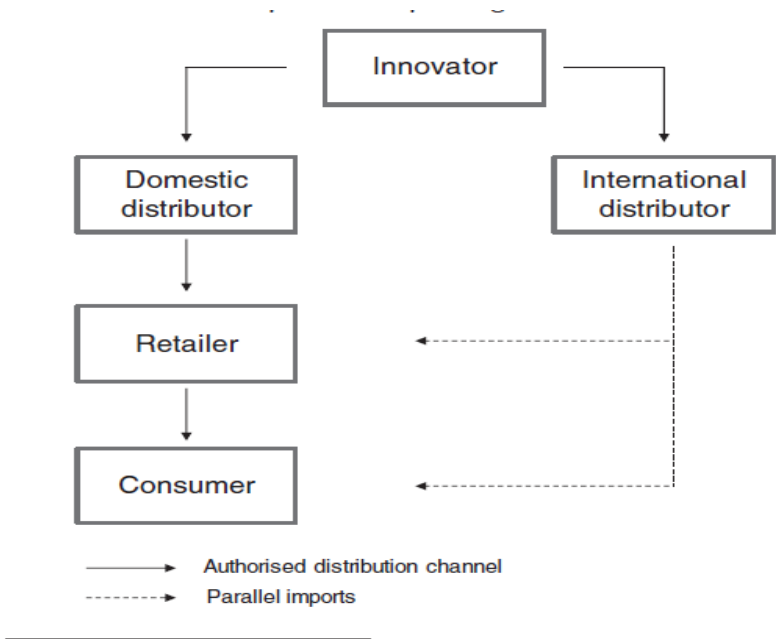
⁷⁰ J Chard and C Mellor "Intellectual Property Rights and Parallel Imports" (1989) 12(1) *World Economy* 69 at 70; see also NZIER *Parallel Importing: A Theoretical and Empirical Investigation* (Report to Ministry of Commerce, Working Paper 98/4, February 1998) at 1.

competitively, thereby reducing prices and improving consumer welfare. Indeed, the prime initial political motivation for changing the laws in New Zealand to allow for parallel importation was to make sure New Zealand consumers had access to cheap cars imported from Japan.⁷¹

A parallel importing restriction allows the copyright holder or innovator to determine the mechanism of distribution for their product within a country. This generally means there is a single legitimate channel for the distribution of the copyright owner’s or innovator’s goods for resale; that is, there is an exclusive distributor. The implication is that they control the supply of goods onto the market, so as to affect prices received and the economic surplus they receive from their sales.

Figure 4.1 provides a simplified illustration of the chain of supply for imported goods. Where there is a ban on parallel importing, the basic structure will resemble that on the left-hand side of the diagram, but the lifting of the ban introduces new opportunities for direct supply from international distributors as illustrated on the right-hand side. Other variations may include having several authorised distributors within a single market, or there may be a wholesaler between the distributor and the retailer.

Figure 4.1: Market structure with parallel importing



Source: NZIER (1998)⁷²

⁷¹ See Susy Frankel “A Brief Perspective: The History of Copyright in New Zealand” in Brian Fitzgerald and Benedict Atkinson (eds) *Copyright Future Copyright Freedom* (Sydney University Press, Sydney, 2011) at 76–77.

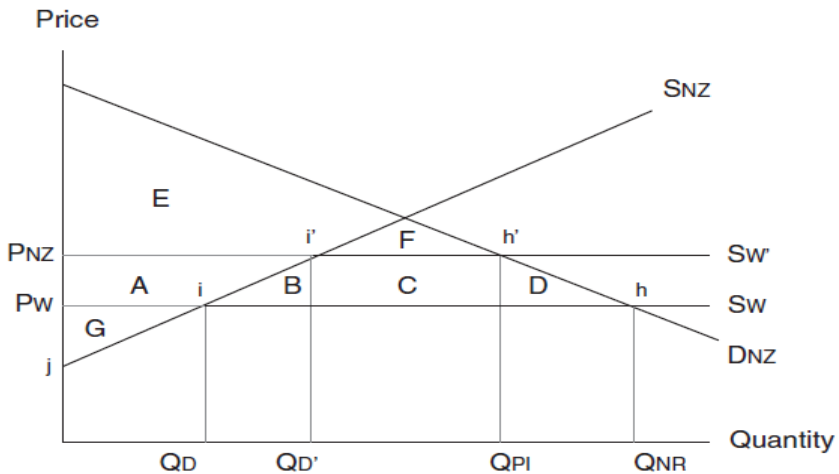
⁷² NZIER *Parallel Importing: A Theoretical and Empirical Investigation* (Report to Ministry of Commerce, Working Paper 98/4, February 1998) at 7.

