

# 1. INTRODUCTION

This submission is supplementary to the submission made by Mattel Pty Ltd (“Mattel”) on 15 June 1999 to the House of Representatives Standing Committee on Legal and Constitutional Affairs in respect of its Inquiry into the enforcement of copyright in Australia. Whilst the initial submission was put forward only by Mattel Pty Ltd, they have now been joined by representatives of the Australian Toy Association and Hasbro Australia Limited (“the parties”).

The opportunity to appear before the Committee was appreciated, as is the opportunity to make this supplementary submission in response to the particular matters raised by the Committee.

# 2. OVERVIEW

The importance of intellectual property to the modern economy cannot be overestimated. The protection of intellectual property is pivotal to a vibrant market based economy. Traditionally the distinguishing point between an industrial and feudal economy is a respect for intellectual property by both business and the Courts. Currently we are putting Australia’s reputation as a place where intellectual property is protected at risk

The parties are concerned that the current culture within Australia in regard to copyright is in dire need of change.

Currently, as the Committee is no doubt aware, infringement of copyright is rife and there needs to be a real and substantial attempt to reduce copyright

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infringement in Australia. Many years ago it was accepted that drink driving was not a serious crime, however, with changes to the law and an education program, this myth was eliminated. The Committee has the opportunity to start a process whereby the perception that copyright infringement is not a serious crime may be altered.

The .05 blood alcohol campaign was a tremendous success because it combined both an education program and a reform of the law. In Australia, copyright is in need of the same type of campaign as the law needs to be changed to reflect the importance of rights that exist with regard to copyright. As this submission will argue, there is currently no deterrent to infringement of copyright and there needs to be a reform of the civil and criminal enforcement provisions.

The current situation of non-compliance with copyright needs to change as copyright breaches are becoming more blatant and the infringers are paying little heed to the copyright owner's rights. There is little significance currently placed by society and the Courts on the rights of copyright owners and the Government has the opportunity to effect a change in Australian culture by undertaking both an education program, increasing penalties and imposing sentencing guidelines. The parties will attempt to provide solutions for these matters in this submission.

It will only be with a concerted effort by Government that a change in perceptions will be achieved perhaps initially by a reform of the enforcement provisions of the *Copyright Act*.

## **3. ENFORCEMENT**

### **3.1 Introduction**

In the original submission, paragraph 4.2 set out matters relevant to the extent of piracy in so far as Mattel is involved. Clearly, the parties would prefer to see a reduction in time and cost required to institute proceedings against infringers.

It is the parties' understanding that the Agreement on Trade Related Aspects of Intellectual Property requires members to provide for criminal procedures and penalties to deal with breaches through piracy. However, the nature and extent of the procedures and penalties are not imposed through this Agreement and it is up to each member country to decide on these aspects themselves. Accordingly, it is submitted that the proposals put forward by the parties in this document will not cause any interference with Australia's international treaty obligations.

Thus, the parties respectfully submit that the matters set out herein should receive consideration in dealing with enforcement procedures.

### **3.2 Onus of proof**

The *Copyright Act* was changed in 1998 to allow parallel importing. Due to their disapproval of this reform the recorded music industry made strong protests. It was argued by the recorded music industry that opening up parallel imports would increase piracy levels. To combat this perceived result the government introduced section 130A

into the *Copyright Act* to make it easier for copyright owners to establish infringement actions.

Section 130A of the *Copyright Act* 1968 (Cwlth) imposes a reverse onus of proof on any infringement of copyright in a work but only when the article concerned is "a copy of a sound recording".

In the case of civil infringement proceedings, Section 130A sets out that the owner of the copyright must first establish:

- proof of the subsistence and ownership of the copyright;
- the importation of the offending material;
- the lack of consent by the owner of the copyright to the importation;
- that the importation was for a commercial purpose; and
- that the importer ought reasonably to have known that if the recording had been made in Australia an infringement of the copyright would have occurred.

Once the owner of the copyright has established the abovementioned matters the onus is then, and only then, upon the importer to establish that the imported copies were non-infringing material. This means that the copyright owner must first establish a prima facie case before the defendant is required to respond

It is submitted that Section 130A should apply only in respect of civil proceedings, and it is not proposed that changes be made to the onus of proof in criminal cases.

