Case Note

Parallel Importation of Computer Software and Restrictive Trade Practices – Exclusive Distributorship Agreement

BRODERBUND SOFTWARE INC v COMPUTERMATE PRODUCTS (AUSTRALIA) PTY LIMITED

John Mackay

Federal Court
Beaumont J
Judgments delivered 15 and 21 November 1991

Introduction

Broderbund Software Inc ("Broderbund") and Dataflow Computer Services Pty Limited ("Dataflow") brought proceedings against Computermate Products (Australia) Pty Limited ("Computermate") for copyright infringement. Computermate cross claimed against Broderbund and Dataflow alleging contraventions by Broderbund and Dataflow of the *Trade Practices Act* 1974. Beaumont J delivered separate judgments for the copyright infringement proceedings and the restrictive trade practices cross-claim.

Facts

Broderbund, the owner of copyright in an educational computer program called "Where in the World is Carmen San Diego" (the "Program"), sought an injunction to restrain Computermate from importing the program into Australia for the purposes of selling, letting for hire, offering for sale or hire or exhibiting it in public in the course of trade in breach of the *Copyright Act.*

From at least May 1989 onwards, Computermate imported (from US distributors) and sold in Australia computer disks which were reproductions of a substantial part of the program. The computer disks were genuine copies of the program produced by Broderbund. There was no evidence that Broderbund gave any formal permission to Computermate to import the program. Computermate argued that a licence to import and sell the program in Australia should be inferred.

In October 1988, Broderbund and Dataflow executed an agreement appointing Dataflow as Broderbund's exclusive distributor in Australia. Dataflow was also empowered under this agreement to require an ultimate user of the program to enter into a licence agreement for the use of the program. By a supplementary agreement in 1989, Broderbund appointed Dataflow as its exclusive licensee of the program. It was intended that Dataflow have the exclusive right in Australia to do at least some of the acts specified in s31(1)(a) of the *Copyright Act* 1968, including the right to reproduce the program in a material form.

Over a number of years, inquiries were made by Computermate as to whether Broderbund had granted an exclusive distributorship or licensed rights in relation to the copyright in the program in Australia. There was a dispute as to the content of the discussions between Computermate, Broderbund and Dataflow over this time. In May 1990, Broderbund finally informed Computermate that it had granted exclusive distribution and licensing rights in the program in Australia to Dataflow. Computermate continued to import and sell the program and in August 1990 Broderbund and Dataflow commenced proceedings against Computermate for an injunction.

Computermate cross-claimed against Broderbund and Dataflow and sought declarations that Broderbund and Dataflow had contravened ss45(2), 46(1), and 47(1) and (4) of the *Trade Practices Act* 1974 ("the Act").

Decision in Relation to the Copyright Infringement Action

The Court held that officers of Computermate knew that the making of the program in Australia would have infringed the copyright in the program and therefore Broderbund had established its claim for relief under s37 of the *Copyright Act.*

The Court found that, at least from November 1989, Dataflow had the right conferred on it by Broderbund, to the exclusion of all other persons, to reproduce the program in Australia. As well, from at least 1 January 1989, Dataflow had the exclusive right to sell the program in Australia.

The Court accepted authority which established that the onus was on Broderbund to show that Computermate imported the pro-

gram without its permission. The Court found that the evidence indicated that Broderbund gave no formal consent to Computermate. The Court found that there was no evidence which could be said to lay the foundation for the drawing of an inference that Broderbund gave its permission informally to the importation by Computermate. The Court held that at all material times the conduct of Broderbund had been consistent only with the position that it wished Dataflow to be its sole importer of the program. Broderbund implemented this policy in this regard by its entry into the exclusive distributorship and exclusive licensing arrangements with Dataflow in 1988 and 1989. The entry into such arrangements was inconsistent with an intention to consent to another trader importing the program. Computermate argued that the fact that the program was sold by Broderbund to US distributors without any express restriction on resale was a basis for drawing an inference of consent by Broderbund to Computermate's importation of the program. The Court held, for the reasons given in *Interstate Parcel Express Co Pty Limited v Time-Life International BV* (1977) 138 CLR 534 and *Computermate Products (Aust) Pty Limited v Ozi-Soft Pty Limited* (1988) 20 FCR 46, those circumstances, standing alone, could not justify an inference of consent.

Decision in Relation to the Restrictive Trade Practices Cross-Claim

Alleged Contravention of s46(1)

Computermate alleged that Broderbund and Dataflow had taken advantage of their market power in the wholesale and retail markets for import into and sale in Australia of particular computer programs for the purposes specified in s46(1)(a), (b) and (c) by taking action to prevent Computermate from importing and selling the Program in Australia.

