K&L GATES

FASHION LAW

"Style is something each of us already has, all we need to do is find it." – Diane von Furstenberg

MARCH 2018

WELCOME

Welcome to another packed edition of Fashion Law!

Time has flown by and as we march through 2018, we are proud to continue our long standing sponsorship of the Virgin Australia Melbourne Fashion Festival (VAMFF). The Festival is a celebration of Australian designers and our rich fashion heritage, showcasing Australian talent on an international stage. We are thrilled to join with VAMFF again to support our local Australian businesses.

The new year has also brought lots of change in a number of legal areas that impact on the fashion industry. We touch on some of those topics in this edition, from how insolvency reforms may impact your business, to parallel importation law changes which may affect licensees of international brands.

The mandatory data breach reporting scheme is significant for all businesses – data collection has become an imperative part of business operations in the all important quest to get closer to customers. However the reputational fall out if there is a breach and customers' data is leaked can be significant so this is an important issue that requires attention.

We also touch on the never ending issue of copycat products in China and provide tips for property leasing and domain names.

We hope you enjoy reading this edition's articles and welcome your feedback.

Lisa Egan
Partner
+61 3 9205 2099
lisa.egan@klgates.com

Savannah Hardinham
Special Counsel
+61 3 9205 2043
savannah.hardingham@klgates.com

Subscribe to our global Intellectual Property (IP) blog '*IP Law Watch*' at **iplawwatch.com** to learn about all IP related matters.

IN THIS ISSUE

TRADING THROUGH THE STORM - INSOLVENCY LAW REFORM

Zina Edwards

The Government has introduced major law reforms to Australia's insolvency laws which came into effect in September 2017. With news of established local and international fashion brands facing financial difficulty and entering formal insolvency processes becoming more common, these law reforms will impact on the fashion industry.

In this article, we explain how the new laws will operate and the opportunities that they may create both for fashion start-ups and established businesses.

READ THIS ARTICLE

MANDATORY NOTIFICATION OF DATA BREACHES IS NOW LAW

Cameron Abbott, Rob Pulham and Keely O'Dowd

The long awaited commencement of the notifiable data breach scheme (NDB) has now taken effect.

Since 22 February 2018, entities bound by the Australian Privacy Principles have been required to comply with this new scheme and notify the Commissioner and affected individuals when a data breach is likely to result in serious harm to those affected individuals.

READ THIS ARTICLE

CHINA COPYCATS FALL FLAT

Savannah Hardingham and Edwin Tan

It is a common belief in the fashion industry that China remains the "wild west" for intellectual property infringements and for enforcing intellectual property rights. Historically, even large and well-known international brands have experienced difficulty in protecting their trade marks through Court proceedings in China and, even when successful, damages awards could be quite low.

The good news is that the tide appears to be changing. Amendments to Chinese trade mark law coupled with changing attitudes of Chinese courts have helped secure some recent victories for international fashion brands in China.

READ THIS ARTICLE

DON'T GET STITCHED UP! TIPS FOR LEASING SUCCESS

Will Grinter and Stephanie Goodlet

You think that you have found the perfect space – but have you done your due diligence? Entering into a lease is one of the most significant financial commitments for most businesses and one of the most important decisions a business owner will make. Below are five key factors you should consider before signing a lease.

READ THIS ARTICLE

GETTING IT RIGHT WITH DOMAIN NAMES

Simon Casinader and Bianca D'Angelo

As a 'digital shopfront', domain names are important marketing tools for fashion companies in the 21st century. As leading brands can testify, navigating this area can be tricky, especially when encountering cybersquatters who seek to buy up domains to resell them for a profit at a later date, or when simple registration errors put your domains at risk.

READ THIS ARTICLE

CHANGE IS COMING TO AUSTRALIAN PARALLEL IMPORTATION LAW - WHAT DO YOU NEED TO KNOW

Chris Round and Olivia Coburn

Trade mark holders may need to reassess their commercial and international marketing strategies as the proposed amendments to the parallel importation provisions of the *Trade Marks Act 1995* (Cth) (**Act**) take a step closer to enactment by the Australian Parliament.

The proposed amendments to the Act, contained in the draft *Intellectual Property Laws Amendment (Productivity Commission response Part 1 and other measures) Bill* (**Draft Bill**) will favour parallel importers in Australia.

READ THIS ARTICLE

TRADING THROUGH THE STORM – INSOLVENCY LAW REFORM

Zina Edwards

The Government has introduced major law reforms to Australia's insolvency laws which came into effect in September 2017. With news of established local and international fashion brands facing financial difficulty and entering formal insolvency processes becoming more common, these law reforms will impact on the fashion industry.

In this article, we explain how the new laws will operate and the opportunities that they may create both for fashion start-ups and established businesses.

A 'SAFE HARBOUR' FOR DIRECTORS OF A STRUGGLING BUSINESS

Directors of Australian companies can face large personal fines and even criminal liability if they continue trading whilst the business is insolvent. Until recent changes to the law, this meant that directors of a struggling business faced immense pressure to appoint a voluntary administrator, rather than try to find an alternative solution, as voluntary administration would give the directors protection from liability. It also meant that businesses in their early stages that did not yet have sufficient capital or trading history or were 'risky' found it difficult to attract experienced directors to their boards, as those directors did not want to take the personal risk that comes with accepting such an appointment.

