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Right to Repair Inquiry  
Productivity Commission  
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### **Productivity Commission – Right to Repair Issues Paper (December 2020)**

1. The Business Law Section of the Law Council of Australia welcomes the opportunity to comment on the 'Right to Repair' Issues Paper released by the Productivity Commission (**Commission**) in December 2020 (**Issues Paper**), as part of the Commission's Right to Repair Inquiry (**Inquiry**).
2. The Business Law Section has received contributions from two of its committees in relation to this consultation:
  - a. The Competition and Consumer Committee; and
  - b. The Intellectual Property Committee (together, the **Committees**).
3. In summary, the Committees are of the view that existing laws generally provide adequate rights and remedies to consumers in relation to repairs. The introduction of a new, all-encompassing 'right to repair' is likely to be counterproductive and cause confusion for both consumers and businesses.
4. This submission is divided into two parts, each dealing with separate Information Requests raised in the Issues Paper. Part A of this submission has been prepared by the Competition and Consumer Committee, while Part B has been prepared the Intellectual Property Committee.

## Part A

### Introduction

5. The Competition and Consumer Committee's comments on the Issues Paper below are limited to those parts of the Issues Paper that are relevant to competition and consumer law.
6. In summary:
  - a. The Competition and Consumer Committee is of the view that existing laws generally provide adequate rights and remedies to consumers in relation to repairs. The introduction of a new, all-encompassing 'right to repair' is likely to be counterproductive and cause confusion for both consumers and businesses. It is far preferable to consider refinements to the existing regime, as necessary.
  - b. The consumer guarantees in the Australian Consumer Law (**ACL**) provide consumers with broad protections relevant to the repair of goods. For example, where goods fail to comply with the guarantee of acceptable quality, and the failure is a 'major failure', consumers can elect that defective goods be repaired at the supplier's cost. Under the guarantee of reasonable availability of facilities for repairs and spare parts, manufacturers and importers must make repair facilities and spare parts reasonably available for a reasonable period after purchase.
  - c. While there are certain carve outs to the consumer guarantees regime (eg, remedies for defects are not available where the defect is caused by abnormal use), these should not be regarded as 'unnecessary barriers to repair' but instead reflect a careful balancing of the interests of consumers, suppliers and manufacturers.
  - d. Consumers are provided a broad range of protections under existing competition and consumer laws. For example, manufacturers and authorised repair networks are prohibited from entering into exclusive contracts or arrangements which have the purpose, effect or likely effect of substantially lessening competition; a manufacturer refusing to deal with independent repairers in respect of primary goods may well contravene the prohibition of misuse of market power; commercial strategies which intentionally reduced the performance of older devices may involve misleading or even unconscionable conduct contrary to the ACL. The Competition and Consumer Committee considers that these laws sufficiently address anti-competitive, misleading or unfair conduct which has a material effect on consumers and competition in repair markets. The Competition and Consumer Committee does not consider that the case has been made for any broad reaching, economy-wide right to repair.

## What is a 'Right to Repair'?

*Information Request 1 asks:*

- *What would a 'right to repair' entail in an Australian context? How should it be defined?*
7. The Issues Paper suggests (page 1) that *'in essence a 'right to repair' relates to the ability of consumers to have their products repaired at a competitive price by the repairer of their choice'*.
  8. The Competition and Consumer Committee does not consider that such a broad definition of a 'right to repair' is necessary or useful.
  9. First, none of the international approaches referred to in the Issues Paper appear to have implemented a right to repair in these broad terms. Most of the international approaches are narrow policy initiatives which address a specific issue in repair markets and often in specific industries (eg, requirements to display reparability ratings for electrical and electronic products at the point of purchase).
  10. Second, the definition focuses on consumers having competitive offers where they purchase repairs *themselves*. The definition does not contemplate *suppliers* arranging repairs and meeting the cost of those repairs in circumstances where the product is faulty. In the latter scenario, the choice and price of the repairer is less relevant to the consumer. What matters is that the product is repaired to a high standard and within a reasonable period of time.
  11. A more useful framework might be to identify a list of features or outcomes that the Commission would expect to see if repair markets and consumer protections are working effectively and to assess existing regulatory regimes against that framework.

