Legislative Council Bills Committee

Copyright (Amendment) Bill 2001

Concept of "Essential Object"

Purpose

At the Bills Committee meeting of 6 June, Members suggested to study further the concept of "essential object" and explore whether it could be used to define the scope of the proposed liberalisation under the Copyright (Amendment) Bill 2001 ("2001 Bill"). This paper provides further information regarding the concept and explains the rationale behind our reservation on adopting it.

Background

The Copyright Act 1968 and court decision of Australia

2. As explained in the Bills Committee paper titled "New formation to define the scope of liberalisation", the concept of "essential object" was proposed by the industry on the basis of a statutory provision and court decision of Australia.

3. The relevant Australian statutory provision is section 31(1)(d) of the Copyright Act 1968 ("the Act") which provides that, in the case of a computer program, the right to enter into a commercial rental arrangement in respect of the program is an exclusive right of the copyright owner. However, section 31(5) of the Act provides that section 31(1)(d) does not extend to entry into a commercial rental arrangement if the computer program is not the <u>essential object</u> of the rental.

4. The relevant court case is an Australian Federal Court case, *Australian Video Retailers Association Ltd v Warner Home Video Pty Ltd [2001] FCA 1719*[1] (*"Australian Video Retailers case"*) in 2001. The

[1] The court decision can be downloaded via the following weblink: http://www.austlii.edu.au/au/cases/cth/federal_ct/2001/1719.html

key issue in dispute is that when the video store proprietor in the case enters into a commercial rental arrangement involving the letting for hire of a DVD disc of a movie, whether the computer programs embodied in the DVD disc constitute the essential object of the rental within the meaning of section 31(5) of the Act.

5. The court considered that the phrase "essential object of the rental" in section 31(5) of the Act refers to the purpose of the commercial rental arrangement. It ruled that where the essential object (in the sense of purpose) is to be able to experience both the video and audio aspects of a motion picture, albeit that the full benefit of the DVD technology cannot be experienced or obtained without use of the computer program embodied in the DVD disc, the essential object of the rental is not the computer program but video and audio content of the motion picture and other materials consisting of special features, documentaries, etc.

The industry's proposal

6. The industry suggested adopting the concept of "essential object" provided in the Act as interpreted in *Australian Video Retailers* case to define the scope of the liberalisation of parallel importation of articles which have embodied in them computer programs. Specifically, they proposed that an article falls within the scope of the liberalisation if its essential object is the computer program embodied in it. Following the decision of the *Australian Video Retailers* case, if the proposal of the industry is adopted, the liberalisation will apply to those articles where the purpose of acquiring the articles is for the computer programs embodied in them.

Our views on the industry's proposal

7. We consider the proposal unacceptable for reasons set out in the following paragraphs.

Lack of clarity

8. The meaning of the term "essential object" is obscure if one does not have the background of the Australian laws as aforesaid. One may,

for example, argue that the term means subject matter rather than purpose. This was in fact the argument put forward by the counsel for the defence in the *Australian Video Retailers* case where the counsel argued that the "essential object" of rental meant the subject matter of the rental (i.e. the DVD disc itself including the computer programs embodied in it). Although this argument was subsequently rejected by the court, under our legal system, the court rulings in other common law jurisdictions are at most persuasive but not binding on local courts when deciding cases of similar nature. Therefore, the local courts may not necessarily follow the interpretation of the term in the *Australian Video Retailers* case when considering cases on the copyright side in future.

9. We note that Members have concern on possible grey areas under the Government proposed formulation (see Annex for the formulation). Indeed, there will equally be grey areas under the proposed test of the industry. Under the test, an article which has embodied in it a computer program will fall within the scope of liberalisation if the "essential object" (or purpose) of acquiring the article is for the computer program embodied in it. To determine whether the computer program constitutes the "essential object" of acquisition, one needs to compare the purpose of acquiring the program with that of acquiring other works, if any, embodied in the same article. It is possible for one to argue that the essential object of a highly sophisticated computer game is the computer program and the items therefore should fall within the scope of liberalisation. The same argument however cannot apply to a less sophisticated game where the attractiveness of the software may lie in the graphic, not the computer programs. Consequently, one cannot say for sure whether a computer game falls outside the scope of liberalisation.