Welfare theory (in which “welfare” is defined as the sum of the consumer and producer surplus) is one way of examining the economic effects of removing parallel importing. Consumer surplus is the value received by those consumers who would be willing to pay more for a good than the market price they pay. In Figure 4.2, this is represented by the demand curve,⁷³ but above the equilibrium price of the good. Producer surplus is the extra value received by those producers who would be willing to sell a good for less than the market price they receive. It is represented by the area above the New Zealand domestic supply curve⁷⁴ (which represents the production cost of the good), and below the equilibrium price of the good. With parallel importing the consumer welfare is equal to areas A, B, C, D, E and F. Producer welfare is area G making total welfare areas A, B, C, D, E, F and G.

The impact of restricting trade through banning parallel importing is also illustrated in Figure 4.2. The introduction of parallel importing restrictions shifts the supply faced by New Zealand consumers from S_w to S_w' (a move from j, i, h to j, i', h'). New Zealand can still buy as much as it wants but has to pay a higher price (PNZ). The new equilibrium point is h' where consumers pay P and Q^{PI} . Domestic production is Q^D while imports fall from $Q^D - Q^{NR}$ to $Q^D - Q^{PI}$.

Consumers have lost part of their surplus. The loss of surplus equates to areas A, B, C and D. Area C is transferred to foreign producers. Area B is the extra cost to the economy of making goods at home that could have been imported more cheaply and area C is a loss to consumers. Areas B and D are deadweight losses to the economy as a result of the import restriction. While area A appears to be a simple transfer from domestic consumers to domestic producers it could also signal further deadweight losses to the economy. This analysis is static and does not take into account dynamic impacts of the welfare losses.

Figure 4.2: Welfare effects of trade restrictions on New Zealand domestic market



⁷³ The demand curve is downward sloping to reflect a diminishing marginal consumption benefit.

⁷⁴ The supply curve is upward sloping to illustrate increasing production costs at the margin.

This analysis takes no account of innovation within the industry and the ongoing upheaval it causes. Re-casting Figure 4.2 to take into account the impact of the Internet gives a different picture of the industry.

As consumers have become more familiar with the Internet, book selling sites have made major inroads into the book market, not just with products but also innovations such as e-readers which have further reduced the price of books. This has caused the supply curve to flatten out (that is, to develop characteristics more like a commodity product). In Figure 4.3 we show both the Australian and New Zealand markets and the potential impact of new Internet-based business models. In this stylised model, New Zealand, because it has already introduced parallel importing, has a supply curve downward and to the right of Australia. As Internet trading becomes more popular the supply curves of both nations flattens out and moves further to the right. This is shown in Figure 4.3 as a movement from SNZ and SA to SNZ&A Internet. The competition has driven prices down to PA&NZ. Note that Internet prices are lower than parallel imported product prices paid by New Zealand. This is because Internet business models offer a wider range of products and prices than a retailer/wholesaler who is parallel importing a narrower range of products at a narrower range of prices.

The change in buying habits by consumers has had a major impact on the way products are now supplied to consumers; for example, the demise of the high street book store has been dramatic over the past few years, book publishers are now considering further rationalisation,⁷⁶ and even paper mills are cutting back production.⁷⁷ Not only has the price fallen but the amount of books supplied has also increased (SNZ and SA to SNZ&A), increasing quantities supplied to Q!