The new laws have introduced a 'safe harbour' that allows directors of a struggling business to continue trading without facing liability when those directors commence developing one or more courses of action that are reasonably likely to lead to a better outcome for the business. The aim of this 'safe harbour' is to give directors breathing room to assess the situation, obtain appropriate professional advice and negotiate with their stakeholders to see if a solution outside of formal insolvency can be found.

From a practical perspective, under the new laws a director of a fashion business that is facing financial difficulty will need to take quick and prudent action in order to qualify for the 'safe harbour' protection. The director will need to make sure they keep themselves informed of the company's financial position, ensure that the company and its employees are complying with all laws and work on developing and implementing a plan to turn the business around. The exact steps for developing such a plan will differ in each situation but may include renegotiating terms with suppliers or financiers, approaching new financiers or investors and engaging competent advisers (such as brand and media advisers, lawyers, accountants or other turnaround professionals).

'IPSO FACTO' CLAUSES

The other big change, which will commence on 1 July 2018, is aimed at preventing parties to a contract from terminating that contract or exercising other rights under a contract because the counterparty has gone into (or has taken preparatory steps towards) a formal insolvency process. Similarly, a contract cannot be terminated (or other certain rights cannot be exercised) merely due to a counterparty's financial position. Such contractual rights are known as 'ipso facto' clauses. Previously when a business entered into administration it often faced immediate value destruction as suppliers and large customers terminated contracts thereby sealing the fate of that business. The new laws put a stay on exercising 'ipso facto' clauses so that businesses in financial difficulty have a chance to return back to solvent trading or, if they are approaching insolvency, to undertake a restructuring or turnaround.

While this may be good news for struggling fashion businesses, it is also something to be cautious about when you sit on the other side of a contract. For example, if your business supplies goods to a business that goes into administration it may no longer be able to terminate the supply contract.

Certain contracts and contractual provisions will be excluded from the application of the new laws. The excluded contracts and provisions will be set out in regulations that are yet to be released by the government.

OPPORTUNITIES

If these new laws have their intended impact, it will be easier for businesses in the start-up phase to not only attract more experienced directors to their boards but also to entice angel investors, as the insolvency risks faced by start-ups should be reduced.

More established businesses that experience difficult trading conditions will also have more time to consider their options. It could also mean that there are more investment opportunities as struggling businesses look for new sources of capital or consolidate with compatible brands.

AUTHOR

Zina Edwards
Special Counsel
zina.edwards@klgates.com

Zina works in our Restructuring and Insolvency team. For more information about insolvent trading, business resilience and financing, please visit: www.klgates.com/restructuring--bankruptcy-practices

MANDATORY NOTIFICATION OF DATA BREACHES IS NOW LAW

Cameron Abbott, Rob Pulham and Keely O'Dowd

The long awaited commencement of the notifiable data breach scheme (**NDB Scheme**) has now taken effect.

Since 22 February 2018, entities bound by the Australian Privacy Principles have been required to comply with this new scheme and notify the Commissioner and affected individuals when a data breach is likely to result in serious harm to those affected individuals.

Prior to the introduction of the NDB Scheme in Australia, notification of a data breach to the Australian Information Commissioner was not mandatory under the national *Privacy Act*.

WHY IS IT IMPORTANT TO PREPARE FOR THE SCHEME?

You may be asking yourself, what does this mean for your business and why should you care?

Well, for starters, compliance with the NDB Scheme is mandatory for many businesses that operate in the fashion industry. Failure to comply with the scheme may attract a civil penalty (currently up to AUD420,000 for individuals and AUD2.1 million for corporations). The Commissioner can also pursue enforceable undertakings against non-complying businesses.