## Existing consumer rights in consumer law

*Information Request 3 asks:*

- *Do the consumer guarantees under the ACL provide adequate access to repair remedies for defective goods? If not, what changes could be made to improve access to repair remedies? Are there barriers to repairing products purchased using new forms of payment technologies, such as 'buy now pay later'? (paragraph 3(a))*
- *Are consumers sufficiently aware of the remedies that are available to them, including the option to repair faulty products, under the ACL's consumer guarantees? (paragraph 3(d))*

## Overview of the consumer guarantees

12. Under the ACL, consumers' rights to repair goods vary depending on the reasons for the repairs being necessary and the age or period of use of the goods.

13. Newly purchased goods will usually come with **manufacturers' express warranties** covering defects for periods of months or years. These are enforceable as contracts and, in addition, one of the consumer guarantees contained in the ACL requires that manufacturers or suppliers (as the case may be) must comply with their express warranties (s59). Goods may also be the subject of 'extended warranties' purchased with them and these are also enforceable as contracts.
14. In addition to rights under these warranties, most consumer goods are subject to the **consumer guarantees** under the ACL. Most relevantly, these include a guarantee of 'acceptable quality' (which itself includes a guarantee that the goods are as 'durable' as a reasonable consumer would regard as acceptable). Where a failure to comply with the guarantee of acceptable quality is a 'major failure', consumers are entitled (at their election) to a refund, replacement or repair. For minor failures, the supplier can choose whether to offer a refund, replacement or repair. The guarantee of acceptable quality is not breached if defects were specifically drawn to a consumer's attention before purchase, the consumer inspected the goods before purchase, or if the good becomes defective because of abnormal use by the consumer.
15. The period during which goods are covered by express warranties and the ACL guarantee of acceptable quality may represent a large part of the **useful life** of particular goods. For example, there are instances of manufacturers' giving express warranties on the durability of electric motors for seven years or more and, presumably, the ACL guarantees of acceptable quality would apply for at least this long.
16. In the case of goods that are **not defective** for the purposes of express warranties or the consumer guarantee of acceptable quality but need to be repaired because components have worn out, the good has been damaged by misuse or accident, or for other reasons, consumers themselves may wish to have the goods repaired and components replaced. There is a consumer guarantee which requires manufacturers and importers to take reasonable action to ensure that spare parts and facilities for the repair of the goods are reasonably available for a reasonable period after purchase. The guarantee does not apply if manufacturers provide written notice to consumers at the time of sale that repairs or spare parts will not be available.

### **Access to repair remedies**

17. The Competition and Consumer Committee considers that the consumer guarantees do provide adequate protection to consumers in respect of defective goods, including repair remedies.
18. The consumer guarantees are broad and flexibly applied. If a defect becomes apparent during the currency of an express warranty given by the manufacturer or supplier, there is an ACL guarantee that the manufacturer or supplier, as the case

may be, will comply with the guarantee (s59). For most consumers, a claim under an express warranty, if applicable, would be the most obvious remedy to consider.<sup>1</sup> In addition, if the goods are covered by the ACL guarantee of 'acceptable quality' (s54) or fitness for disclosed purpose (s55) and there is a major failure, the consumer has remedies against the supplier including a repair, replacement or refund. The consumer can also claim damages against the supplier (s259) or manufacturer (s271).

19. These guarantees, and the remedies for non-compliance with them, provide significant protection for consumers. In particular, the guarantee of 'acceptable quality' requires that goods be fit for all the purposes for which goods of that kind are commonly supplied, acceptable in appearance and finish, free from defects, and as safe and durable 'as a reasonable consumer fully acquainted with the state and condition of goods (including any hidden defects of the goods) would regard as acceptable' having regard to the following matters:
  - a. the nature of the goods;
  - b. the price of the goods (if relevant);
  - c. any statement made about the goods on any packaging or label on the goods;
  - d. any representation made about the goods by the supplier or manufacturer of the goods; and
  - e. any other relevant circumstances relating to the supply of the goods.  
(s54(2),(3))
20. A consumer's right to reject defective goods for failure to comply with a guarantee (s259) depends on whether the defect is 'major' as defined in section 260. A failure is a 'major failure' if the goods 'would not have been acquired by a reasonable consumer fully acquainted with the nature and extent of the failure'.
21. The combined effect of these provisions is that if goods are 'defective' according to reasonably broad consumer notions of 'defect', the guarantee of 'acceptable quality' is very likely to provide remedies to the consumer. So broad is the definition of major failure that, more often than not, the consumer will also be entitled to choose their remedy. Indeed, the Competition and Consumer Committee has previously expressed a concern that the definition of major failure over-captures major faults because no consumer would choose a particular good if he or she were aware that it was faulty (regardless of the magnitude of the fault).<sup>2</sup>
22. As noted in the Issues Paper (page 5), the availability of repairs under the ACL may be affected by several factors, including:
  - a. consumer awareness of their rights;

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<sup>1</sup> The consumer may have purchased an 'extended warranty' from the supplier or a third party and, if the defect becomes apparent during the currency of that warranty, the consumer may have a remedy under it.