By assisting the owners of copyright in this manner, civil proceedings would become more attractive meaning less involvement being required of the limited resources of the Australian Federal Police. The Police would then be able to concentrate on other criminal offences rather than infringement of copyright.

We submit that s.130A should be opened up to all copyright owners. All copyright owners could benefit from a reversal of the onus of proof. Basically the provision puts the obligation on the importer to show that the imported copy is not an infringing copy. This saves the copyright owner having to prove the infringement. Instead the suspected importer is given the role of proving that he has not broken any copyright laws.

### **3.3 Infringement by companies**

It is respectfully submitted that the provisions relating to enforcement in the *Copyright Act* could be substantially enhanced by providing that when an infringement occurs by a corporation or an unincorporated association, each member of the governing body of that entity is taken to have committed the contravention and may be liable to a penalty.

Given the enormous value of intellectual property rights and the seriousness of breaches, individuals must be held accountable for their actions. It is respectfully submitted that the corporate veil should not be used as protection for individuals who infringe Intellectual Property Rights and the deterrent would be more effective if it related to the reputation of the individual rather than the company.

### **3.4 Punitive damages**

The nature of the infringement will often dictate the type of remedy sought by a victim of the infringement given that an injunction and surrender of the offending material may be sufficient in some cases and damages may be awarded in others.

It is submitted that an intentional infringer is not normally faced with any substantial risk other than loss of profits made by committing the infringement whilst Section 115(4) allows for the award of "such additional damages as [the Court] considers appropriate in the circumstances", before that sub-section can be utilised the Court must be satisfied that it is proper to award additional damages having regard to:

- i) the flagrancy of the infringement;
- ii) any benefit shown to have accrued to the defendant by reason of the infringement; and
- iii) all other relevant matters.

The inadequacy of this section can be demonstrated by Mattel's recent experience in the Federal Court where pirate copies of a range of toy model cars "Hot Wheels" had been imported and were available in retail outlets. Requests to withdraw sales due to an infringement of copyright were neglected and Mattel therefore instituted infringement proceedings. The damages which we expect will be awarded fell far short of the costs of prosecuting the action.

Another example is *Ownit Homes Pty Ltd v O & F Mancuso Investments Pty Ltd [1988] AIPC 38,235* ("the Ownit Homes Case") where copyright in Architects plans were blatantly breached. Initially the court ordered the sum of \$250 to compensate the copyright

owner. In this case punitive damages were awarded and they were calculated by doubling the initial sum. Therefore the copyright owner received the grant sum of \$500 relief. This exemplifies the need for damages to be better related to the seriousness of the breach.

It is submitted that those triggering requirements set out in Section 115(4) (b) should be deleted from the Act leaving the Court with the authority to award such additional damages as it considers appropriate. Again, individuals must be accountable for their actions and an award of damages over and above potential profits will assist in this objective.

### **3.5 Registration**

Currently, in a copyright infringement action when a plaintiff alleges infringement, it is required to immediately prove ownership of copyright which creates cost and also uncertainty. As previously submitted to the Committee by the New South Wales Police Force, an analogy can be drawn with the introduction of the Torrens Land Title System.

In Australia, two separate and distinct systems of title to land exist side by side, i) the General Law system; and ii) Torrens System. The Torrens System was introduced to institute a method of conveyancing which was more reliable, efficient and less expensive than that provided by the General Law. The originators of the Torrens system believed that the defects of the older system sprang from two major causes, i) its reliance upon chain of title deeds; and ii) the operation of the doctrine of notice.

Accordingly, the Torrens system substituted a Register Book for the chain of title deeds and abolished the doctrine of notice in favour of persons who registered their interests.

Undoubtedly the reliance of the General Law system upon chains of title deeds made conveyancing a slow, expensive and inefficient process. A purchaser of land was forced to carefully consider every deed and instrument through which the vendor derived title, making conveyancing a hazardous process as purchasers may not ultimately receive the relevant interest in land.

A similar problem is faced in trying to prove ownership of copyright.