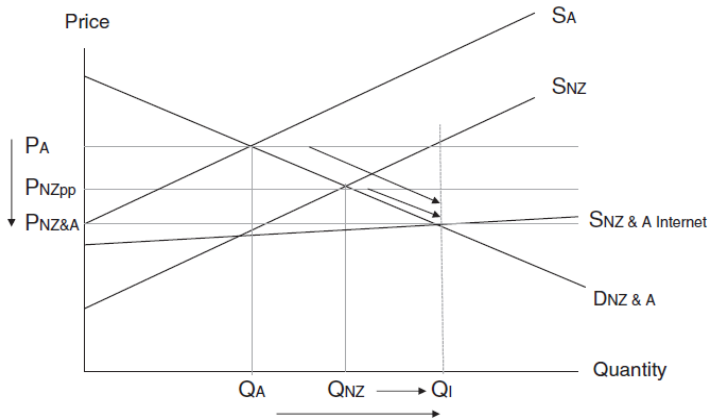
While this is a stylised representation it shows that Australia has a bigger adjustment cost to make since prices fall further and quantities increase by a larger amount.

Figure 4.3: Welfare effects of Internet trading on both the Australian and New Zealand market

⁷⁵ NZIER *Parallel Importing: A Theoretical and Empirical Investigation* (Report to Ministry of Commerce, Working Paper 98/4, February 1998) at 10.

⁷⁶ Random House and Penguin are merging see, for example, "Penguin Random House Merger Confirmed" *The New Zealand Herald* (New Zealand, 30 October 2012).

⁷⁷ See, for example, Jamie Gray "Paper Mill Confirms Plans to Halve Production" *The New Zealand Herald* (New Zealand, 10 September 2012).



A4.2 Economic effects of removing parallel import rules

Part of the economic rationale for protecting copyright is the ability to capture the maximum return from the risks incurred in creating and launching a new product.⁷⁸ Consumer choice could be restricted, and investment in innovation and new products could be sub-optimal, if this ability is weakened by parallel importing undermining the ability to price discriminate to fully exploit each individual market. It is recognised, however, that another goal of copyright law is promoting access to new products, and laws that too stringently protect right-holder interests (such as strong parallel import rules) may undermine that goal. Thus, a balance has to be struck between the competing goals.

Indeed, there are various different approaches that can be adopted to parallel imports.⁷⁹ For instance, at one extreme, it is held that the innovator's copyright on a product is exhausted when it is first sold into a market, so the copyright owner cannot expect additional royalties if it is subsequently sold into other markets. This is the position currently adopted in New Zealand. At the other extreme, there is the opposing view that innovators have a right to earn a distinct return for the use of their product in each separate market, by exploiting the differences in demand in each market. In between these two extreme positions are a number of intermediate positions, including the rather clumsy compromise that currently exists under Australian law regarding books.

It may not matter what law Australia and New Zealand apply, however, because the underlying technologies of sectors which are influenced by parallel importing are driving change. In purely economic terms, New Zealand is likely to be in a better position to adjust to the changing markets, since parallel importing means that the prices in sectors being parallel imported are closer to world prices. Therefore, the adjustment process in Australia in these sectors will be a lot harsher (as shown in Figure 4.3).

⁷⁸ See NZIER *Parallel Importing: A Theoretical and Empirical Investigation* (Report to Ministry of Commerce, Working Paper 98/4, February 1998) at 13.

⁷⁹ See NZIER *Parallel Importing: A Theoretical and Empirical Investigation* (Report to Ministry of Commerce, Working Paper 98/4, February 1998) at 21–22.

In economic terms, property rights of any sort should only emerge where it is worthwhile for them to do so; that is, the value of the rights exceed the transaction and other costs of establishing them. Copyright confers primarily private benefits, but it is difficult to specify private supply contracts to enforce the ability to price discriminate between markets. This argument is insufficient justification for the state to intervene with trade restrictions unless there is some other demonstrable public benefit, given the deadweight losses in consumer welfare which are likely to result (areas B and D in Figure 4.2). At a global level, an inability to exploit copyright may have an affect on creativity and innovation incentives, but the admission of parallel imported products or the inroads made by the Internet business models into a small country accounting for only a fraction of global sales, is unlikely to have much effect on the investment decisions of international innovators.