<sup>2</sup> See Submission to the Interim Report of the Australian Consumer Law Review dated 30 June 2017.

- b. that the consumer guarantee of acceptable quality is not breached by reason of consumer-caused damage;
- c. that the consumer guarantee of acceptable quality is not breached if the consumer inspected the goods prior to purchase and ought reasonably to have identified the defect;
- d. in respect of goods which fall outside the threshold of the consumer guarantees (from 1 July 2021, these are goods for business purposes if purchased for more than \$100,000); and
- e. that repair facilities and spare parts are only required to be 'reasonably' available for a 'reasonable' period of time (and that this guarantee does not apply if the consumer received written notice at the time of sale that repairs and spare parts would not be available).

23. With the exception of consumer awareness issues, the Competition and Consumer Committee does not regard any of these factors as 'unnecessary barriers to repairs'. Rather, each of these limitations reflects a careful balancing of the interests of consumers, retailers and manufacturers. For example, suppliers ought not to bear the cost of defective goods where the consumer treated the good abnormally or purchased the good at a discount and fully informed of the defect. To require suppliers to provide remedies in these scenarios would represent an unacceptable compliance burden on business, increasing compliance costs and ultimately increasing the cost of goods to consumers.

### **Changes to improve access to repair remedies**

24. The Competition and Consumer Committee remains of the view that there are some aspects of the consumer guarantees regime which could be clarified so that traders and consumers alike have greater certainty about their application. In particular:
- a. the distinction between major and minor failures in the consumer guarantees is intended to strike a balance between the rights of consumers and traders – while consumers can choose a refund, repair or replacement for a major failure, traders can select the most cost-effective remedy in the case of minor failures. Notwithstanding this policy objective, in practice, the definition of major failure is so broad that it leaves the provisions regarding non-major failures with little room to operate. The Competition and Consumer Committee considers that this issue merits further consideration by the Commission.
  - b. in respect of the consumer guarantee as to repairs and spare parts, the Competition and Consumer Committee considers that further guidance on when repairs and spare parts are 'reasonably available' and what is a 'reasonable period of time' would be of assistance. This could be done by way of regulatory guidance or statutory clarification. Regulatory guidelines can provide a detailed explanation as to scope and application. For

example, after undertaking a study into specific consumer products (perhaps in conjunction with consumer groups), the ACCC could publish information as to what it considers could be 'reasonable' availability of parts and 'reasonable' time, in respect of different categories of goods. Nonetheless any such guidance should be clear that it is only guidance and not an authoritative interpretation of what is 'reasonable' in all situations. If there is to be statutory clarification, the Competition and Consumer Committee considers that it should – for consistency – include a non-exhaustive list of factors that are relevant to determining if repairs and spare parts have been made reasonably available, in a manner similar to how the *Competition and Consumer Act 2010* (Cth) lists factors to take into account when determining whether goods are 'durable'. The definition would be specific to that section, and not applicable to the word 'reasonable' elsewhere in the Act.

25. The Competition and Consumer Committee also notes that in September 2019, Consumer Affairs published guidelines on the guarantee as to acceptable quality and 'durability'. The Competition and Consumer Committee had long advocated for further regulatory guidance as to the meaning of these concepts and was supportive of the introduction of these guidelines. The Competition and Consumer Committee considers that these guidelines should be regularly reviewed, with additional practical examples added over time to assist both traders and consumers to better understand these concepts.
26. The Competition and Consumer Committee agrees that consumer awareness is one barrier to consumers seeking remedies under the consumer guarantees, however notes that this is an issue with any consumer protection (including any new 'right to repair'). The Competition and Consumer Committee is supportive of additional public awareness campaigns being undertaken to enhance consumer awareness of the protections being available to them.
27. Finally, as the Issues Paper mentions, 'recourse through tribunals or courts can be costly or limited to certain transactions' (page 7). This raises the issue of access to justice more broadly and would probably be more effectively addressed by a general inquiry on that particular topic.