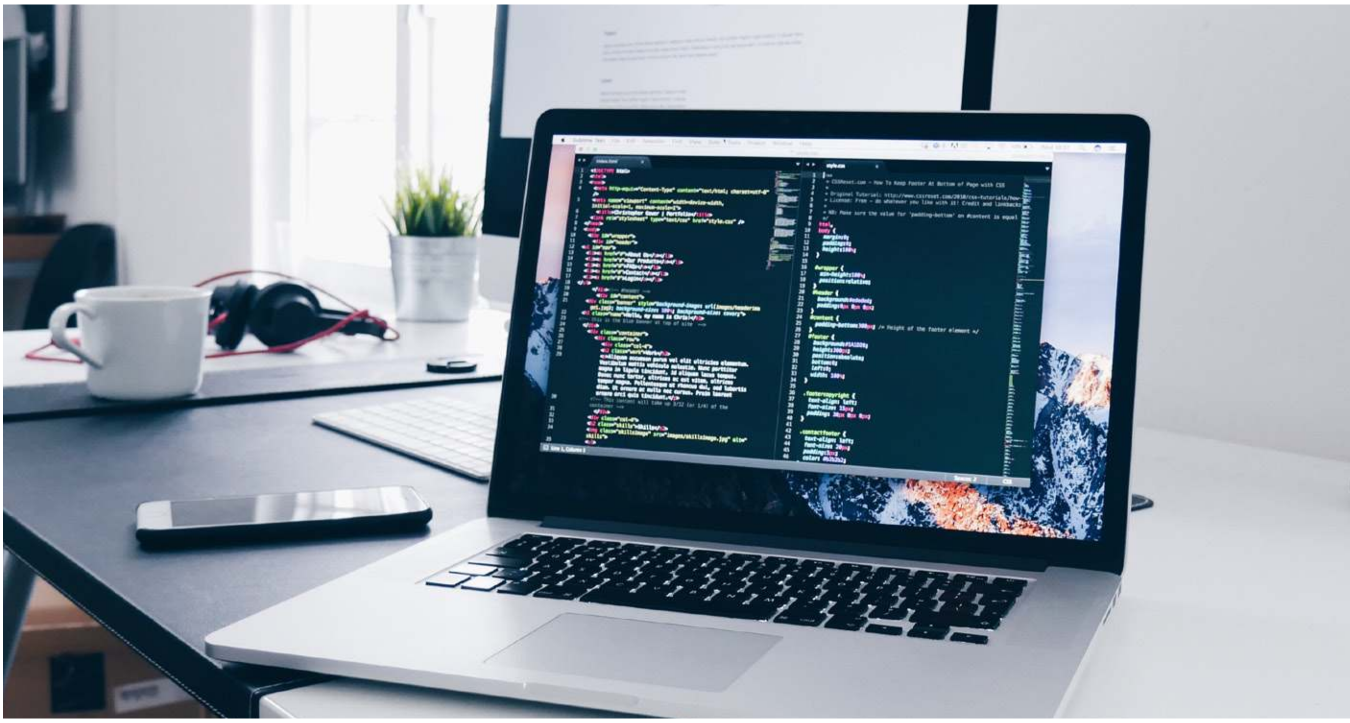
Fashion brands and retailers are targets for hackers, as they handle and store a high volume of personal information. The names, contact information and credit card details of customers are valuable to hackers, who can steal and then sell this material on the dark web for a nominal amount. The greater the volume of information a hacker can appropriate, the more profit to be made.

The recent data breaches that have affected Forever 21 and Kmart, amongst others, serve as a reminder that data breaches are costly and can have significant wide reaching operational, financial, legal and reputational consequences for fashion businesses.

WHAT DO I NEED TO DO TO COMPLY WITH THE SCHEME?

If your business is required to comply with the NDB Scheme, at a minimum, it should make an upfront investment to:

- Review its current privacy and data security policies and procedures and incident/breach response plans.
- Assess whether the policy and procedures set out a plan that can be followed in the event that a data breach occurs. We recommend all businesses have a clear breach response plan. The Commissioner expects this and businesses who have done so have found such plans valuable and effective in a crisis. If your business does not



have a data breach response plan, we recommend that one be prepared now.

- Increase staff awareness of your business' information security policies and procedures and conduct training to inform all staff members of the NDB Scheme. Remember, everyone in the business has a responsibility to remain vigilant and know what to do if they become aware of a data breach.

- Have in place a communication plan that sets out a process to follow in the event that your business suffers a data breach requiring it to notify the Commissioner, affected individuals (if necessary) and other interested parties (such as your business' insurer and third party advisers) of the breach.

- Review contracts with existing suppliers that collect and handle personal information on behalf of your business. Assess if those contracts need updating to include data breach response and notification obligations that suppliers must comply with in the event that they suffer a data breach that includes the personal information it collects or handles on behalf of your business.

- If you are unsure of your business' obligations or have any queries, seek advice from a lawyer who specialises in privacy law.

AUTHORS

Cameron Abbott
Partner
cameron.abbott@klgates.com

Rob Pulham
Special Counsel
rob.pulham@klgates.com

Keely O'Dowd
Senior Associate
keely.o'dowd@klgates.com

Cameron, Rob and Keely work in our Commercial Technology and Sourcing team. For more information about this practice, please visit: www.klgates.com/outsourcing-and-commercial-transactions-practices

CHINA COPYCATS FALL FLAT

Savannah Hardingham and Edwin Tan

It is a common belief in the fashion industry that China remains the "wild west" for intellectual property infringements and for enforcing intellectual property rights. Historically, even large and well-known international brands have experienced difficulty in protecting their trade marks through Court proceedings in China and, even when successful, damages awards could be quite low.

The good news is that the tide appears to be changing. Amendments to Chinese trade mark law coupled with changing attitudes of Chinese courts have helped secure some recent victories for international fashion brands in China.

UNDER ARMOUR

In April 2016, a Chinese company named Uncle Martian advertised footwear and clothing that featured a logo very similar to Under Armour's famous UA logo. The branding was so similar that even major American newspapers took notice, reporting that the Uncle Martian logo looked "identical" to Under Armour's.

In response, Under Armour launched legal action against Uncle Martian in Fujian province. Contrary to expectations, Under Armour was successful and secured interlocutory injunctions, permanent injunctions as well as around AUD370,000 in damages. In addition, Uncle Martian was ordered to publish a statement to correct the adverse effect of its infringements.

NEW BALANCE

New Balance's operations in China have been anything but smooth sailing. In 2015, it lost a lawsuit against a man who had registered a trade mark for the Chinese translation of New Balance, *Xin Bai Lun*. Despite the fact that New Balance had been selling its shoes since the 1960s, and the fact that it had only very occasionally used the *Xin Bai Lun* name in its advertising, a Chinese court ordered it to pay damages of almost AUD1 million to the owner of the *Xin Bai Lun* mark for trade mark infringement.