By implementing a Register many of the costs associated with proving ownership in an infringement action could be avoided and it would have the added advantage of certainty.

A form of registration previously existed in an optional form under earlier Acts such as the *Copyright Act 1912* (Cth) Division 2, Part 4.

We note that as a signatory to the Berne Convention, Australia cannot establish a Register for foreign work, however observance of this obligation has led the Commonwealth Parliament to dispense with such requirements of registration in Australia also.

It is respectfully submitted that formalities are not completely excluded by the Berne Convention so long as they are optional and do not interfere with the existence and exercise of copyright protection. To the extent that they are simply conditions for the enjoyment of enhanced levels of protection allowing, for example, access to



additional remedies or other procedural advantages, they may still be consistent with Berne. This was the position taken by the United States in its accession to Berne in 1988 whose precedent gives Australia the option to retain full formalities or to introduce full formalities with respect to its own nationals and works first published in its own country. In the United States of America belief in the efficacy of registration systems remains strong even after accession to Berne.

Although the absence of formalities has become an established part of Australian copyright, the advantages offered by systems of formalities should not be overlooked. Registration can provide clear public records of the existence of copyright and persons entitled to protection, particularly after a lapse of time when rights may have become fragmented and passed through different hands, the Register can then easily prove ownership. The Register would also make proof of infringement easier and thereby reduce the cost of enforcement.

It is respectfully submitted to the Committee that a registration system would provide many benefits to Australian copyright owners in that it would create certainty and help in proving those aspects required for infringement actions. Further, this type of system would not be difficult to introduce as it could come under the auspices of IP Australia to maintain the Register.

If adopted, a registration system like the one proposed in this submission would break even or even produce a profit for IP Australia given that it could involve search fees, registration fees, and renewal fees all payable to IP Australia to cover the administration costs.

These fees would not be a burden to copyright owners but could be seen as an efficient use of copyright owners' funds considering the benefits that would flow from registration.

## 4. PRODUCT SAFETY ASPECTS

### **4.1 Australian Competition and Consumer Commission's Position**

Paragraph 3.2 of the original Submission referred to Mattel's concern about the safety standards of goods the subject of piracy. While noting that an elaboration of this aspect is perhaps peripheral to the main thrust of the Committee's enquiry, it is respectfully submitted that the following elaboration will emphasise the importance of tightening the requirements for toy safety.

On 11 June 1999, Hank Spier, General Manager of the Australian Competition and Consumer Commission ("ACCC"), wrote to the Chief Executive Officer of Australian Toy Association Limited stating, among other matters:

*"You will be aware that under s.65 of the Trade Practices Act the Minister for Consumer Affairs may prescribe consumer product safety standards, and consumer product information standards. A supplier who supplies a good that does not comply with a product safety standard or a product information standard is in breach of s.65".*

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The parties are not aware of any consumer product safety standard prescribed under this provision other than that notified in the Commonwealth of Australia Gazette on 16 April 1997 which relates only to the minimum size of toys for children under the age of three years. There are other standards such as AS1647, but of these standards only one, being 1647.2-1992 which relates to constructional requirements for children's toys, is mandatory as it has been declared in Victoria pursuant to the *Consumer Affairs Act 1972*.

There are approximately 240 members of the Australian Toy Association who have adopted a voluntary code of conduct which includes provisions relating to safety and recall procedures.

It is respectfully submitted that to date Section 65 of the *Trade Practices Act* has not been shown to be the proper mechanism whereby safety standards can be imposed upon the toy industry. However, the success of the industry's code of practice in this area depends upon the industry having control over the availability of toys within Australia. This control will be substantially weakened, with nothing to replace it, once restrictions on parallel importing are removed.

It is respectfully submitted that the driving factor for the ACCC is the price of a product whilst the parties and the industry at large, regard price as only one of the determining factors when a product is submitted for retail sale. Safety has a greater priority than it appears to receive from the ACCC. Safety has a high priority in the toy market and is seen by consumers as a pre-requisite in any purchase decision, however, it seems to receive a low priority with the ACCC.

It is submitted that this argument underlines the necessity to explore regulatory means both State and Federal and other means to enforce the appropriate and necessary safety requirements for toys.

