Parallel Importation of Integrated Circuits

Avel Pty Limited v Wells

by John Mackay

Federal Court of Australia
Gummow J
Judgment delivered 2 December 1991

Facts

Avel Pty Limited ("Avel") was the importer and exclusive distributor of electronic video games in kit form pursuant to exclusive distribution agreements with Capcom Co Ltd ("Capcom") and Tad Corporation Ltd ("Tad"). The game kits each comprised a printed circuit board ("PCB"), an operator's manual and adhesive stickers. Jonathon Wells imported for sale and sold four of the video games imported by Avel from Capcom and Tad. Avel sought injunctive and other relief against Mr Wells to restrain importation of, and other dealings with, those video games.

Capcom was the owner, pursuant to the *Copyright Act* 1968 (Cth), of copyright in literary works in three of the four video games being the computer programs contained in the memory storage devices in integrated circuit form which are fitted to the PCB's. Likewise, Tad was the owner of copyright in the computer programs in the other video game.

The *Copyright Act* imposes liability on "parallel importers" of protected works. Section 37 provides that copyright in a literary work is infringed by a person who, without the licence of the owner of the copyright, imports an article into Australia for the purpose of selling the article or distributing it for the purpose of trade, where, to the knowledge of the importer, the making of the article would, if it had been made in Australia by the importer, have constituted an infringement of the copyright in the literary work. Section 38 provides that the copyright in a literary work is infringed by a person who, in the case of an imported article, sells or offers it for sale without the licence of the owner of the copyright, where to the knowledge of the seller, if the article had been made in Australia by the importer, that activity would have constituted an infringement of the copyright in the literary work.

Each of the computer circuits (ROMS, EPROMS and OTPROMS) fitted to the PCBs imported and sold by Mr Wells was made from an 'eligible layout' within the meaning of s5 of the *Circuit Layouts Act* 1989 (the '*Layouts Act*') and was made by or with the licence of the owner of the EL rights therein. In relation to eligible layouts, the *Layouts Act* confers monopoly rights (defined as 'EL rights') for a period which, in the present case, is ten years from the first commercial exploitation of the layout. One of the EL rights is the exclusive right to exploit the layout commercially in Australia. This right is infringed by a person who, during the period of protection of the layout, without the licence of the owner, commercially exploits or authorises the commercial exploitation of the layout in Australia, if that person knows or ought reasonably to have known that he or she is not licensed by the owner of that right to do so. Mr Wells did not conduct his activities with the licence of either Capcom or Tad and the Court found that he knew or ought reasonably to have known that he was not so licensed.

In relation to the computer programs, Mr Wells submitted that s24 of the *Layouts Act* relieved him, as a parallel importer, of what otherwise would be liability for infringement, not only of the rights of Capcom and Tad conferred by that legislation, but also from the operation of ss37 and 38 of the *Copyright Act* insofar as the imported articles contained a copy or adaptation of literary works being computer programs contained in the memory devices included in the kits.

Section 24(1) of the *Layouts Act* (described as the 'first sale doctrine') provides that where:

> '(a) an eligible layout is commercially exploited, whether in Australia or elsewhere, by, or with the licence of, the owner of the EL rights in the layout; and
>
> (b) a person acquires a copy of the layout, or an integrated circuit made in accordance with the layout, as a result of that commercial exploitation,
>
> it is not an infringement of the EL rights in the layout if the person commercially ex-

ploits the copy or the integrated circuit in Australia.'

The Court found that Mr Wells commercially exploited integrated circuits made in accordance with eligible layouts, which contained copies or adaptations of literary works (being computer programs). By force of s24(1) of the *Layouts Act* that commercial exploitation of the integrated circuits was not an infringement of the EL rights in the layouts.

Mr Wells, relying on s24(2) of the *Layouts Act*, further submitted that this commercial exploitation was not an infringement of copyright in the computer programs because the making in Japan of the copies or adaptations of the computer programs was not a copyright infringement. The consequence is that, in a case such as the present, parallel importing is fully permitted.

Section 24(2) of the *Layouts Act* provides that:

> 'In spite of s37 of the *Copyright Act* 1968 and s38 of that Act to the extent that s38 applies to imported articles, 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'.

Avel contended that, whilst the ownership of the EL rights and of the copyright in the literary works may rest in the same hands, that will not necessarily always be so. Avel submitted that where the ownership of the copyright in the relevant computer program is vested in a party other than the owner of the EL rights, the effect of the interpretation contended for by Mr Wells was that s24(2) of the *Layouts Act* will effect a subtraction in the rights of the copyright owner by subjecting that owner to the operations of the first sale doctrine.

Avel submitted that Mr Wells could not escape liability under ss37 and 38 of the *Copyright Act* by reliance upon s24(2) of the *Layouts Act* because it would apply only if he commercially exploited an integrated circuit containing a copy or an adaptation of the literary work comprising one of the computer programs, not merely a part thereof. Whilst the sound programs for each of the four games were contained on one integrated circuit, the main programs for all four games were stored in a plurality of integrated circuits. It was therefore submitted that in these circumstances one could not say that there was, within the meaning of s24(2) of the *Layouts Act*, an integrated circuit containing a copy or an adaptation of the relevant literary work, being the computer program.