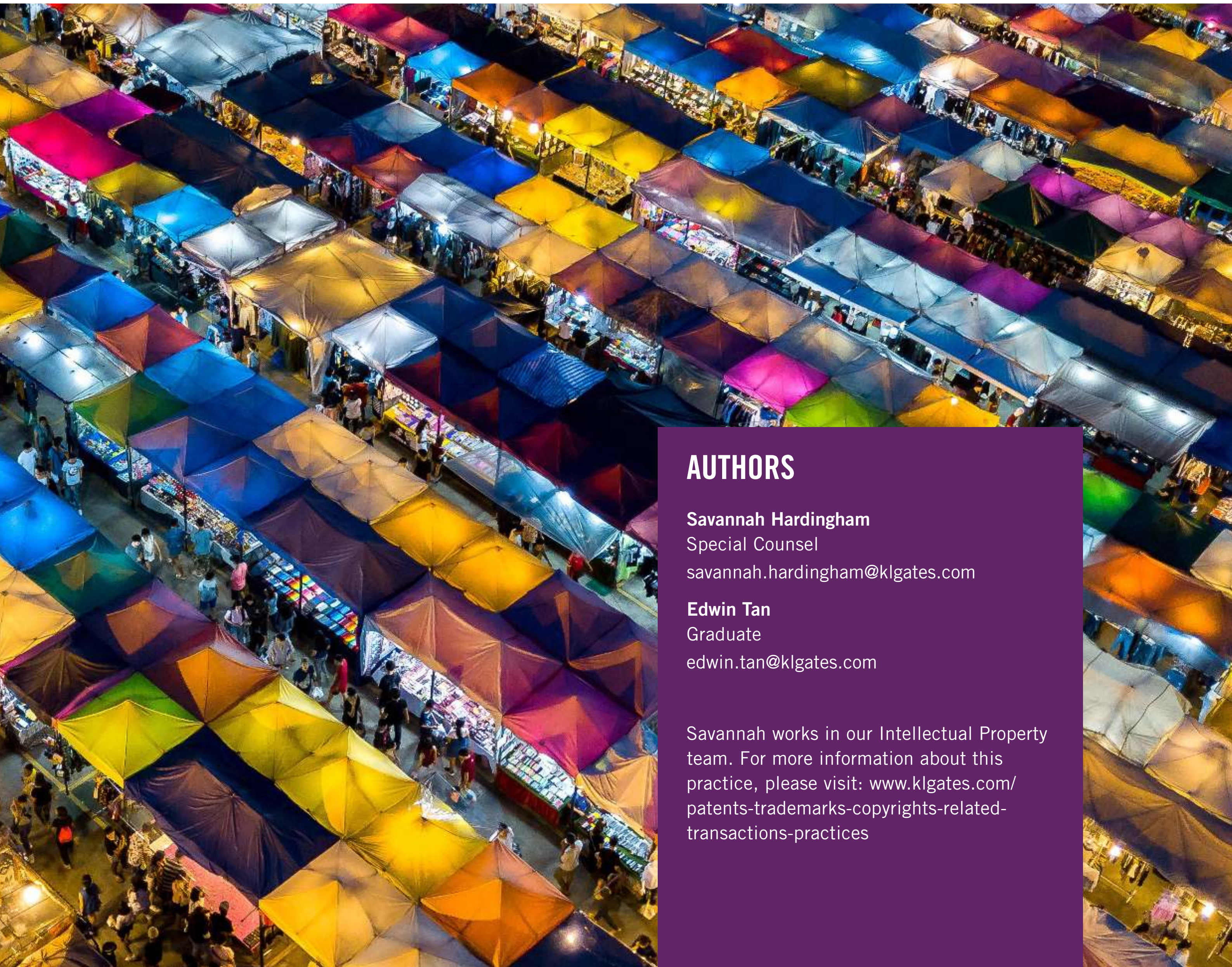
> Adding salt to the wound, in 2016 New Balance was unsuccessful in a trade mark infringement case in China against local shoe brand *New Barlun*.

However, New Balance has fought back and in August won a trade mark infringement case in China against three Chinese companies that had sold clothing and sports equipment under the brand *New Boom*. The products featured a slanted N logo that was almost identical to New Balance's iconic N logo. The Chinese court ruled that New Balance's "unique decoration rights" had been infringed and that the counterfeit products could easily be confused with authentic New Balance products. The Chinese companies were ordered to pay damages of about AUD1.8 million to New Balance. This award has been hailed as an unusually large sum in China – and a sign that the winds may finally be starting to blow in favour of foreign brands.

WHAT DOES THIS MEAN FOR AUSTRALIAN BRANDS?

If you are a brand owner and looking to expand to China, now could be a good time to do so. These rulings are a good indicator that Chinese courts have become more willing to recognise foreign intellectual property rights and crack down on Chinese copycats and rip-off brands.

Of course, it is still essential that you know your legal rights and obligations, and act early to protect your brand. It is important to remember that China is a "first to file" trade mark jurisdiction, which basically means "first in, first served". For this reason, it is very important to file your marks in China at the earliest opportunity, and consider whether the marks should be protected in Chinese as well as in English. Otherwise there is a risk that, as in the case of New Balance (and other fashion brands), an unscrupulous third party could hijack your brand's marks and leave you on the back foot.