More significant consequences of lifting parallel import restrictions are the implications for trade relations between the country that does so and its source countries, or retaliatory withdrawal of some copyright products from the market as a warning to other larger countries against lifting their restrictions, an effect which may become apparent in surveying the changes in particular markets. There is little evidence that this has occurred in New Zealand, however, and the development of the Internet business models makes it more unlikely.

It is also worth noting that competition law will exercise a degree of restraint over refusals to supply; for instance, where the conduct involves a misuse of market power or anti-competitive purpose.⁸⁰

A4.3 Looking back: the benefits of parallel importing

Prior to the lifting of New Zealand's ban on parallel importing, a number of effects were expected to result from the law change. These included observable increases in competition for the affected product markets, manifested in lower prices, a greater diversity of sources, distributors and products, reduced search costs, and more responsive service from the suppliers and distributors. Further consequences thought likely included greater market segmentation and product differentiation, in particular, with unbundling of product and after sales services, as distinct from monopolistic tendencies to gold-plate products with added services which most consumers may neither want nor use. There might also be some changes in quality of goods, where ostensibly the same product is released onto different markets with different specifications; but potentially inferior quality of parallel imported goods is not necessarily a problem per se, unless the consumer is misled into believing they are purchasing a product of higher quality than it is, an effect which could be minimised by labelling and laws against passing off.

These are all effects which might be observed in the market in the relatively

⁸⁰ See *Universal Music Australia Pty Ltd v Australian Competition and Consumer Commission* [2003] FCAFC 193, (2003) 131 FCR 529, (2003) 201 ALR 636. Although in that case the defendant music companies were held not to have misused market power for the purposes of the then s 46 of the Trade Practices Act 1974 (Cth) (now the Competition and Consumer Act 2010 (Cth)), their efforts to withhold supply to Australian retailers who dealt in parallel imported music were found to be an exclusive dealing in breach of s 47 of the Act.

short term. There are also a number of less visible effects possible from the lifting of the ban.

(a) Pricing strategies

The ability of an authorised distributor to control the flow of a particular copyright good onto the market clearly affects the pricing strategies open to the distributor, creating a degree of market power which allows it to act more as a price maker than a price taker. Parallel imports weaken this market power and benefit consumers in the short term, but also reduce the options for local producers.

Given a monopoly in the supply of a local artist's or author's work in the domestic market, a publisher may try to expand export sales by dumping their work at lower prices in overseas markets than in the domestic market, where demand is likely to be more inelastic. Parallel importing undermines such price discrimination, which requires the monopoly to be enforceable and proof against foreign wholesalers arbitraging back into the home market at a lower price.

Another argument sometimes put forward for restricting parallel importing is that less profitable emerging (local) artists can be cross-subsidised out of the economic rents earned by publishers on their authorised imported copyright works.⁸¹ While it is hard to verify this without knowing the counterfactual – how much would publishers invest in emerging artists in the absence of super-profits – there are reasons to expect most rent is expropriated by overseas copyright owners. Artists have a unique brand, whereas there is competition among potential agents to be authorised distributors in various markets, so if there are rents to be made the overseas copyright owner is in a strong bargaining position to increase the supply price it offers to the local distribution agent.

(b) Free-riding on promotional efforts

When a parallel importing restriction is lifted, domestic agents may fear that parallel importers will free ride on their investment in promotional and marketing activity, their likely reaction being to reduce such activity or target it more closely. This may lead to information deficiencies and restriction of consumer choice. A similar issue emerges in after-sales service, where authorised distributors may feel obliged to complete warranty repairs on parallel imported products for which they have received no revenue, in order to protect the reputation of the brand. Such changes in pre- and after-sales care may be detectable in surveying the changes in particular markets.⁸²

(c) Piracy and theft of copyright material

The sale of pirated products undermines the incentive to innovate by reducing the return received by the innovator. A system of exclusive distribution supported by a

⁸¹ This argument was put forward by a number of local book publishers in Australia's consideration of parallel importing.