## Repair Markets

*Information Request 4(f) asks:*

- *Are the restrictive trade practices provisions of the CCA (such as the provisions on misuse of market power, exclusive dealing or anti-competitive contracts) sufficient to deal with any anti-competitive behaviours in repair markets?*

28. The Issues Paper asks whether the restrictive trade practices provisions of the CCA, such as the provisions on misuse of market power, exclusive dealing or anti-

competitive agreements, are sufficient to deal with any anti-competitive behaviours in repair markets (Information Request 4(f)).

29. There is nothing in the Issues Paper to support the view that the restrictive trade practices provisions of the CCA (in particular, sections 45, 46 and 47) would be found to be inadequate if put to the test in appropriate cases. A policy underpinning the competition law is that there should be a strong preference for general rules applicable to all sectors and activities of the economy rather than more specific, industry or activity-specific rules. There would need to be strong evidence of a need to depart from this approach before amendments to these provisions could be contemplated.
30. If there are special barriers to competition in a particular sector of the economy (such as, for example, in motor vehicle repairs) that justify regulatory intervention beyond the general provisions of the CCA, the Commission could consider the possibility of a code of conduct specifically tailored to that sector. There are a number of such codes of conduct prescribed under section 51AE (see also sections 51ACA and 51AD). The possibility of declaring information standards under sections 134 and 135 of the ACL might also be considered. However, the case for any such intervention would need to be well established by the evidence and would need to be made on a sector-specific basis after a focused review, eg by the ACCC.

### **Planned Product Obsolescence**

*Information Request 6 asks:*

- *How can the Commission distinguish between planned product obsolescence and the natural evolution of products due to technological change and consumer demand? (paragraph 6(b))*
- *What measures do governments currently use to prevent planned obsolescence or mitigate its effects (in Australia and overseas)? How effective are those measures? (paragraph 6(d))*

31. The Commission should not consider any laws prohibiting planned obsolescence (as suggested in Table 1 of the Issues Paper). If it is the case that any intervention can be justified (which is not yet apparent), such intervention should be less intrusive, such as the imposition of information requirements. This is for a number of reasons.
32. It is next to impossible for anyone to confidently distinguish between planned obsolescence and the natural evolution of products. Attempting to do so would run a serious risk of error every time it tried. This highlights the fundamental difficulty with any regulatory intervention in relation to planned obsolescence. The process of product design and production involves consideration and balancing of a multitude of factors, including costs, price points, technological change, consumer preferences, appearance, function, manufacturing techniques and many more. It is

highly doubtful that regulatory intervention in this process would achieve a better result for consumers than the market. Indeed, it could easily have the opposite effect.

33. This is not to say that concerns about planned obsolescence are not legitimate. There are currently numerous consumer law proceedings against OEMs worldwide alleging that the manufacturer deliberately slowed down or degraded the user functionality of their products in order to push consumers to purchase new versions of those products. Nevertheless, in Australia, the ACL already provides a large measure of protection against consumer detriment resulting from any planned obsolescence. This is not only through the use of consumer guarantees, but also the preventative effects of provisions such as those prohibiting unconscionable conduct and misleading or deceptive conduct.
34. This is recognised in the Issues Paper. To the examples of provisions in the ACL that could capture the types of planned obsolescence that gives rise to consumer harm listed on pages 19-20 of the Issues Paper could be added the general prohibitions on misleading and deceptive conduct (s18) and false or misleading representations (s29), insofar as manufacturers or retailers engage in such conduct in pursuit of planned obsolescence. For instance, a retailer that represents to consumers that a mobile phone will continue to receive software updates for a certain time (or is silent when asked) while knowing that the product is planned to be phased out, would likely contravene one or both of those sections.
35. Reliance on these provisions is sufficient, and avoids needing to tackle the vexed questions of, amongst others:
  - a. how to define 'planned obsolescence', particularly in the context of dynamic and innovative modern consumer product markets;
  - b. how to accurately determine what types of 'planned obsolescence' conduct actually harms consumers (outside of the bounds of the current consumer law) such that remedies are required, whilst avoiding Type I and Type II errors; and
  - c. how to design remedies that best ameliorate that consumer harm (if indeed any exists) while at the same time avoiding imposing undue cost on OEMs that stifles innovation.