AUTHORS

Savannah Hardingham
Special Counsel
savannah.hardingham@klgates.com

Edwin Tan
Graduate
edwin.tan@klgates.com

Savannah works in our Intellectual Property team. For more information about this practice, please visit: www.klgates.com/patents-trademarks-copyrights-related-transactions-practices

DON'T GET STITCHED UP! TIPS FOR LEASING SUCCESS

Will Grinter and Stephanie Goodlet

You think that you have found the perfect space – but have you done your due diligence? Entering into a lease is one of the most significant financial commitments for most businesses and one of the most important decisions a business owner will make. Below are five key factors you should consider before signing a lease.

1. DON'T UNDERESTIMATE THE VALUE OF QUALITY ADVICE

Make sure you seek the advice of a lawyer with experience in leasing prior to signing a lease. Retail tenants enjoy significant protection under retail leasing legislation in each state. It's important you understand your rights and that your lease reflects the landlord's statutory obligations. You should also consider engaging a leasing consultant who can assist you to source a suitable space and negotiate the commercial terms of the lease with the landlord. Negotiating a lease can be challenging, but you might be surprised by the terms offered by a landlord when a skilled negotiator is advocating on your behalf. Benefits may include rent-free periods, fitout contributions and other incentives. Although legal and commercial advice may seem like an unnecessary expense at the time, it can save you money in the long run.

2. DO YOUR RESEARCH

Evaluate the premises, your business and think outside the box. Anchor tenants can be a major drawcard for smaller retailers as a means of increasing foot traffic, but don't assume their presence is guaranteed for the term of your lease. Even if the anchor tenant has long term tenure, leases can come to an end unexpectedly and the absence of an anchor tenant may have a significant impact on your business. Competition is another key factor. Landlords aren't generally obligated to consider the impact a new tenant may have on an existing tenant. Consider whether there might be scope to negotiate a right of exclusivity to limit the landlord's capacity to enter into a lease with a competitor near your leased premises.

3. KNOW WHAT YOU'RE SIGNING

It's important to understand what you're signing before you sign it! There are a number of different documents that might be given to you during a lease negotiation. Some may not be binding, while others are binding and enforceable on signing. Tenants often make the mistake of signing a document before seeking advice on the false premise that there will be a further opportunity to negotiate terms down the track. Don't feel pressured to sign anything before seeking proper advice.

4. (ALMOST) EVERYTHING IS NEGOTIABLE

Don't be afraid to negotiate clauses which might seem like standard terms. Big ticket items include the duration of the lease (and the right to renew), permitted use, rent payable (and how rent will be reviewed), recoverable outgoings and costs, repair

It's important to understand what you're signing before you sign it! There are a number of different documents that might be given to you during a lease negotiation. Some may not be binding, while others are binding and enforceable on signing.

and maintenance obligations, access rights, development and relocation clauses and termination.

If long-term tenure is important to you, consider negotiating an initial term with options for further terms. If you don't intend to trade seven days a week, make sure that your lease doesn't contain minimum trading requirements. If you plan to operate 24 hours a day, be sure your lease provides access to the premises outside of normal business hours. Ensuring that the terms of the lease allow you to operate your business efficiently is critical.

5. THINK ABOUT THE END AT THE BEGINNING

The best time to consider what will happen at the end of your lease is before it starts. End of lease obligations are the source of countless disputes. Does the lease simply require you to remove your fitout or return the premises to base building condition? The cost difference could be tens of thousands of dollars. Avoid an end of lease dispute by agreeing on your obligations up front – consider including a report detailing the condition of the premises and a make good schedule in the lease at the time of signing.

CONCLUSION

Entering into a lease can be overwhelming, but can also prove to be a significant asset to your business when approached correctly. Following these simple tips will help you to minimise the stress associated with your lease and ensure you can focus on the success of your business.

AUTHORS

Will Grinter
Partner
will.grinter@klgates.com

Stephanie Goodlet
Senior Associate
stephanie.goodlet@klgates.com

Will and Stephanie work in our Real Estate team. For more information about retail and commercial leasing, please visit: www.klgates.com/real-estate--commercial-ownership-leasing-and-management-practices1

GETTING IT RIGHT WITH DOMAIN NAMES

Simon Casinader and Bianca D'Angelo

As a 'digital shopfront', domain names are important marketing tools for fashion companies in the 21st century. As leading brands can testify, navigating this area can be tricky, especially when encountering cybersquatters who seek to buy up domains to resell them for a profit at a later date, or when simple registration errors put your domains at risk.

1. "OWNERSHIP" OF DOMAINS

You do not technically 'own' a domain, but you have a licence to use it from a registrar. By registering a domain, you have the right to use the domain name for a specific period subject to the terms of the accredited registrar you purchase it through. This allows you to prevent anyone else from registering the same domain, but it does not in itself entitle you to any other rights in the name. A trade mark is what gives you an exclusive right in a mark.

The registrar should be authorised to make web addresses available, e.g. by .au Domain Administration (**auDA**) for .au domains or the Internet Corporation for Assigned Names and Numbers (**ICANN**) for generic Top-Level Domains (**gTLDs**).

2. CYBERSQUATTING

Since the mid-1990s, countless businesses have been embroiled in 'domain wars' against cybersquatters who register, occupy and traffic a domain without having any legitimate interest in it. In 2015, Hermes International successfully had the domain name *hermes.clothing* transferred. In 2016, De Beers won a claim against an individual who registered *debeers.feedback*. In 2017, Jimmy Choo defended its brand against *jimmy-choos.com* which misled customers into thinking they were buying genuine Jimmy Choo branded goods when this was not the case.