⁸² Refer to discussion in Australian Productivity Commission *Restrictions on the Parallel Importation of Books* (Research Report, June 2009).

parallel importing restriction improves monitoring of the entry and sale of goods, because there is only a single authorised distributor. If a copyright good appears outside this distribution channel it is either a pirated copy or an unauthorised parallel import, but it may be difficult to distinguish between them. So parallel imports could increase the risk that pirated products are introduced, an effect which could be investigated through incidents reported to the New Zealand Customs Service. However, there are a number of safeguards in New Zealand law to avoid this. One is that the burden of proof for establishing what is a parallel import is on the copyright owner, rather than the customs official having to make the decision.⁸³ This has proved largely successful. It is also possible to argue that in the context of a small economy the non-availability of “cheap” parallel imported alternatives may incentivise local piracy to supply the market. If affordable parallel imports are available that seems to have been less likely.

(d) Summary

Arguably, in New Zealand the welfare effect of lifting the ban on parallel importing has involved a larger gain to consumers relative to the loss of profits to producers. There is a trade-off between the short-term static gains to consumers, the longer term dynamic effects on incentives to innovate, and the availability of products.

A4.4 Costs and benefits of parallel importing

(a) Counterfactual

The counterfactual is New Zealand having parallel importing restrictions. Therefore, we have focused on the value differences between the with and without parallel importing restrictions. On the cost side, this means examining the impact on the domestic industries where parallel importing occurs. On the benefit side, the impact is on competitive behaviour and price in industries where parallel importing occurs.

The counterfactual also needs to consider the growth of the Internet. In 1998, the impact on parallel importing was negligible. By 2012, the Internet impact has been considerable; therefore the parallel importing regulations have significantly less strength.

This scenario becomes the baseline from which we measure changes that occur in New Zealand. The following sections set out the findings from various studies.

(b) Approach to assessment and affected parties

This is a partial cost-benefit analysis in the sense that some effects will be too difficult to quantify with any reliability. For instance, it may well be that there is a benefit to society from subtle changes in business behaviour as the sector becomes competitive. While we can identify these benefits, it is not feasible to value them in economic terms. For practical reasons we have concentrated on illustrating the

⁸³ See Copyright Act 1994, s 35, as amended by Copyright (Parallel Importation of Films and Onus of Proof) Amendment Bill 2002.

quantified effects from studies and describe in a qualitative way the effects that cannot be readily quantified or valued.

From the literature, we consider the following groups to be important:⁸⁴

- (1) *Consumers*. The main benefits are the reduction in prices for consumers as sectors become more competitive.
- (2) *Importers*. Benefits also accrue to importers of products that are parallel import products since they have potential to improve sales and market share.
- (3) *Domestic copyright holders*. The main costs are faced by domestic copyright holders since their monopoly on the domestic market is broken by parallel importing. There is potential for them to lose market share and profits since they are likely to have to drop prices to meet the competition.
- (4) *Domestic producers*. Whether the domestic producers have costs or benefits is unknown. The tentative evidence is that domestic producers are not affected by parallel importing.

(c) *Benefits*

There have been a number of studies on the impact of removing parallel importing restrictions on the New Zealand economy. Mostly these studies have focused on the consumer and producer costs and benefits and the impact on innovation within each sector. The literature comes to remarkably similar conclusions: the net impact of removing parallel import restrictions would likely to be positive. Because these studies have been conducted in New Zealand and with New Zealand data we have very high confidence that the benefits apply to the current policy setting.

The NZIER (1998) examined books, new and used motor vehicles, and CDs.⁸⁵ For motor vehicles, the study found that some price reductions could be attributed to the increase in competition from the reduction in import restrictions associated with used cars. Over the period 1985–1996, the number of domestically assembled new vehicles dropped dramatically.

Books prices in New Zealand were compared with those in the United States, United Kingdom and Australia over a period in which parallel importing restrictions were in place. Under differing assumptions it was shown that book prices, on average, were higher. For CDs the picture was mixed when a limited range of New Zealand's prices were compared with the United States, United Kingdom, Germany and Australia.