It is the submission of the parties that the recent changes to the *Copyright Act* do expose consumers to serious risk from unsafe toys, including pirated toys. These changes have weakened the current arrangements for the enforcement of toy safety and the Australian toy industry has been forced to explore other options in order to achieve the most effective means to ensure toys on retail shelves do meet current (voluntary) standards for toys.

#### **4.2 Introduction**

With the widening of the law relating to parallel imports to come into effect in 2000, organisations other than the licensed distributor will be importing toy products. This will open the way for increased piracy as the licensed importer will not be able to check all the products coming into Australia. Piracy will probably increase and with increased piracy there will be an increase in the number of products not complying with safety standards in Australia.

Another approach which is respectfully urged upon the Committee is to consider a system for certification of products brought into Australia. It is proposed that products carry a certification mark indicating that they comply with Australian safety standards. The advantage of this approach would be to enhance consumer protection and assist the Customs authority in carrying out its responsibilities.

Certification has a number of benefits, namely:

- 1) It helps identify pirates

- 2) Certification indicates compliance with safety standards
- 3) Assists Australian Customs
- 4) When certification is not shown on products punitive damages can be awarded against the non-compliant organisation(s)

A consequence of piracy is that there is an increase in defective product and products not adhering to the safety standards in Australia. Piracy, in all its different shapes and forms, pays no attention to safety standards in Australia.

It is respectfully submitted that although this is not an inquiry into product safety standards, piracy is a relevant matter for the Committee given that a consequence of direct infringement is a breach of safety standards.

#### **4.3. Existing Scheme**

Safety standards are currently declared where products have been shown to present undue hazards. A document standard sets out technical specifications and procedures designed to guide business in ensuring that a material or a method consistently performs the way it was intended to.

Currently toy safety standards in Australia are largely voluntary although mandatory consumer product standards for toys are made by Regulation at State level as stipulated by *the Consumer Affairs (Product Safety) (Children's Toys) Regulations 1998* and at a federal level by the Minister for Financial Services and Regulations by notice in the Commonwealth Gazette pursuant to Section 65E of *the Trade Practices Act 1974*. However at both a State and Federal level, the only standard which has been declared mandatory by both State

regulation and Commonwealth Gazette is AS1647.2-1992.

Standards Australia has published four toy safety standards that are known as the AS1647 Series which only applies for the purpose of construction of toys so that the risk of ingestion for children less than three (3) years of age is reduced.

#### **4.4 Enforcement of Safety Standards for Toys**

Whilst the ACCC enforces mandatory product safety standards and plays a role in banned or unsafe goods and recalls declared under the *Trade Practices Act* it is not sufficiently stringent meaning that pirates pay little attention to the law.

The ACCC largely responds in a reactionary manner and it is only in the event of a breach that they will take action, meaning the system is an "after-the-event" reaction.

The *Consumer Affairs (Product Safety) Children's Toy Regulations* and other related State Regulations are more stringent than the Commonwealth children's toy standard in that they require labelling to show whether a toy is suitable for children under three (3) years.

The mandatory standard only covers toys for children under three (3) years of age and this includes toys whose proper use would encompass children under three (3).

#### **4.5 Australian Toy Association**

The Australian Toy Association has implemented a voluntary system which has probably assisted in controlling piracy to date because all of the 240 (approximately) members of the Association abide by this

code. However, with the increase in piracy this code is becoming less effective. A pirate has no interest in intellectual property rights of an owner and will not respect voluntary standards.

Recently, a matter which has caused concern to the parties is that of faked compliance such as Mattel's "Hot Wheels" range being pirated under the "Action Pack City Rescue" label in \$2 Shops. Recently in the Federal Court Mattel was successful in this matter as the goods were substantially identical and deceptively similar to the genuine article. It was alleged incorrectly by the Defendant on the packaging of the pirated goods that they were certified in the United Kingdom.

There are many examples of pirates faking compliance to have their goods imported and then sold. These pirated goods are rarely, if ever, tested for compliance with the skeleton framework of mandatory standards and certainly make no effort to adhere to the voluntary scheme.