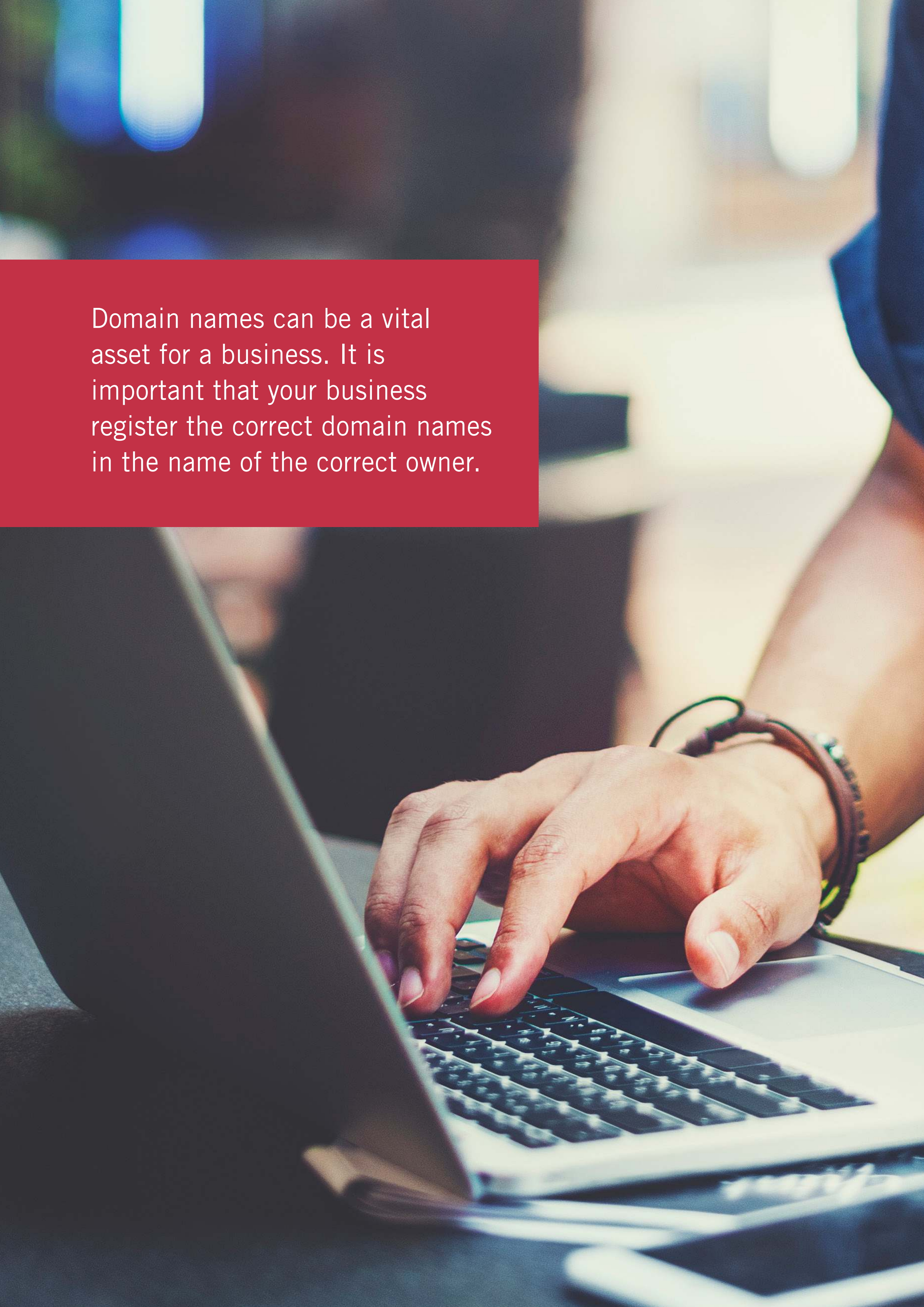
The De Beers and Hermes cases are good news stories for brands concerned about maintaining exclusivity in the wake of ICANN's New gTLD program. Since 2012, ICANN has issued over 1,000 new gTLDs (including *.shopping* and *.luxury*), sparking a new wave of cybersquatting.

Registering the name of brands and celebrities on social media sites is another relatively new problem. Other deceitful practices include making a domain with a typographical error (typosquatting) and using someone else's domain as the sender or 'reply to' address in an email (spoofing).

WHAT SHOULD I DO… WHO SHOULD OWN IT?

Businesses commonly make mistakes setting up a domain. You must ensure that the correct entity, usually your business' operating entity, is registered as the owner of your domain. DO NOT register the domain in the name of an individual such as a designer or CEO who may eventually leave the business and take the domain name when they exit.

Domain names can be a vital asset for a business. It is important that your business register the correct domain names in the name of the correct owner.



WHAT SHOULD I DO... WHEN FACED WITH CYBERSQUATTERS?

If you discover that your brand is being used in bad faith, and your attempts to contact the registrant to purchase the domain name for a reasonable price have failed, you can:

a. Seek to recover or cancel the domain through approved arbitration methods

   An authorised provider (such as WIPO) can cancel or transfer the domain under ICANN's Uniform Domain Name Dispute Resolution Policy (**UDRP**). All domain registrants are bound by the UDRP (or similar policies such as auDA's .au Dispute Resolution Policy) when they buy a domain.

