

writing, signed by or on behalf of the owner or prospective owner of EL rights, authorising the licensee, to the exclusion of all other persons, to do an act that, under this Act, the owner would, but for the licence, have the exclusive right to do".

The exclusive licensee has the same rights of action, and is entitled to the same remedies under clause 27 as the owner of the EL rights. However, the exclusive licensee may not exercise those rights against the owner of the EL rights. Further, the rights and remedies of the exclusive licensee are concurrent with

the rights and remedies of the owner of the EL rights (clause 30).

#### *Consequential Amendments*

The definition of "artistic work" in sub-section 10(1) of the *Copyright Act* will be amended to exclude circuit layouts from that definition.

The *Designs Act* 1906 (Cth) will be amended. Specifically, the definition of "article" in sub-section 4(1) will be amended to exclude an integrated circuit, or part of an integrated circuit within the meaning of the Bill, or a mask used to make such a circuit. In addition, the

registration of existing designs applicable to an integrated circuit, part of an integrated circuit, or to a mask used to make such a circuit will not be renewed.

Section 51(3) of the *Trade Practices Act* 1974 (Cth) will be amended to include EL rights. That section provides that anti-competitive conduct does not occur simply because of the existence of a licence in respect of patents, trade marks, designs and copyrights.

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## THE IMPORTATION PROVISIONS OF THE COPYRIGHT ACT 1968

*An Analysis of the Computer Software Findings of the Report of the Copyright Law Review Committee*

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In August 1983 the then Attorney General, Senator Gareth Evans, referred to the Committee the following questions:

- (a) whether any changes should be made to the importation provisions of the Copyright Act, and
- (b) what amendments should be made to Section 135 of the Act which provides for

customs seizure of printed works, the importation of which is objected to by copyright owners.

### **Industry Background**

Before considering the submissions received by it the Committee analysed briefly the short history of the protection of computer software. The Committee recognised that the uncertainty which surrounded

the issue of copyright protection for computer software was resolved in part by the 1984 amendments to the Copyright Act. The effect of the amendments to the Act's definitions made it clear that copyright will subsist in a program notwithstanding that it is stored in a form which is only machine readable. However, the Committee recognised that protection of computer software remains a vexed issue despite the 1984 amendments.

Australian legislation does not, for example, answer the question of who is the author of a work created by the use of a computer such as a computer aided design. The status of "semi-conductor chips" is an issue which the Committee recognised as having particular relevance to the importation question.

A semi-conductor chip is an "integrated circuit" being a circuit in which active elements, some or all of the interconnections and any passive elements are integrally formed in and/or on a piece of material and which is intended to perform an electronic function. It may be protected under Australian law, because the design from which the chip is constructed is protected as an artistic work under the Copyright Act as an article embodying a three dimensional reproduction of an artistic work. If a chip is not such an article, a memory chip would at least be affected by the operation of the Copyright Act in its application to a computer program stored in such a chip.

The World Intellectual Property Organisation (WIPO) is currently considering a draft Treaty on the Protection of Intellectual Property in respect of Integrated Circuits. In the present draft (April 1987), "microchips" (manufactured integrated circuits) which have been put on the market by or with the consent of the proprietor, shall not be

prevented from being imported. The Committee noted that in the event that Australia accedes to this treaty, the Copyright Act prohibition against parallel importation of programs, unless amended, could be used to defeat the intended free importation of legitimate memory chips.

However, such free importation will in fact be achieved if the Circuit Layouts Bill 1988 is enacted in its present form. Under clause 24(2) of that Bill –

"... where the commercial exploitation of an integrated circuit containing a copy or adaptation of a work (being an integrated circuit made in accordance with an eligible layout) is not, under this section, an infringement of the EL rights in the layout, that commercial exploitation is not an infringement of the copyright in that work unless the making of that copy or adaptation was an infringement of that copyright."

The Circuits Layout Bill effectively only gives to the owner of the EL rights a first sale right. If an eligible layout is commercially exploited in Australia or elsewhere by or with the licence of the owner of the EL rights, it is not an infringement of the EL rights in the layout: clause 24(1). Commercial exploitation includes sale and importation for the purposes of sale: see clause 8.