Avel also submitted that certain of the integrated circuits did not fall within the operation of the *Layouts Act*. Avel relied on the provisions of the *Layouts Act* dealing with ownership of EL rights. Section 16 of the *Layouts Act* provides that the first owner of EL rights in an eligible layout is the person who makes the eligible layout or the employer of that person. Section 10 provides that an eligible layout shall be taken to have been made when first fixed in a material form which includes any form of storage, whether visible or not, from which the layout, or a substantial part of it, can be reproduced (s5). The Court noted that the purpose of the *Layouts Act* is to give protection to those who first fix in a material form the representation of the integrated circuit. In relation to the ROMS integrated circuits, the Court found that they fell within the provisions of s24(2) of the *Layouts Act* because these circuits had the graphics data encoded thereon by the computer chip manufacturer. In relation to the EPROMS and OTPROMS integrated circuits, the evidence disclosed that the relevant computer programs were encoded by Capcom or Tad subsequent to the production of the blanks by the supplier. The encoding on the blanks was done not by the computer chip manufacturer but by the maker of the PCB, namely Capcom or Tad. Avel therefore argued that the EPROMS and OTPROMS integrated circuits fell outside the operation of the *Layouts Act*.

Decision

The Court rejected Avel's first submission that there was no integrated circuit containing a copy or an adaptation of the relevant computer program. The Court relied on the fact that s24(2) of the *Layouts Act* uses various expressions which are used and defined in the *Copyright Act* and that s24(3) provides that when so used those expressions are to have the same meanings as they bear in the *Copyright Act*. Section 14(1) of the *Copyright Act* provides that '... a reference to a reproduction, adaptation or copy of a work shall be read as including a reference to a reproduction, adaptation or copy of a substantial part of the work'. On the evidence, each of the integrated circuits included a substantial part of the literary work concerned, being the relevant computer

program. That part of the program which pertained to each device was a vital part in the working of the game as a whole. The Court held that if s24(2) of the *Layouts Act* did not exist and the direct question was whether the importation of any particular one of these integrated circuits infringed the copyright in the relevant computer program by reason of s37 of the *Copyright Act*, the answer would be in the affirmative because each circuit reproduced a substantial part of that program.

The Court therefore held that the commercial exploitation by Mr Wells of each of the relevant integrated circuits was not an infringement of the copyright in the relevant computer program, a substantial part of which was contained in that integrated circuit. Such a construction avoided a manufacturer escaping liability by ensuring that more than one integrated circuit was used for each computer program.

The Court also rejected Avel's second submission that the EPROMS and OTPROMS were not 'eligible layouts' within the meaning of the *Layouts Act*, by relying on the fact that one of the exclusive rights given to the owner of EL rights in an eligible layout is 'to make an integrated circuit in accordance with the layout or a copy of the layout' (s17(b)). Those words are reflected in the phrase in s24(2) 'being an integrated circuit made in accordance with an eligible layout'. The 'making' of an article ordinarily includes the steps and procedures which resulted in the formulation or composition of the article in its final state as an object of commerce: *Netcomm (Australia) Pty Ltd v Dataplex Pty Ltd* (1988) 81 ALR 101 at 107. The Court held that an integrated circuit answers the description in question, if at the time at which the operation of s24(2) is to be assessed (eg at importation into Australia) one can say of the integrated circuit that, in the form in which it then stands, it was 'made' in accordance with an eligible layout. Each EPROM and OTPROM which was fitted to the PCB's imported by Mr Wells was made in accordance with an eligible layout, being the relevant 'master' previously produced by Tad or Capcom. This was so notwithstanding the use in the making of that 'master' and of the imported integrated circuits of 'blanks' purchased by Tad or Capcom from an integrated circuit manufacturer.

Further, the Court found that the evidence disclosed that all three types of device, OTPROMS, EPROMS and mask ROMS, could be used interchangeably in micro-processor based products. The Court acknowledged that it would be a curious result if the impact of s24 of the *Layouts Act* upon copyright in works had a different operation when integrated circuits were used which, though different, were inter-changeable.

Comment

This case concerned the interrelation of monopoly rights in integrated circuits created by the *Layouts Act* and rights in literary works conferred by the *Copyright Act*, where the circuits have been manufactured outside Australia by or with the licence or consent of the owner or owners of all the rights in question but imported into Australia for sale or hire without such licence or consent.

Section 24(1) of the *Layouts Act* qualifies the operation of other sections of the *Layouts Act* dealing with EL rights by providing that there is no infringement of EL rights in an eligible layout by a person who commercially exploits that layout or a copy of the layout with the licence of the owner of the EL rights and the person acquires a copy of the layout or 'an integrated circuit made in accordance with the layout' as a result of that commercial exploitation.

Section 24(2) of the *Layouts Act* deflects what would otherwise be the operation of ss37 and 38 of the *Copyright Act* upon the commercial exploitation of an integrated circuit containing a copy or adaptation of a work protected by the *Copyright Act*. If there is to be no infringement of copyright, the integrated circuit must satisfy two criteria:

1. the integrated circuit must contain a copy or adaptation of the relevant work; and
2. the integrated circuit must have been made in accordance with an eligible layout and, by reason of s24(1), the relevant commercial exploitation of the integrated circuit must not be an infringement of the EL rights in the layout.

The Court found that the commercial exploitation by Mr Wells of each of the relevant integrated circuits was not an infringement of either the EL rights in the integrated circuits or the copyright in the relevant computer program, a substantial part of which was contained in each of the integrated circuits.

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