## Implications for E-Waste

*Information Request 7(e) asks:*

- *How can a right to repair policy further reduce the net costs of e-waste in Australia and would such an approach be an effective and efficient means of addressing the costs of e-waste to the community?*

36. The challenge of managing e-waste requires consideration of many factors, the possibility of a right to repair being only one, and a relatively minor one at that. For

the same reasons suggested in the previous section, it is doubtful that a regulated right to repair would contribute significantly to further reduction of net e-waste costs or provide an effective and efficient means of addressing those costs.

## Possible policy options

*Information Request 8 asks:*

- *What policy reforms or suite of policies (if any) are necessary to facilitate a 'right to repair' in Australia? (paragraph 8(a))*
- *Are there any other barriers to repair and/or policy responses that the Commission should consider? (paragraph 8(b))*

37. As discussed above, the Competition and Consumer Committee is of the view that the framework of existing competition and consumer laws is appropriate and there is no need for a broad 'right to repair'.

## Part B:

### Introduction

38. The Intellectual Property Committee observes that intellectual property (**IP**) law in Australia has recently changed to facilitate repair, and in this context it does not support introducing a further general right of repair. As noted in the Issues Paper, there are both benefits (including the potential for reduced price for the original product and safety, interoperability, liability and reputational issues with non-original equipment manufacturer parts/repair) and limitations (particularly increased cost of repair). The cost-benefit analysis may vary for different products and markets.

39. Our anecdotal observation from cases where IP rights are enforced in relation to repair is that there are cases where repair is a planned profit centre commonly associated with offering the original product at a lower price than would otherwise be the case as in the well-known case of printers and printer cartridges. In other cases, repair is unprofitable and the supplier's concern is about issues of safety, interoperability, liability or product reputation, for example resulting from product failure after poor quality repair.

40. A significant development that has occurred since this inquiry's terms of reference were received is the decision of the High Court of Australia in *Calidad Pty Ltd v Seiko Epson Corporation* (2020) 384 ALR 577; [2020] HCA 41 (**Calidad**). In that decision, a plurality of the High Court held that the doctrine of exhaustion applies to patentees' rights in Australia. As a result, subject to any contractual arrangements, a patentee's exclusive rights in respect of a patented product will be exhausted on the sale of that product. This approach replaces the 'implied licence'

doctrine endorsed by the Privy Council in *National Phonograph Co of Australia Ltd v Menck* (1908) 7 CLR 481, under which purchasers were taken to obtain an implied licence to exploit the patentee's rights to the extent necessary to use and sell the product.

41. The *Calidad* decision makes it clear that patentees' rights are subject to exhaustion on sale in Australia and brings Australian jurisprudence in line with that of trading partners such as the United States (**US**) and the European Union.<sup>3</sup> It appears the reasoning in the decision may be applied in relation to other IP rights including, particularly, copyright.

## Repairs by consumers or independent third parties

*Information Request 5(a) asks:*

- *To what extent do current IP laws already facilitate repairs by consumers or independent third parties?*

42. Various aspects of existing IP laws operate to facilitate repairs by consumers and independent third parties.
43. There is an express provision in section 72 of the *Designs Act 2003* (Cth). Although that provision has existed since the Act was initially passed nearly 20 years ago, it has only recently been considered by the Federal Court in *GM Global Technology Operations LLC v SSS Auto Parts Pty Ltd* (2019) 139 IPR 199; [2019] FCA 97. That decision illustrated the difficulty faced by registered design owners against whom the defence is raised, in light of the fact that the Act places the onus on the design holder to establish that the use was not for repair purposes. In that case, the design owner failed to do so except in relation to a small number of transactions, with the result that the 'repair' defence was largely made out.
44. While the High Court was dealing with the doctrine of exhaustion in the context of patents, the plurality's reasoning may also support the application of the doctrine in the context of other forms of IP.<sup>4</sup>
45. It is noteworthy that, in many other jurisdictions in which the doctrine of exhaustion applies to patents, it also applies to other forms of IP. For example, in the US,

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<sup>3</sup> See, eg, *Impression Products, Inc v. Lexmark International, Inc*, 137 S. Ct. 1523 (2017).