Accordingly, if the Bill is enacted in its present form, it will abolish the existing restraint on parallel importing of all computer programs (literary works) embodied in integrated circuits. This is not however, the result which the Committee recommended.

### **Consideration by the Committee of Software Issues**

#### **Australian Information Industry Association (AIIA) Submissions**

The Committee received representations from the AIIA in support of the retention of Sections 37 and 38 in relation to computer software. The AIIA also requested the extension of Section 135 procedures to cover all copyright works, including software, and to delete the requirement that the works be "printed copies".

It was claimed that the Australian software industry is based very much on the marketing and support of overseas produced computer software. Furthermore, competition exists in the software industry because software houses compete with each other, at least insofar as applications' programs are concerned, by marketing programs which represent alternative choices for the consumer.

The AIIA claimed that Australia needs access to the

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## APOLOGY

The Society's December Media release promoting the gala end of year meeting incorrectly referred to the decision in **Ozi-Soft Pty Ltd v Wang and Computer Mate Products (Aust) Pty Ltd**. The correct case title is **Ozi-Soft Pty Ltd v Mr Michael David Wong and Computer Mate Products (Aust) Pty Ltd**. The Society apologises for any inconvenience or distress this may have caused Wang Australia.

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*("Copyright Act" continued)*

best overseas software and that this might be endangered if copyright protection is withdrawn. It was further claimed, that protection against pirated software would be considerably reduced without the protection of territorial copyright. The AIIA Submission stated:

"The development of software is a labour intensive activity representing the creative efforts of highly qualified and skilled authors. More importantly, it is extremely costly to create and compile. However, once obtained it is cheap to produce. Unless some adequate form of protection exists against illicit reproduction, developers will be understandably reluctant to

invest the millions of dollars required for the development of software. "The AIIA argued that parallel imports could be sold more cheaply than programs supplied through the licensee because other importers would not have to carry the costs of marketing and servicing, which together represented high investment costs for the Australian licensee. Further, support services such as education, training and product enhancement, indispensable to the efficient performance of the product supplied, could only be provided if the exclusive licensee was assured of some measure of protection as an incentive to establish and develop these. The prevention of parallel imports ensures a secure and relatively stable market environment in which the considerable high investment costs associated with marketing and supporting software products can confidently be undertaken by a distributor or licensee.

The basis of the AIIA's submission in relation to section 135 of the Act was that the section, which by its own terms restricts its operation to any "printed copy" of a work, does not cover programs contained in, for example, magnetic disks. The Association urged that the Act should be amended to make clear the applicability of section 135 to all works and subject matter protected by copyright. The Association further submitted that section 135 should be amended so as to allow exclusive licensees to

take action under the Section.

Under the section, as it is presently worded, only the owners of the copyright may avail himself or herself of the procedure provided by the section. This is because section 119, which covers the rights of exclusive licensees, only gives licensees such rights in relation to actions for infringement. The AIIA submitted that Section 135 could be a practical and effective tool with which exclusive licensees of software could safeguard their investment.

## Consumer Submissions

Not surprisingly, the PC Users Group Inc submitted that the parallel importation of legitimate copies of computer software should be allowed. This Group made the following submissions:

1. The provisions of the Act allowed enforceable monopoly arrangements to be set up. This resulted in high prices. An example was given of a computer retailer importing a software package and selling it for \$850 (with a 35% profit) compared to the \$2,000 price which the licensed importer was selling it at the same time.
2. Many customers do not need support, but must pay for it under present arrangements.
3. There can be no importation at all if the exclusive agent doesn't

want to market the product in Australia e.g., release of a new product by an overseas company but continued sale of old stocks in the "colonies".

4. If the exclusive agent refuses to sell in Australia this can significantly affect the ability of Australian industry to develop add-on products both for the Australian market and for export.

A Western Australian company, D-Tech Pty. Limited, in its submission, referred to problems of overpricing which, it claimed, were caused by market protection afforded by the importation sections.

### Summary of Issues

The Committee summarised the issues before it as:

1. pricing; and
2. availability.

The Committee clearly stated however, that it had not received any information which would establish that software distributors had set exceptionally high margins on imported products, or that access to foreign software products had been hindered by supply inefficiencies. The Committee acknowledged that the potential exists for price and supply problems under the current import provisions and it did not dispute that these problems may have occurred.

