

Parallel Importation under the Circuit Layouts Act and the Copyright Act

A Puzzling Contrast in Approaches

by Mark Davison

The recent Federal Court decision in *Avel v Wells*¹ has some interesting implications for parallel importing of both circuit layouts and computer programs. It provides judicial authority for a few concepts that most accepted and authority for a few concepts that were not so clear.

This article seeks to perform two functions. First, it seeks to identify and explain the concepts enunciated in the decision. And second, it examines parallel importing in the computer industry generally in the light of those enunciated concepts.

Propositions

In the author's opinion, the decision in *Avel v Wells* stands for the following propositions:

1. Parallel importing of circuit layouts and integrated circuits is permissible. Most commentators already accept this point.
2. When programmable ROMs are involved, a circuit layout is 'made' when it is finally embodied in a fully customised programmed integrated circuit. That is when a programmable ROM is programmed. This is a new proposition.
3. Parallel importing of a computer program or a substantial part of it is permissible if the imported program or a substantial part of it is stored within an integrated circuit.
4. Parallel importing of copyright material associated with compu-

ter programs such as computer manuals is not allowed. This is not unexpected, and is line with usual copyright principles.

The Facts

The facts and main submissions of the case are set out in a case note in this issue of *Computers & Law*.² However, it may be useful to summarise the major arguments Avel ran to counter the operation of s24(2) of the Act:

1. Each individual integrated circuit on the PCB's (Printed Circuit Boards) only contained a part of a program, not the whole program. The response was quite simple - that for purposes of Copyright Act and the Circuit Layouts Act - there is no distinction between a work and a substantial part of the work. Section 24(3) makes this relatively clear. The integrated circuits contained substantial parts of the programs therefore there was no problem.
2. The second submission concerned the distinction between the ROMs and the PROMs - EPROMs and OTPROMs. The argument was that the ROMs contained a computer program when produced by the makers of these video games but the blank EPROMs and OTPROMs did not contain the relevant programs. They were, to put it crudely, added to the blank PROMs when the chips were finally customised by the makers of the video games. So, in effect, what Avel was arguing was the

relevant eligible layout was that used to create the blank PROMs produced by companies like Hitachi and others. These blanks did not contain the relevant programs and consequently s24(2) was not applicable.

One possible response could have been that the Act makes no mention of and imposes no requirement that the program be 'inserted' into the integrated circuit at the time of manufacture of the circuit.³ Consequently, the timing of the making of the integrated circuit would be irrelevant. However, the case seems to have been argued on the assumption that the copyright work must be incorporated in the integrated circuit at the time of its 'creation'.

A crucial issue really became what was the relevant circuit layout which was an eligible layout? Was it the layout used to create the blank PROMs or the ultimate master PROMs which were programmed and used to make multiple copies of the integrated circuits on the printed circuit boards?

Ultimate Decision

The relevant original circuit layouts were the master PROMs which were created by using the blanks and programming them. This gives rise to what at first may seem to be a strange proposition and that is that the fully programmed chip i.e. the integrated circuit and the original circuit layout may be one and the same. The first time that the relevant circuit layout came into existence was when a blank PROM was combined with the video game manufacturer's com-

puter program to create the Master chip which was used to create the multiple copies.

Our normal perception of a circuit layout is a two-dimensional representation of an integrated circuit which is used in various techniques to produce the integrated circuit. But the definition of circuit layout in s5 clearly contemplates the position that Justice Gummow took. Section 5 defines a circuit layout as:

'a representation, fixed in any material form, of the three-dimensional location of the active and passive elements and interconnections making up an integrated circuit.'

It makes no mention of the representation being two dimensional. The point is further emphasised when it is noted that this definition was inserted under the Law and Justice Legislation Amendment Act 1990 and that prior to that amending act the definition did expressly refer to a circuit layout being in two-dimensional form. Instead, it was,

'a plan comprising a two-dimensional representation,...of the three-dimensional material form...making up an integrated circuit'

The other point to make from a common sense perspective rather than just a literal interpretation of the legislation is that ROMs and PROMs are basically interchangeable and their actual use is determined by economic rather than functional considerations. Gummow J did, in fact, refer to this interchangeability in his judgment as supporting the proposition he espoused that the application of s24(2) should not ride on whether the integrated circuit in question is a ROM or a PROM.

Comment

So what can we say about the judgment? First of all the proposition that parallel importing of integrated circuits is lawful is clearly right and everybody knew that it was to be allowed from day one of the operation of the *Circuit Layouts Act*.

Second, the parallel importation of computer programs contained within integrated circuits is also clearly contemplated by s24(2). If we need any confirmation of that we can find it in the explanatory memorandum to s24(2) of the Act which says among other things that 'An integrated circuit which is a

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memory device, for example, may hold a copyright work in it.'

Similarly, I don't think there can be much quibbling with the proposition that an original circuit layout is made when a blank chip is programmed - otherwise, as Gummow J pointed out, the application of s24(2) will depend on distinguishing between different types of integrated circuits which perform identical tasks. The only problem I can foresee in his interpretation of the definition of a circuit layout is whether you can say that the Master chip is really a representation of the 'three dimensional location of the active and passive elements and interconnections making up an integrated circuit'. It seems to me that the Master chip is itself the actual three dimensional location of the active and passive elements and in-

terconnections making up an integrated circuit and I question whether something can be a representation of itself.

My doubts on the point are enhanced by sections such as s17 of the Act which defines the rights of the owner of an eligible layout as including - (a) copying the layout, directly or indirectly, in a material form; and (b) making an integrated circuit in accordance with the layout. It seems to me that (b) suggests a distinction between a layout and an integrated circuit made pursuant to it. However, this is an argument based on words rather than sound policy and I find Gummow J's reasons for refusing to differentiate between ROMs and PROMs convincing.