It is a consequence of piracy that the voluntary code will come under increased pressure given that the voluntary code is not complied with by the low end of the retail market and this is of great concern to the parties who pride themselves on being responsible players in the toy industry. However, a voluntary system only works with a responsible industry and the parties would urge upon the Committee to conclude that the level of compliance with safety standards will decrease if the opportunity for piracy is left unregulated.

#### **4.6 Recommendation for Safety**

It is recommended that a system be put in place whereby products entering the country or manufactured in Australia have a certification mark on them. This certification mark could be approved by the

ACCC and administered by a body such as the Australian Toy Association.

In the United Kingdom and Europe, every manufacturer or first supplier in the European community must place a 'CE' mark on his toy to indicate that it conforms with the essential safety requirements. The 'CE' mark is an enforcement mark and is not a sign of quality or safety. It was established to ensure free movement of product throughout the European Union – a sort of 'passport' for toys - and has to appear along with the first supplier's name and address in a "visible, legible and indelible form" on the toy or its packaging.

The objective of the 'CE' mark is to ensure the free movement of toys in the community market by completely harmonising the essential safety and health requirements which toys must conform with.

A similar mark known as the "lion mark" was developed in 1988 by the British Toy and Hobby Association to perform a function not covered by the CE mark, namely to act as a recognisable consumer symbol denoting safety and quality. To display the lion mark, the British Toy and Hobby Association member must sign a Licence Agreement with the Association setting out the terms of its use. Failure to abide by these terms will lead to revocation of the licence. The lion mark also indicated the member's adherence to the British Toy and Hobby Association Code of Practice which includes rules covering toy advertising and counterfeiting. Unlike the 'CE' mark, the lion mark is truly a consumer symbol in that it means that the consumer can be certain a toy which bears the lion mark is safe and conforms with all relevant safety information.



It is respectfully submitted to the Committee that a procedure similar to those set out above be used in Australia. Such a system would ensure that the current voluntary code currently would be made mandatory for a mark to apply. These would be incentive for industry to adhere to the voluntary code as the mark may become a consumer symbol.

A certification system would also have the advantage of improving checks at Customs as unless the certification mark appeared on the import forms the toys would not be allowed into the country. Further, the certification mark on toys would act as a badge of safety compliance as if the toys were awarded the mark they would comply with the Australian safety regime. This should ensure that the current system which is exposed to non-compliance would become a more strict and efficient system.

## 5. CRIMINAL OFFENCES

Division 5 of the *Copyright Act* contains provisions relating to "offences and summary proceedings". These provisions allow for criminal proceedings to be taken against offenders by the Australian Federal Police in the Federal Court.

In respect of these provisions, three (3) matters are respectfully submitted to the Committee:

### **5.1 Civil Proceedings**

At the risk of stating the obvious, if the abovementioned proposed changes in relation to civil proceedings are implemented, there ought

to be a reduction in the time and cost of involvement of the Australian Federal Police. Clearly, it is the owner of the copyright which has the vested interest in prosecuting offenders. If the legislation were to facilitate easier and more cost effective civil prosecutions by the owners it would itself provide yet another illustration of the advantages of co-operative regulation.

## **5.2 Section 132**

Whilst there is an extensive range of offences under Division 5, there is no offence for a person merely possessing infringing material. Section 26 of the *Summary Offences Act, (Vic)* creates an offence in respect of "any person having in his actual possession or conveying in any manner any personal property whatsoever reasonably suspected of being stolen or unlawfully obtained...". Subsection 2 requires that person to give to the court "a satisfactory account as to how he came by such property". Unless that person provides a satisfactory account, he or she is guilty of an offence.

It is the submission of the parties that Division 5 could be strengthened by the inclusion of a provision relating to unexplained possession of material subject to copyright and which is reasonably suspected to be infringing material.

## **5.3 Level of Penalties**

The difficulty which is encountered in this area is that although the penalties prescribed in the legislation are adequate, rarely are substantial penalties imposed. Of course, it may be argued that the prosecution ought to present sufficient material to encourage the Court to impose a higher penalty or adopt a new approach to the seriousness of infringement cases, but as prosecutions are not

undertaken by the industry, this is not an option. Therefore, it is respectfully submitted that Parliament can indicate its opinion by the insertion of minimum penalties.