The Court held that the evidence indicated two possible relevant national computer software markets at both wholesale and retail levels, educational and entertainment.

The evidence indicated that the Program was usually treated as an educational game but it was sometimes treated as an entertainment game. It was not seriously disputed that the relevant market was a national one in a geographic sense.

"...the evidence indicated that Broderbund gave no formal consent to Computermate"

Evidence was given on behalf of Broderbund and Dataflow that the Program was used by primary school teachers. Broderbund and Dataflow also called evidence of the many computer programs (other than the Program) which were described as educational games, which were principally directed towards the teaching of the social sciences, all of which were used in schools. Several of these games used methods similar to those employed in the Program to develop skills.

Computermate called evidence from a marketing and social research consultant who had undertaken a perception study on a range of computer software games with the objective of assessing the uniqueness of the Program and the degree of its suitability with other computer software games. Computermate claimed that the study indicated that the Program was unique, that there appeared to be no available substitute in the perceptions of significant proportion of individuals in dealership establishments and that amongst those dealers there was a general belief that the Program appealed to a wide spectrum of society.

The Court held that the material contained in the marketing survey report did not establish that Broderbund and Dataflow or either of them had a significant degree of power in either market. In assessing the weight to be given to the survey, the Court emphasised that only dealers in New South Wales and Victoria were interviewed, and it regarded the question posed by the survey as a leading question. The fact that a leading question was asked at an early stage of the interview had serious consequences for the credibility of the survey as a whole, especially considering that the questions in the survey which followed sought to build on the answer to the leading question. The Court also stated that even if the question had been more generally expressed, it was unlikely that it would have preferred a survey over the independent expert opinions.

After reviewing the authorities on s46 of the Act, the Court placed particular emphasis on Dawson J's judgment in *Queensland Wire Industries Pty Limited v Broken Hill Pty Co Ltd* (1989) 167 CLR 177 at 200, where it was held that something like a monopoly, or a near monopoly, situation is required to activate a statutory provision such as s46. The Court held that, even if

the market was assumed to be restricted to computer software for adventure games with an educational use, no near monopoly situation had been established on the evidence.

The Court also held that the survey could not be relied on to establish that the Program was 'unique'.

The Court found that the evidence indicated that Computermate had not established that the share of the markets held by Broderbund products was so large that the entry into a tying arrangement with Dataflow had the effect of erecting a barrier to entry into the market by others. The Court therefore held that Computermate had failed to demonstrate that Broderbund and Dataflow had a substantial degree of power in a market for the purposes of s46(1).

Alleged Contravention of s45(2)

The alleged contravention was said by Computermate to arise from the exclusive distributorship arrangements made between Broderbund and Dataflow in 1988 and 1989. Computermate claimed that Broderbund and Dataflow were competitive with each other in relation to the supply of the Program. The Court found that the evidence did not demonstrate that Broderbund and Dataflow were competing with each other in relation to the supply of the Program. Another claim made by Computermate was that the 1988 and 1989 arrangements between Broderbund and Dataflow had the purpose and had, and was likely to have had, the effect of substantially lessening competition in the market for the supply of the Program in Australia. The Court held that the Program did not constitute a single market and therefore the Court rejected this claim by Computermate. In the result, Computermate failed to establish a contravention of s45(2).

Alleged Contravention of s47(1) and (4)

Computermate contended that the tying arrangements between Broderbund and Dataflow had the purpose or had, or was likely to have had, the effect of substantially lessening the competition in the market for the supply of the Program. For the reasons previously given, the Court was of the view that this contention could not be sustained.

> ***"...the survey could not be relied on to establish that the Program was 'unique' "***

Comment

Beaumont J's judgment on the restrictive trade practices cross-claim by Computermate provides a useful review of the recent case law on s46 of the *Trade Practices Act* 1974 dealing with market definition. It also demonstrates the care which needs to be taken by those who prepare questions to be used in market surveys.

In the copyright infringement proceedings, Beaumont J affirmed the previous authorities where it had been held that a sale by a copyright owner of goods without any express restriction on the resale of those goods does not justify an inference of consent to importation of those goods by a third party unless there are other circumstances justifying such consent.

John Mackay, B Comm, LLB (UNSW), is a solicitor with Blake Dawson Waldron in their Sydney office practising principally in the areas of information technology, broadcasting and telecommunications.

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