   To succeed in a UDRP Complaint to transfer or cancel a domain, you must show that the domain:

   1. is identical or confusingly similar to a trade mark or service mark, in which you have rights
   2. the registrant has no rights or legitimate interests in respect of it, and
   3. it has been registered and is being used in bad faith.

   Note, however, that it is not considered bad faith to merely register a domain before adopting a trade mark or to register and not use a domain.

   For a new gTLD (such as *.store, .vip* or *.clothing*), businesses can also seek to suspend a domain that is similar to their word mark through ICANN's Uniform Rapid Suspension System (**URS**). This regime offers an even cheaper and faster path to relief than UDRP arbitration.

b. Institute Court proceedings seeking the recovery or cancellation of the domain

   Although you can litigate these matters through the Courts, the arbitration systems above are the cheapest and easiest methods to seek recovery of a domain name.

CONCLUSION

Domain names can be a vital asset for a business. It is important that your business register the correct domain names in the name of the correct owner. Furthermore, it is important that you seek the transfer or cancellation of any domain names which encroach on your legal rights.

AUTHORS

Simon Casinader
Senior Associate
simon.casinader@klgates.com

Bianca D'Angelo
Lawyer
bianca.d'angelo@klgates.com

Simon and Bianca work in our Intellectual Property team. For more information about this practice, please visit: www.klgates.com/patents-trademarks-copyrights-related-transactions-practices

CHANGE IS COMING TO AUSTRALIAN PARALLEL IMPORTATION LAW – WHAT DO YOU NEED TO KNOW?

Chris Round and Olivia Coburn

Trade mark holders may need to reassess their commercial and international marketing strategies as the proposed amendments to the parallel importation provisions of the *Trade Marks Act 1995* (Cth) (**Act**) take a step closer to enactment by the Australian Parliament.

The proposed amendments to the Act, contained in the draft *Intellectual Property Laws Amendment (Productivity Commission response Part 1 and other measures) Bill* (**Draft Bill**) will favour parallel importers in Australia.

WHAT IS PARALLEL IMPORTATION?

"Parallel importation" refers to the situation where genuine goods, marked with a registered trade mark with the authorisation of the rights holder outside Australia, are purchased by a third party – the "parallel importer" – who imports and sells them in Australia.

The price and quality of goods can vary across different countries, depending on the marketing strategy of the trade mark owner. Parallel importers seek to profit from this variance by selling the parallel imports at a cheaper price than the locally available equivalent and this can often impact the local distributer.

For instance, a company Green Lawns sells a lawn mower cheaper in the United States of America than in Australia where its sales are made by an authorised distributor. Green Lawns makes changes to its products to meet local standards and consumer expectations in different countries. So while Green Lawns' lawn mower is cheaper in the U.S., it has different electrical requirements than the lawn mower it makes available for purchase in Australia. Both lawn mowers bear Green Lawns' trade mark, which consumers rely on in making the purchase. When a parallel importer sells the U.S. lawn mower in Australia at a cheaper price than the Australian lawn mower without the authority of Green Lawns, the consumer may initially be drawn to the cheaper product – but when it doesn't meet the consumer's expectations, Green Lawns (or its Australian distributor) is blamed for the discrepancy and its goodwill diminishes as a result.

WHAT ARE THE POLICY CONSIDERATIONS ON PARALLEL IMPORTS?

Parallel importation pits the policy interests of promoting competition and protecting intellectual property rights against each other.

The parallel importer competes with the registered trade mark owner and its authorised distributors to sell the products in Australia. This disrupts the trade mark owner's international marketing plans and prejudices their distribution agreements with local licensees.

On the other hand, competition is seen as a benefit for consumers as it drives prices down and increases their access to goods available in other jurisdictions – although as shown in the Green Lawns example above, consumers may be disappointed with the product intended for another jurisdiction.

WHAT IS THE LAW ON PARALLEL IMPORTATION?

Section 123 of the Act provides that a person does not infringe a registered trade mark by using it in relation to registered goods where that mark has been applied to goods with the registered owner's consent.

This means that a parallel importer can rely on section 123 as a defence to infringement where the registered trade mark was applied to the goods by the trade mark owner at the time of manufacture.

Trade mark owners have been able to preclude parallel importers from relying on this defence by assigning the registered mark to their local licensee, distributor or subsidiary. Once the mark is assigned to a new registered owner, goods sold in Australia by parallel importers will not have the mark applied with the registered owner's consent.

These cases rely on the legal fiction that goods that have been created in one factory have effectively two levels of authorisation for the affixing of the trade mark. The consent of the global trade mark owner for goods sold outside Australia and the consent of the Australian trade mark owner for goods sold in Australia. In reality for many products such as clothing, there is no practical difference between the goods at all. The manufacturer of the goods may not even be aware that the trade mark owner in Australia is a different company.

These types of agreements may include an option to reassign the trade mark back to the original owner, with the effect that the original trade mark owner maintains a level of control over the trade mark.

In its inquiry into Australia's IP arrangements in 2015-16, the Productivity Commission considered the current restriction on parallel imports weighs in favour of rights holders at the expense of consumers.

WHAT ARE THE PROPOSED CHANGES TO THE LAW ON PARALLEL IMPORTATION?