NZIER (2000) examined the economic impact on three specific markets: books,

⁸⁴ Network Economics Consulting Group *The Impact of Parallel Imports on New Zealand's Creative Industries* (Ministry of Economic Development, Wellington, 2004); NZIER *Parallel Importing: A Theoretical and Empirical Investigation* (Report to Ministry of Commerce, Working Paper 98/4, February 1998); NZIER *Parallel Importing Review: The Economic Effects of Lifting the Ban in NZ* (Report to the Australian Federal Government, February 2000); Australian Productivity Commission *Restrictions on the Parallel Importation of Books* (Research Report, June 2009).

⁸⁵ NZIER *Parallel Importing: A Theoretical and Empirical Investigation* (Report to Ministry of Commerce, Working Paper 98/4, February 1998).

music CDs and computer software.⁸⁶ It compared an international price analysis to one conducted by NZIER prior to the amendment.

As a result of the withdrawal of parallel importing restrictions, New Zealand prices for books and CDs had fallen to world prices. Some retailers' negotiating power with suppliers strengthened, partly due to consolidation of buying power in some markets, but also to the threat of parallel importing maintaining competitive discounts. Minor efficiency gains on the part of some distributors were reported.

Network Economics Consulting Group (2004) undertook an investigation into the impact of parallel importing on the creative sectors in the New Zealand economy (sound recordings, books and computer software). They found little negative impact on investment in the sectors as well as reduced retail prices.⁸⁷

Chen and Png (2004) examined CD prices in 10 jurisdictions between 1990 and 1999. In some of these jurisdictions (including New Zealand) parallel importing restrictions had been removed. In jurisdictions that removed parallel importing restrictions CD prices dropped marginally (USD 1).

Law and Economics Consulting Group (2007) examined books, computer software, film, and music. They found little evidence that removing parallel importing restrictions caused harm to sectors affected by parallel importing.⁸⁸ Further, in 2003, the government introduced a nine-month rule, restricting film imports until nine months after they had been first released. The LECG recommended that this rule should be reduced to six months.

The Productivity Commission (2009) in Australia recommended that all remaining parallel importing restrictions be repealed. As an illustration, the report's findings showed that Australian book prices were, on average, 35 per cent higher than in the United Kingdom and United States.⁸⁹

Removing parallel importing restrictions leads to lower prices and little impact on domestic innovation.⁹⁰ The evidence documented in these reports suggests that:

- (1) real CD prices in both Australia and New Zealand had fallen dramatically;
- (2) parallel import restrictions in Australia resulted in book prices that were 10 per cent higher than they otherwise should be;
- (3) parallel importing had little impact on trans-Tasman music industries (sales of

⁸⁶ NZIER *Parallel Importing Review: The Economic Effects of Lifting the Ban in NZ* (Report to the Australian Federal Government, February 2000).

⁸⁷ Network Economics Consulting Group *The Impact of Parallel Imports on New Zealand's Creative Industries* (Ministry of Economic Development, Wellington, 2004).

⁸⁸ Law and Economics Consulting Group *MED Parallel Importing Review: Impact Upon Creative Industries* (November 2007).

⁸⁹ Australian Productivity Commission *Restrictions on the Parallel Importation of Books* (Research Report, June 2009).

⁹⁰ Network Economics Consulting Group *The Impact of Parallel Imports on New Zealand's Creative Industries* (Ministry of Economic Development, Wellington, 2004); NZIER *Parallel Importing: A Theoretical and Empirical Investigation* (Report to Ministry of Commerce, Working Paper 98/4, February 1998); NZIER *Parallel Importing Review: The Economic Effects of Lifting the Ban in NZ* (Report to the Australian Federal Government, February 2000); Australian Productivity Commission *Restrictions on the Parallel Importation of Books* (Research Report, June 2009).

singles by New Zealand artists had risen eightfold and employment remained stable in music-related employment categories);

- (4) the number of authors in New Zealand has remained stable after increasing just after the introduction of parallel importing in New Zealand;
- (5) the temporary ban of imports of new motion pictures has not had a positive domestic impact in New Zealand (attendance at cinemas has fall since 2003 and the length of the format release window has narrowed); and
- (6) little impact has been felt by the computer software industry with the introduction of parallel importing.