Policy Considerations

10. The essential object test proposed by the industry will set out in a positive manner those articles (having computer programs embodied in them) that fall within the scope of liberalisation. Our formulation, however, adopts a negative approach, i.e. specify the types of works that will be excluded from the scope of liberalisation. Apart from the specified exceptions, the parallel importation of other articles which have

embodied in them computer programs will be liberalised. This is more in line with our policy of liberalising parallel imports as far as possible to enhance consumer choice, and not restricting the beneficiaries of liberalisation to business application software users only.

Conclusion

11. The essential object test proposed by the industry lacks clarity and does not enable us to achieve our policy objective. We believe that the proposal by us at Annex on the whole is sufficiently clear and precise in delimiting what cannot be parallel imported and is an appropriate formulation to define the scope of liberalization.

Commerce and Industry Branch
Commerce, Industry and Technology Bureau
June 2003

Annex

"35A. Copy of a computer program, or of a work embodied in the same article as a computer program, not an "infringing copy" for the purpose of section 35(3)

(1) This section applies to a copy of a work that –

(a) is a copy of a computer program; or

(b) except as provided in subsection (3) or (4), is a copy of a work other than a computer program, that is embodied in an article in which is also embodied a copy of a computer program,

and that, but for this section, would be an infringing copy for the purposes of section 35(3).

(2) A copy of a work to which this section applies is not an infringing copy for the purposes of section 35(3) if it was lawfully made in the country, territory or area where it was made.

(3) A copy of a work that is a movie or a television drama, that is embodied in an article in which is also embodied a copy of a computer program, (including any such copy forming part of an e-book for illustrative purposes), is not a copy of a work to which this section applies if –

(a) the copy is a copy of the whole or substantially the whole of the movie or a television drama; or

(b) where the copy is a copy of a part of the movie or television drama –

(i) all those parts of the movie or television drama

copies of which are embodied in the article together constitute the whole or substantially the whole of the movie or television drama; or

(ii) the viewing time of all those parts of the movie or television drama copies of which are embodied in the article is, in the case of a movie, more than 15 minutes in aggregate or, in the case of a television drama, 10 minutes in aggregate,

and in paragraphs (a) and (b)(i), reference to a television drama, in the case of a television drama comprising one or more episodes, is reference to an episode of the television drama.

(4) A copy of a work other than a computer program, that is embodied in an article in which is also embodied a copy of a computer program, is not a copy of a work to which this section applies if –

(a) the copy of the work –

(i) forms part of a copy of an e-book;

(ii) is a copy of a movie (other than a copy to which subsection (3) applies);

(iii) is a copy of a television drama (other than a copy to which subsection (3) applies);

(iv) forms part of a copy of a musical sound recording; or

(v) forms part of a copy of a musical visual recording; and

(b) the article is an article that, in being acquired by a person for his own use, is likely to be acquired for the purpose of

acquiring the copies of works to which paragraph (a) applies more so than for the purpose of acquiring the copies of other works that are embodied in the article,

and in considering for the purposes of paragraph (b) the extent to which an article is likely to be acquired for the purpose of acquiring copies of works other than works to which paragraph (a) applies, no regard shall be had to those functions of any copy of a computer program that provide a means of viewing or listening to a copy of a work to which paragraph (a) applies (and, where the copy of the work is in encrypted form, of any decrypting that is necessary to enable such viewing or listening), or for searching for any specific part of such copy of a work.

(5) In this section, "e-book" means a combination of copies of works comprising –

(a) one or more copies of each of –

(i) a computer program; and

(ii) a literary work (other than a computer program), a dramatic work, a musical work or an artistic work ("main work"),

so arranged as to provide for the copy of the main work to be presented in the form of an electronic version of a book, magazine or periodical; and

(b) where a main work is accompanied for illustrative purposes by any copy or copies of films or sound recordings, that copy or those copies.".

[Note: The definitions for “movie”, “television drama”, “musical sound

recording", "musical visual recording", and "lawfully made" are as follows:

- "movie" means a film of the kind commonly known as a movie;
- "musical sound recording" means a sound recording the whole or a predominant part of which consists of the whole or any part of a musical work and of any related literary work;
- "musical visual recording" means a film with an accompanying sound-track, the whole or a predominant part of which sound-track consists of the whole or any part of a musical work and of any related literary work;
- "television drama" means a film of the kind commonly known as a television drama;".
- <u>"lawfully made"</u>

  A copy of a work that is made in a country, territory or area where there is no law protecting copyright in the work or where the copyright in the work has expired is not a copy that is lawfully made for the purposes of this Part.]