The proposed changes are intended to facilitate parallel importation to the benefit of consumers by limiting the strategic use of such restrictions by trade mark owners.

The proposed changes repeal section 123 and insert a new section 122A into the Act. The proposed new section 122A comprehensively sets out the circumstances in which the parallel importation of trade marked goods does not infringe a registered trade mark.

Those circumstances are where:

- the goods are similar to the trade marked goods; and
- the goods have been put on the market in Australia or a foreign country; and
- at the time of use, it was reasonable for the person using the registered trade mark to assume the trade mark had been applied to or in relation to the goods by or with the consent of the registered owner or certain other entities (which are set out below).

The parallel importer may assume the trade mark has been applied by or with the consent of:

- the registered owner;
- an authorised user;
- a person authorised to use the trade mark by the registered owner or authorised user;
- a person with significant influence over the use of the trade mark by the registered owner or authorised user; or
- an associated entity of any of the above persons.

WHAT IS THE EFFECT OF THE PROPOSED CHANGES?

By comprehensively setting out the persons who the parallel importer can assume applied, or consented to applying, the trade mark to the goods, trade mark owners will no longer be able to prevent parallel importers from relying on the parallel importation defence through assignments and other corporate and contractual arrangements.

Parallel importers will also be protected where the owner of the trade mark changes between the application of the mark to the goods and the use on the goods in Australia, as they may make the assumption at the time of their use of the trade mark.

The changes also remove the evidentiary burden on parallel importers, as they will not have to prove that the registered owner actually applied the trade mark to the goods or consented to the application of the trade mark to the goods by another party – only that it was reasonable for parallel importer to assume as such.

The changes apply the principle of "international exhaustion" to the effect that the trade mark owner's rights are exhausted once they market their goods in their home jurisdiction.

If this change was in place, cases such as *Sporte Leisure Pty Ltd & Ors v Paul's International Pty Ltd & Ors* [2010] FCA 1162 and *Lonsdale Australia Limited v Paul's Retail Pty Ltd* [2012] FCA 584 would have been decided in favour of Paul's Warehouse. The other authorities in this area will also be effectively overruled.

Existing arrangements made that resulted in Australian companies owning trade marks on behalf of international companies could also be unwound. The sole reason for such arrangements would no longer apply.

COMMENT

The proposed changes give effect to the Australian government's policy position that parallel imports benefit competition. In our view, the proposed changes are lacking in that they do not address the problem that consumers, relying on the trade mark, will purchase goods that will not meet their expectations. This is to the detriment of both consumers and the registered trade mark owner. This could be managed if a "material difference" standard was imported into the proposed changes, to the effect that parallel importers could not rely on the proposed section 122A defence where there is a material difference between the imported goods and the goods put on the market in Australia. This is the approach adopted by courts in the U.S., which we consider strikes a better balance between the competing policy interests.

WHAT HAPPENS NEXT?

Public consultation on the Draft Bill closed on 4 December 2017. IP Australia, the agency tasked with developing the legislation for Parliament, is due to review the issues raised through consultation after 16 March 2018, and the Draft Bill is intended for introduction to Parliament as soon as possible.

FURTHER READING:

- Draft Bill: https://www.ipaustralia.gov.au/sites/g/files/net856/f/exposure_draft_of_the_intellectual_property_laws_amendment_productivity_commission_response_part_1_and_other_measures_bill_2017_0.pdf
- Draft Explanatory Memorandum: https://www.ipaustralia.gov.au/sites/g/files/net856/f/draft_explanatory_memorandum_to_the_amendment_bill_0.pdf
- IP Australia policy register – parallel importation of trade marked goods: https://www.ipaustralia.gov.au/policy-register/parallel-importation-trade-marked-goods
- Productivity Commission Inquiry on Intellectual Property Arrangements 2015-16: http://www.pc.gov.au/inquiries/completed/intellectual-property#report

Chris Round is the Asia Pacific and Africa Chair of the Parallel Imports Committee of the International Trademark Association (INTA), which made a submission to IP Australia on the Draft Bill.

AUTHORS

Chris Round
Partner
chris.round@klgates.com

Olivia Coburn
Lawyer
Olivia.Coburn@klgates.com

Chris and Olivia work in our Intellectual Property team. For more information about this practice, please visit: www.klgates.com/patents-trademarks-copyrights-related-transactions-practices

FASHION AND RETAIL AT K&L GATES

Virgin australia
MELBOURNE FASHION FESTIVAL®
01 18 MARCH 2018

WE ARE PROUD TO BE A LONG TIME SPONSOR OF THE VIRGIN AUSTRALIA MELBOURNE FASHION FESTIVAL

WE ASSIST

national and international designers, luxury fashion brands, clothing and footwear retailers, specialty retailers, boutiques, start-ups, and fashion outlets

WE ARE PROUD TO SUPPORT

various fashion associations including the **Luxury Law Alliance (UK)**

We can help you **across all stages** of your company's lifecycle including establishing your business and e-commerce structures, protecting your brand and designs, and any employment and real estate needs

We have over 40 lawyers active in fashion and retail globally – meaning we can assist wherever you need it

We are passionate about fashion and have been recognised for our work in this space by being shortlisted as a **Luxury Law Firm of the Year (Luxury Law Summit 2017)**

For any questions relating to your company's needs, please contact **Lisa Egan** on +61 3 9205 2099 or lisa.egan@klgates.com

K&L GATES

17593