These findings are summarised in Table 4.6, following.

Table 4.6: Key findings from the literature

	Industry characteristics	Industry behaviour	Impact
Books	Huge change with the development of e-books	Intense competition as transaction costs drop. Ability to restrict PI eroded because of e-book options	High St book shops consolidating as book purchases drop. Cost of e-books \$8 less than sold by retailers. Little impact on NZ book production
Music and sound recordings	Huge change with the introduction of digital formats	Digital products dominate. CD stores moved out of the High St and consolidated	CD prices experience a 30 per cent fall. Little evidence that it has impacted on local artists (royalties still growing)
DVDs	Nine-month rule banning PI after first release	Little impact since time between US and NZ release dates narrowing	DVD rental prices falling steadily 25 per cent since 2006 (SNZ)
Computer Software	Mostly domestic sales from imports. Some exports by NZ firms	Huge growth as market expands. New start-ups appearing with export growth increasing as a percentage of total services exports	PI having little impact on growth (NECG, 2004 & LECG, 2007)

Source: NZIER (1998), (2000); NECG (2004); LECG (2007)

(d) Costs

In each of the studies examined, the cost of removing parallel importing restrictions is seen as minimal. However, the key problem with making these judgments is the difficulty in isolating the removal of parallel importing restrictions from other factors.

For example, the state of the New Zealand dollar can prove either unfavourable or favourable for potential importers, and can inhibit or favour significant volumes of parallel imported products. The growth of the Internet has exploded over the period and this, combined with general market liberalisation, has contributed to an already increasingly competitive environment. In most cases, employment in the affected sectors has either risen or remained stable.

Claims of an increase in pirated products entering the country are hard to substantiate. There is evidence that the manufacture of illegitimate copies of music CDs and software was on the rise anyway, with low-cost replication aided by improved technology. Although penalties for importing pirated goods have been raised, it is difficult to gauge their impact.

A4.5 Summary

(a) Parallel importing has been positive for the New Zealand economy

As noted above, removing restrictions on parallel imports are generally thought to be welfare enhancing, certainly by economists. All studies point to the benefits of removing parallel importing restrictions. These are mainly in the form of price reductions and in some cases, a better quality service as competition increases.

Apart from the car industry, which suffers from lack of scale in the New Zealand context, the economic activity and innovation impact on the affected sectors are marginal. This is because of the fast growth and large size of these markets, the economic behaviour in which products are delivered to market (the business models) and the ease with which producers can connect with consumers has all changed dramatically.

Despite the welfare enhancing benefits associated with the removal of parallel importing restrictions the relevance of parallel importing is declining. This is because the different pathways that consumers can now use to access products and services globally are increasing. Books, CDs, DVDs and computer software can all be bought over the Internet at competitive prices, and even in Australia parallel import restrictions do not affect such conduct.⁹¹ There is also more information available that can assist those wanting to purchase goods and services that are not directly controlled by the domestic copyright holder.

How long these developments will take; how significant their effect will be; what they will mean for authors, especially local authors as well as retailers; and whether it is desirable in the end to have communities such as Australia and New Zealand increasingly dependent on the Internet for purchases of goods are, of course, all questions that still need to be considered – and they take us well beyond the scope of this paper.

⁹¹ The gap between world prices and domestic Australian and New Zealand prices for CDs, books etc has closed dramatically since 1998: NZIER *Parallel Importing Review: The Economic Effects of Lifting the Ban in NZ* (Report to the Australian Federal Government, February 2000). While Australian book prices are still 10 per cent above New Zealand retail prices, New Zealand prices are much closer to world prices.

(b) Implications for trade agreements

It is possible to conclude that the impact of removing parallel importing restrictions may be less economically important than 10 years ago. This conclusion may have implications for trade agreements where trade partners are pressing for the re-introduction of parallel importing restrictions (see discussion above re the trans-Pacific partnership negotiations).