<sup>4</sup> See, eg, Michael Williams and Vanessa Farago-Diener, "Rewriting Judicial History or Just Refilling Ink? Patents and the Right to Repair in Australia Post-*Calidad*: "Logic, Simplicity and Coherence with Legal Principle" Preval over "Rights which They Have Held for More Than a Century" (2020) 31 *Australian Intellectual Property Journal* 147 at 159; Kellech Smith and Tim Rankin, "Death of the Implied Licence: High Court Adopts the Doctrine of Exhaustion in Australia", *Ashurst* (13 November 2020) <<https://www.ashurst.com/en/news-and-insights/legal-updates/death-of-the-implied-licence-high-court-adopts-the-doctrine-of-exhaustion-in-australia/>>; Alana Long and Stephanie Rawlinson, "High Court Adopts Exhaustion Doctrine for Patent Products, Jettisoning the "Implied Licence Doctrine" in Australia", *Gadens* (26 November 2020) <<https://www.gadens.com/legal-insights/high-court-adopts-exhaustion-doctrine-for-patent-products-jettisoning-the-implied-licence-doctrine-in-australia/>>.

similar (albeit slightly different) doctrines of exhaustion apply in relation to patents,<sup>5</sup> copyright<sup>6</sup> and trade marks.<sup>7</sup> The same is true of the European Union.<sup>8</sup>

46. If the same principles apply to copyright this will facilitate repair in the context of copyright protection. For the time being, there is uncertainty as to whether and how *Calidad* will be applied in the context of copyright. We do not suggest that amendments to the Copyright Act should be adopted before this is clarified as it is likely to create overlapping or conflicting rights.

### **Are there any aspects of IP laws where consumers' rights with respect to repairs are uncertain?**

*Information Request 5(b) asks:*

- *Are there any aspects of IP laws where consumers' rights with respect to repairs are uncertain?*

47. *Calidad* is a recent decision which inevitably leaves some uncertainty with respect to the limits of consumers' repair rights.
48. One particular uncertainty is where to draw the line between 'repair' and 'making'. However, in the Intellectual Property Committee's submission this is something that can only be resolved by the courts on a case-by-case basis.
49. We also observe that, notwithstanding the High Court's endorsement of the doctrine of exhaustion, that does not necessarily preclude a role for implied licences which may well continue to have a role in conjunction with exhaustion particularly in relation to method inventions and copyright.

### **Do current IP protections pose a significant barrier to repair in Australia?**

*Information Request 5(c) asks:*

- *Do current IP protections pose a significant barrier to repair in Australia?*

50. As a practical matter, the Intellectual Property Committee notes that it is only very rarely that IP protection has been deployed in relation to repairs conducted by consumers themselves.
51. Instead, these barriers typically arise in the context of business use and particularly in the context of businesses that repair consumer goods, provide non-

<sup>5</sup> See *Impression Products, Inc v. Lexmark International, Inc*, 137 S. Ct. 1523 (2017).

<sup>6</sup> See *Bobbs-Merrill Co v. Straus*, 210 US 339 (1908); 17 USC § 109.

<sup>7</sup> See, eg, *A Bourjois & Co, Inc v. Katzel*, 275 F 539 (2d Cir 1921); *Champion Spark Plug Co v. Sanders*, 331 US 125 (1947); *Olympus Corp v. United States*, 794 F.2d 315 (2d Cir 1986); *NEC Elecs v. CAL Circuit Abco, Inc*, 810 F.2d 1506 (9<sup>th</sup> Cir 1987).

<sup>8</sup> See, eg, *Centrafarm and Adriaan de Peijper v Sterling Drug Inc* (C-15/74); *Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the Harmonisation of Certain Aspects of Copyright and Related Rights in the Information Society* (OJ L 167, 22.6.2001) article 4; *Directive 2015/2436 of the European Parliament and of the Council of 16 December 2015 to Approximate the Laws of the Member States relating to Trade Marks* (OJ L 336, 23.12.2015) article 15; *Directive 98/71/EC of the European Parliament and of the Council of 13 October 1998 on the Legal Protection of Designs* (OJ L 289, 28.10.1998) article 15.

OEM parts, etc. It is these businesses that are predominantly impacted by IP protections in this space.

