



## ***Australian IP Law Update – May 2011***

### ***Copyright***

#### **Liabilities of ISPs for Copyright Infringement**

The much anticipated Full Federal Court decision in *Roadshow Films v iiNet Limited* has been handed down. This case has concerned 34 applicants taking action against iiNet on the basis that its subscribers (ie iiNet's ISP customers) had used iiNet to illegally download films in breach of the Australian Copyright Act, and therefore iiNet was also liable for the acts of its subscribers. iiNet had been placed on notice as to the infringing activities prior to the Federal Court action being commenced.

The first instance decision was in favor of iiNet on the basis of the long standing principle under Australian copyright law,

that provision of a thing which could be used for copyright infringement, did not mean that the thing was the "means" for carrying out copyright infringement – this was rejected on appeal as not being relevant to the particular facts of this case, however the Full Federal Court found other reasons to reject the claims by Roadshow Films.

The Full Federal Court dismissed the appeal by Roadshow Films on that basis that iiNet did not authorize its users' infringing activities – however the court set out some important legal principles which ISP's need to be aware of: (i) an ISP can be liable if it does not take action against a user once put on notice as to copyright infringement being carried out by that user – this can include suspension of an account (ii) a warning

communication provided to an ISP must clearly set out the facts of the infringing activities and offer to reimburse the ISP for its costs, in order for the ISP to have been properly put on notice as to the infringing activities and (iii) the court will look unfavorably on an ISP, if it does not react to a warning communication within a reasonable time and in good faith. It is understood that the applicants have filed an application for special leave to appeal to the High Court (Australia's highest court) regarding this decision.

## ***Designs - NZ***

### **New Designs Law Amendments Take Effect in NZ**

Under amendments that were passed earlier this year, from 19 April 2011, the Commissioner of Designs in New Zealand now has the discretion to restore abandoned design applications or lapsed design registrations – the Commissioner will be able to exercise their discretion if they are satisfied that the abandonment or lapsing occurred unintentionally. Time limits exist though, in that the discretion can only be exercised within 3 months for an abandonment and within 12 months for lapsing registration.

Another important development, is that registration and publication of a design can be delayed by up to 15 months – this gives design owners a chance to keep their designs confidential for a longer period of time, as up until this amendment, publication would occur within weeks of filing. Online applications are also now available under the amendments. For more information about the changes, please contact our Brisbane office.

## ***IT/Internet***

### **Online Gambling Under Review**

On 17 May 2011, the Joint Select Committee on Gambling Reform (JSCOGR) announced that it was reviewing online gambling in Australia. Its terms of reference include reviewing the Interactive Gambling Act 2001, with regards to (i) the recent growth in interactive sports betting (ii) the increase in the use of smart phones and other technology making interactive/online gambling more accessible (iii) the legal frameworks applicable to online gambling (iv) match fixing concerns (v) betting exchanges (vi) betting on political events and (vii) the increased promotion of gambling by sports commentators and sponsors. Submissions are invited from the public, with the deadline being set at 30 June 2011.

## ***Taxation***

### **Taxation of Royalty Payments in Australia**

The Federal Court has recently looked at the taxation of royalties in *IBM v Federal Commissioner of Taxation*. In this case, IBM USA licensed software to IBM Australia for distribution, with IBM Australia being required to pay a fee of 40% of its sales revenue to IBM USA (with part of that fee, relating to IP royalties). From 1987 to 2002, IBM Australia paid withholding tax of 10% on the full amounts of the revenue payments, to the ATO under section 128B(5A) of the Income Tax Assessment Act 1936 which deals with IP royalties. In 2003, IBM Australia received a ruling from the ATO to the effect that it need only pay withholding tax to the ATO at a rate of 5% of part of the payment to be made to IBM USA (i.e. only in relation to the royalty parts of the payments as determined in the ruling) – later, IBM Australia, sought a refund of the overpayments from 1987 to

2002, and this was rejected by the ATO. IBM Australia appealed to the Federal Court for a review of this decision.

Earlier this year, the Federal Court found in favor of the ATO, on the basis that the 40% fee referred to in the agreement between IBM USA and IBM Australia, was in fact a royalty fee and the fee could not be divided into parts that were not royalty payments and parts that constituted royalty payments - the 40% fee was expressed to relate to (i) copyright, mask work rights and patents in IBM's software (ii) the rights to use IBM's trademarks (iii) access to and the rights to use, knowledge and technical knowhow and (iv) ancillary matters (i.e. ancillary to the IP rights referred to in (i) to (iv)).

It seems that if the agreement was written slightly differently or broken into two separate agreements (i.e. a distribution agreement and an IP license agreement), only part of the 40% fee would have

attracted withholding tax in accordance with the provisions relating to royalty payments. Taxpayers need to keep in mind these issues when entering into or renewing distribution and franchising agreements, in order to ensure that they are structured appropriately from a local tax perspective as well as a commercial perspective.

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