#### **5.4 Mandatory Sentencing and Damages Guidelines**

In its submission, the Business Software Association of Australia referred to the level of penalties and provided a comparison and contrast between Australia and other countries where criminal penalties have been imposed. The Association stated that:

*“the situation in Australia can be contrasted with the position in other countries where much harsher penalties have been imposed”*

The parties support that submission and feel that the few Australian cases on the issue the level of penalties have been too low. In the "Ownit Homes Case" architects plans were infringed however the damages awarded were abysmally low and the damages of \$250 were merely doubled to \$500 to take account of the fact that it had been a deliberate and flagrant breach.

Unfortunately, this suggests that not only is there a culture in Australia in which copyright infringement is regarded as a trivial matter, there is also an apparent view amongst the judiciary that copyright infringement is not worthy of a penalty matching the magnitude or severity of the offences reflected in the low penalties imposed in Australian Courts.

The Government must educate the citizens of Australian that copyright infringement is a serious offence which will not be tolerated.

They also need to educate the judiciary so that the penalties will provide sufficient deterrent to the continuation of copyright infringement. Mandatory guidelines for sentencing are needed to provide both consistency and a deterrent by penalty as the current fines and penalties are too low.

Wilful copyright infringement is theft and should be treated as theft. The offender is stealing the intellectual property of the rightful owner and without adequate deterrents, it will not be possible to reduce piracy to acceptable levels.

As The Business Software Association of Australia submitted to the Committee:

*“the most important reason for active criminal enforcement is that of deterrents.”*

It is necessary to provide guidelines for the sentencing of offenders so that the penalties which are imposed do act as a deterrent and are in accord with those imposed in other countries.

## **6. EDUCATION**

Unfortunately, there is currently a culture of acceptance with respect to pirating of products and other items in which copyright subsists. As set out above, members of the community have now been educated and informed to understand that drink driving is no longer an acceptable activity and the parties submit that there needs to be a

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similar education process whereby people can be taught to understand that it is not acceptable to engage in copyright piracy. There needs to be a shift in the cultural paradigm with respect to copyright protection.

It is submitted that it is the role of government to present to the public an educational programme relating to the seriousness of infringement of copyright. Various industry groups and the several collection agencies are involved in such programmes but the imprimatur of the Government will provide greater value to the programmes.

## 7. CONCLUSIONS

Put as strongly as possible, infringement of copyright is theft and should not be seen by the community as a trivial matter. Prohibition of infringement does more than protect the owner of the copyright, it has the ability to provide substantial advantage to the consumer by way of maintenance of safety standards, including recall provisions, and by after-sales service. These advantages and the commercial viability of industry dependent upon copyright maintenance could be weakened by increased piracy.

Accordingly, the parties urge the Committee to include the following conclusions in its final report:

- 1) That Section 130A of the *Copyright Act* 1968 be amended by removing the restriction upon its application to sound recordings alone.

- 2) That the Copyright Act be amended to include a provision to the effect that where there has been an infringement by a corporation or an unincorporated body, every member of that corporation or unincorporated body is to be taken as having committed the infringement and shall be liable to a penalty.
- 3) That Section 115(4) be amended by removing the triggering events which are a prerequisite to the awarding of additional damages.
- 4) That a system of registration be introduced for copyright material
- 5) That the Government in cooperation with the Australian toy industry explore regulatory (Federal & State) and other means to provide an effective and practical method whereby safety standards applicable to toys may be implemented.
- 6) That there be introduced a system of product certification marking on all toys manufactured in or imported into Australia to indicate compliance with Australian safety standards.
- 7) That the penalty provisions of the *Copyright Act* be strengthened by the inclusion of a level of minimum penalties.
- 8) That mandatory sentencing guidelines be introduced for courts
- 9) That the parallel importer be responsible for product recalls and compliance with safety standards rather than the current situation where the licensed importer is responsible for the parallel imports.
- 10) That a community education program on copyright is launched

All parties appreciate the opportunity to provide this submission.

DATED this 23<sup>rd</sup> day of September 1999.

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