52. As a result of *Calidad*, IP protections provide less of a barrier than previously. In most cases the main residual barriers are likely to be physical or software protection measures such as encryption rather than IP legal rights. However there are some particular issues which arise with copyright.
53. Technological protection measures (**TPMs**) may pose a barrier to repair in some cases. The *Copyright Act 1968* (Cth) creates both civil and criminal liability for anyone who circumvents a TPM (sections 116AN, 132APC), manufactures a circumvention device for a TPM (sections 116AO, 132APD) or provides a circumvention service for a TPM (sections 116AP, 132APE). Maximum penalties for these offences reach 550 penalty units (currently \$122,100) and/or five years imprisonment.
54. It is notable that the definitions of 'access control technological protection measure' and 'technological protection measure' in section 10(1) exclude any device, product, technology or component to the extent that it:
  - if the work is a computer program that is embodied in a machine or device—restricts the use of goods (other than the work) or services in relation to the machine or device.
55. The aim of this passage is to decline protection to, for example, printer manufacturers seeking to restrict the use of generic cartridges in their printers, or garage door manufacturers seeking to prevent the use of competitors' remote control garage door openers.<sup>9</sup>
56. Further, the *Copyright Regulations 2017* (Cth) provide a defence/exception to sections 116AN and 132APC in relation to:
  - the gaining of access by a person to copyright material that is protected by a technological protection measure that interferes with or damages a product in which it is installed (the **host product**) or another product used in conjunction with the host product:
    - (i) to prevent damage, or further damage, to the host product or another product by the technological protection measure; or
    - (ii) to repair the host product or another product (if circumvention of the technological protection measure is necessary to enable the repair to be carried out) ...
57. The outcome is that these measures will not prevent circumvention in the context of repair of machines or devices but they may still be used to prevent circumvention in the context of repair of electronic files or software, and indeed make it a criminal offence.

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<sup>9</sup> Explanatory Memorandum to the Copyright Amendment Bill 2006 (Cth).

58. The second area of concern in relation to copyright specifically is that repair is likely to require copying, for example to make a new error-free copy of a file or software. Making a new error-free copy may involve principles different from exhaustion. In the US the issue does not arise because the making of such copies falls within the general fair use defence. Australia has no such defence and – with the exception of the Y2K-era section 47E which permits the reproduction of computer programs to correct errors only where a working copy is not available 'within a reasonable time at an ordinary commercial price' – there is no corresponding fair dealing defence dealing with repair.

### **In what ways might government facilitate legal access to embedded software in consumer and other goods for the purpose of repairs?**

*Information Request 5(d) asks:*

- *In what ways might government facilitate legal access to embedded software in consumer and other goods for the purpose of repairs?*

59. The post-*Calidad* principles of exhaustion appear to permit access to embedded software in patented goods. Access to embedded software was specifically considered and permitted in corresponding US litigation. Additional comments on the key decisions are provided in Schedule 1.

60. However, there are two matters which should be considered:

- a. The first is to extend the scope of the exemption to the TPMs to include repair of defective software.
- b. The second is to consider the adoption of a general fair use defence in relation to copyright. This would make the Australian position consistent with the US position. A fair use defence is a measure which the Intellectual Property Committee has previously recommended for general reasons.<sup>10</sup> The government has rejected Australian Law Reform Commission and Productivity Commission recommendations to this effect but this sort of case is a further reason why it should be reconsidered.

### **Other considerations**

61. It is notable that the assumptions that repair has economic and environmental benefits over replacement does not appear to be correct as a general proposition.

62. With many goods the cost of a new product may be less than the cost of even the cheapest repair. In relation to safety and the environment, promoting repair rather than replacement would be directly opposed to many current government initiatives which adopt the opposite approach and specifically encourage

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<sup>10</sup> See Intellectual Property Committee, Business Law Section, Law Council of Australia, Submission No 765 to Australian Law Reform Commission, *Copyright and the Digital Economy* (8 August 2013); Intellectual Property Committee, Business Law Section, Law Council of Australia, Submission No 64 to Productivity Commission, *Intellectual Property Arrangements* (1 December 2015).

consumers to replace existing goods with new and safer or more environmentally efficient equivalents.<sup>11</sup>

63. We also observe that, if it is intended, for environmental public policy reasons, to limit or remove intellectual property rights by taking measures which travel beyond exhaustion principles, consideration would need to be given as to whether this is compliant with Australia's international treaty obligations, including in respect of investment treaties and free trade agreements. Those considerations are, in light of the urgency with which this advice has been sought, beyond the scope of this submission.

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<sup>11</sup> For example, the Victorian Government's "Victorian Energy Upgrades" program aims to incentivise consumers to retire old and energy inefficient goods for newer energy-efficient ones. The program assists consumers to replace lights, hot water systems, heating and cooling systems, shower heads, pool pumps, in-home displays, fridges and freezers, televisions and clothes dryers, among other things. Similar programs are run in other states. Similarly, the Victorian Premier recently announced two pilot programs that will help drivers retire old vehicles and replace them with newer more environmentally efficient and safer models.