The Committee accepted there were factors unique to

the protection of computer programs which suggested that they should be treated differently to other copyright works. These were as follows:

1. The state of flux in which the whole issue of protection for computer software seems to be.
2. Some form of exhaustion of rights may be appropriate for computer programs because the traditional territorial division of copyright is presumed to have no part in the protection of semiconductor chips.
3. Computer programs have only been protected for three (3) years and they are still not protected in many countries. Business structures and practices have not evolved on the basis of territorial divisions.
4. The use and utility of incorporating computer programs into all sorts of other articles, eg, many household appliances. The Committee saw a similarity between this situation and that of liquor importers who are prevented from importing particular lines because the copyright in the label is vested in an Australian licensee: see the *Bailey's Irish Cream* case. The Committee noted that the potential for abuse where programs are incorporated into otherwise unprotected articles is evident. In this regard, the Committee noted that

the draft Treaty on the Protection of Integrated Circuits (noted above) does not extend protection to layout designs of integrated circuits, the creation of which is exclusively dictated by the functions of the integrated circuit to which they apply.

### The Committee's General Recommendations

The following recommendations were made by the Committee:

1. The sections of the Copyright Act should continue to apply to parallel imports, but subject to a number of important qualifications.
2. The import of an article should be permitted if that article is unavailable in Australia (the onus is on the importer to establish this).
3. Imports should also be permitted if the article is available in Australia but the importer has received a specific order in writing signed by the persons requiring it. The person must state that he or she does not require the article for trade or commerce (the onus of establishing these matters is on the importer).
4. An article is unavailable in Australia if the importer, after reasonable investigation, is satisfied

## APPLE WINS FIRST ROUND IN SOFTWARE COPYRIGHT CASE

Both Microsoft and Apple are claiming victory at the end of the first round of the user interface "look and feel" copyright case between the two companies. Apple also commenced proceedings against Hewlett Packard for breach of copyright associated with their user interface "New Wave".

The Wall Street Journal took the view that Apple won a "stunning first round victory" in this year old copyright suit, where Apple alleged that Microsoft and Hewlett Packard has misappropriated the "look and feel" of its Macintosh machines. Other commentators see the decision as being more neutral.

The law suit stems from allegations by Apple that Microsoft and Hewlett Packard violated copyrights that Apple holds on the way its popular Macintosh computers display information on a screen. This, of course, involves its

desktop operating environment which uses icons pull-down menus etc. The case is being heard in two parts. The first involves the construction of a licence agreement and the second involves the question of breach of copyright. It is in relation to this first limb that the San Francisco Federal Court Judge handed down his decision on 17 March 1989.

Microsoft had contended that the disputed "window" products were covered by a 1985 licence agreement with Apple. After a one hour Court hearing on 17 March 1989, Judge William Schwarzer rejected that argument. He decided that "the November 22 1985 settlement agreement, licensed Microsoft to use the visual display in windows 1.0 and the named application programs in current and future software products". Judge Schwarzer found that the licence agreement was limited to the early version of windows. "It is not

reasonable to construe the agreement as giving Microsoft an essentially open ended licence to use whatever visual displays its named software could generate". The Judge went on to say that it cannot be disputed that window 2.03 is significantly different from window 1.0. Hence, he found that the licence agreement "was not a complete defence to Apple's infringement claim with respect to windows 2.03".

It is these comments which have been expanded by Microsoft. Its Vice President, William Neukom said, "we intend to prove that the visual displays in windows 2.03 can be traced to the visual displays in the six products named in the licence, Microsoft innovations or expressions in the public domain. We have not infringed any Apple copyrights".

*Editors*

*("Copyright Act" continued)*

that the article cannot be obtained in Australia from the copyright owner, assignee or licensee within a reasonable time (to take into account the time which is reasonably required in the

industry for an Australian copyright owner to import or manufacture and market copies of the article).

5. The periods which will be considered to be reasonable will be prescribed by regulations.

6. An article is "available" in Australia if there is lawfully available an article which is substantially similar to that which the importer proposes to import. The Committee was unable to suggest a more precise