The final point worth mentioning, and it was accepted by all parties to the case, is that written material such as program manuals cannot be parallel imported. So even if a computer program is parallel imported via integrated circuits, the parallel importation of associated manual and other literature is not permitted.

The Wider Implications

Let me move on to some of the wider implications of the decision and the statute as it is presently drafted. To put it bluntly, the reason we have a *Circuit Layouts Act* is that the Americans told us to get one. Their own Act, the *Semi-Conductor Chip Protection Act* 1984 allows parallel importing of integrated circuits.

However, as far as I can tell it does not permit parallel importing of copyright works contained within an integrated circuit. Now the American position is complicated by a number of factors. Not least of these is that the legality or otherwise of parallel importing of copyright material into the US is still in doubt.

There is some suggestion that it is lawful but the balance of authority suggests that it is unlawful. If that is the case, it seems to me that parallel importation of integrated circuits in the US will only be lawful for logic circuits rather than memory circuits.

Now given that the United States pressured other nations into adopting this sort of legislation to extend the protection of its computer industry and given the US stance at the GATT TRIPS talks of seeking to prevent parallel importing of copyright material generally, I question whether they will be pleased at the prospect of Australia having a *Circuit Layouts Act* which actually diminishes the copyright in computer programs. We may yet see the newly independent nation of Australia tugging its forelock to an external power and amending the *Circuit Layouts Act* (again).

The PSA Inquiry into Computer Software Prices

The situation is made even more complicated by the present inquiry by the Prices Surveillance Authority into the price of computer software in Australia. One of the matters specified by the relevant Minister to be considered by the PSA is 'The effect of the Copyright Act 1968 on the pricing, production and distribution of computer software.'

Although the PSA will not say so at this stage, I think we can see from its inquiry into books and sound recordings that Professor Fels takes a general economic stance that copyright owners do not need distribution rights as well as production rights unless there is some clear evidence to the contrary.

It is also equally clear from the Federal government's response to the books inquiry and its non-response to the sound recordings inquiry that

it is not embracing free market economics quite as enthusiastically as people like Phil Cleary would have us believe. It has clearly been influenced by arguments about the need to protect the fledgling Australian book and sound recording industries. No doubt the PSA and the Federal government will hear a great deal in the near future about the fledgling Australian computer industry. And the position concerning parallel importing of software is going to be in flux for some time as we wait for the PSA's report which will not be published until very late this year or next year. We also await the Copyright Law Review Committee's report and the government response

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to those reports. It is even more complicated when you consider that Australia will be gearing up for a Federal election at about the same time. When a final decision is made on the issue, it may be made by a government with a drier economic approach to that of the present government.

Conclusion

So at the moment we are in a state of flux. You can parallel import software if it is stored in an integrated circuit or at the very least if it is stored in the circuit at the time of the circuit's creation. However parallel importing of computer software is not permitted if the software is stored in some other form.

I do not understand the reason for the distinction, on the basis of what I understand to be the arguments for and against parallel importing. The argument for allowing parallel importing is that it prevents international price discrimination - charging more for software in Australia than England or the USA, for example, than is justified having regard to local market conditions such as cost of transport, size and density of the market population, etc. What is clear is that the problem of price discrimination only arises if the authorised importer has a large degree of market power; or putting it very crudely, it doesn't have a lot of competitors. So competition has to be generated by importing the same product from the authorised importer's overseas supplier.

The basic argument for prohibiting parallel importing is that it prevents free riding on the efforts of the authorised importer. The authorised importer spends time, effort and money promoting the import and the parallel importer takes advantage of those efforts to sell the same product at a lower price which it can do because it has not incurred the costs of promoting the product. If parallel importing is prohibited there is no problem with the authorised importer charging too much as long as it has inter brand competition from importers of similar products.

The crucial issue every time will be whether the authorised importer has a large amount of market power.

Unless you can say that the producers and authorised importers of software which comes in integrated circuits have a large amount of market power but producers and authorised importers of software in other forms do not - the distinction in approaches to parallel importing cannot be justified on economic grounds. It seems to me to be un-


likely that those who happen to store computer programs in integrated circuits have more market power than those who store programs in other forms. Consequently there does not seem to be any economic rationale for the distinction in approaches.

Technical Reasons for Distinction

The only other justification that I can think of for the distinction would be based on technical considerations. That is, that it is very difficult to distinguish between an integrated circuit containing a copy of a work and one that does not contain a copy. Hence, the policy of permitting parallel importing of integrated circuits would be frus-

trated if this further concession was not made. This clearly depends on the definition of a computer program under the *Copyright Act* and that issue is outside the scope of this paper. The only point I would make is that if there is such difficulty in determining what is a computer program, the difficulty needs to be resolved for a number of reasons in addition to the need to base parallel importing law on sound economic reasoning. If that difficulty was substantially resolved, and I think it needs to be regardless of the approach to parallel importing, the basis for the dichotomy of approach to parallel importing would disappear.

Consequently, I consider we should have an all or nothing approach -

you can either parallel import all software or none of it. And, finally, if we decide to allow all software to be parallel imported - I think we should also allow parallel importing of associated material like computer manuals. 

Mark Davison is a lecturer in the Faculty of Law, Monash University and writes regularly in the area of intellectual property and parallel importation.

Footnotes

¹ See case note in this issue of *Computers & Law* p.26

² P26

³ I am indebted to David Webber for this argument.



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