## Schedule 1: Additional comments on US decisions

### *Lexmark International, Inc v. Static Control Components, Inc*, 387 F.3d 522 (2004)

#### Background

64. Lexmark International, Inc (**Lexmark**) manufactured printers and toner cartridges. It sold two types of toner cartridge: a full-price disposable cartridge and a reduced-price 'Prebate Program' cartridge, which customers agreed through a shrinkwrap licence to transfer back to Lexmark once empty. The 'Prebate Program' cartridges contained a microchip that included a program (the **Toner Program**) that interacted with a separate program on the printer (the **Printer Program**) to prevent the cartridge from being reused.
65. Static Control Components, Inc (**SCC**) developed a microchip that mimicked Lexmark's and contained a verbatim copy of the Toner Program but allowed the cartridge to be reused.
66. Lexmark alleged copyright infringement and circumvention of TPMs. The US Circuit Court for the Eastern District of Kentucky considered Lexmark likely to succeed and granted a preliminary injunction.

#### Decision

67. A majority of the Sixth Circuit Court of Appeals reversed the decision.
68. In relation to the infringement claim, Sutton J (with whom Merritt J agreed) held that the Toner Program was not capable of copyright protection. Recognising the overlap between copyright and patent law in the field of software, his Honour noted that the Toner Program was a brief, uncomplicated and functional sequence that operated essentially as a 'lock-out code'. This was more akin to a 'functional idea' than original expression.
69. Sutton J (with whom Merritt J agreed) also rejected the TPM claim. As the Toner Program was not capable of copyright protection, the TPM claim fell away. In any case, the Toner Program could not be characterised as 'controlling access' to the Printer Program as required by the statute. Instead, the Printer Program was readily readable from the printer itself – the Toner Program simply controlled compatibility between the cartridge and the printer.
70. In a dissenting opinion, Feikens J considered that the Toner Program was capable of being implemented in any number of ways and was therefore creative and capable of copyright protection. His Honour agreed with the majority that the TPM claims were not established but for a very different reason – that SCC had been unaware that the Toner Program existed and had therefore not knowingly bypassed it.

***Impression Products, Inc v. Lexmark International, Inc, 137 S. Ct. 1523 (2017)***

**Background**

71. Lexmark manufactured printers and toner cartridges. It sold two types of toner cartridge: a full-price disposable cartridge and a reduced-price 'Return Program' cartridge, which customers agreed to transfer back to Lexmark once empty. These cartridges contained a microchip to prevent reuse. These cartridges were sold both within and outside the US. Impression Products, Inc (**Impression**) operated a business that involved buying empty 'Return Program' cartridges, refilling them and removing the microchip to enable reuse.
72. Lexmark commenced patent infringement proceedings against Impression.
73. The US District Court for the Southern District of Ohio granted Impression's motion to dismiss in respect of domestically sold cartridges but denied it in respect of cartridges sold abroad. A majority of the US Court of Appeals for the Federal Circuit found for Lexmark, holding that a patentee retains the right to enforce clearly communicated lawful restrictions as to post-sale use.

**Decision**

74. Roberts CJ delivered the opinion of the Court. Ginsburg J partially dissented.
75. The Court unanimously held that Lexmark had exhausted its patent rights in the cartridges upon first domestic sale. As Roberts CJ noted, the doctrine of exhaustion is well-established in the US. Lexmark's 'no resale' conditions may have been enforceable in contract against consumers but they did not entitle it to retain patent rights in the cartridges.
76. With respect to cartridges sold outside the US, the majority held that patent rights in these products were also exhausted. Roberts CJ explained that '[a]n authorized sale outside the United States, just as one within the United States, exhausts all rights under the Patent Act', consistently with the first sale doctrine applying under copyright law. Ginsburg J dissented on this point, holding that a foreign sale does not exhaust US patent rights on the basis that patent law is territorial.

## Conclusion and further contact

77. The Committees would be pleased to discuss any aspect of this submission.

78. If you have any questions regarding this submission, please contact the Competition and Consumer Committee Chair, Jacqueline Downes, via email: [jacqueline.downes@allens.com.au](mailto:jacqueline.downes@allens.com.au); or the Intellectual Property Committee Chair, Matthew Swinn, via email: [matthew.swinn@au.kwm.com](mailto:matthew.swinn@au.kwm.com), in the first instance.

Yours faithfully

A handwritten signature in black ink, appearing to read "Greg Rodgers". The signature is written in a cursive style with a large initial "G".

**Greg Rodgers**  
**Chair, Business Law Section**