

**IN THE HIGH COURT OF NEW ZEALAND
AUCKLAND REGISTRY**

**I TE KŌTI MATUA O AOTEAROA
TĀMAKI MAKĀURAU ROHE**

**CIV-2014-404-002456
[2022] NZHC 1818**

UNDER the Copyright Act 1994
IN THE MATTER OF infringement of copyright

BETWEEN IAN JAMES BURDEN
First Plaintiff
PGT RECLAIMED (INTERNATIONAL)
LIMITED
Second Plaintiff
PLANTATION GROWN TIMBERS
(VIETNAM) LIMITED
Third Plaintiff

AND ESR GROUP (NZ) LIMITED
Defendant

Hearing: 27 – 28 June 2022
Counsel: A H Brown QC, J R Wach and J Oliver-Hood for Plaintiffs
A J Pietras and V J Powell for Defendant
Judgment: 29 July 2022

JUDGMENT OF DOWNS J

*This judgment was delivered by me on Friday, 29 July 2022 at 10 am
pursuant to r 11.5 of the High Court Rules.*

Registrar/Deputy Registrar

Solicitors/Counsel:
James & Wells Solicitors, Auckland.
A J Pietras & Co Ltd, Lower Hutt.
A H Brown QC, Auckland.
J Oliver-Hood, Auckland.

The case

[1] The owner of a copyright has the exclusive right, in New Zealand, to issue copies of that work to the public.¹ Section 9(1) of the Copyright Act 1994² defines issuing copies to the public as “putting into circulation copies *not previously put into circulation*”.³ I call this concept first circulation and the associated right, the right of first circulation. These are convenient labels, not more.

[2] This case involves dealings in furniture in breach of copyright, and an alleged contravention of the plaintiffs’ right of first circulation. It turns on the precise effect of s 9(1). The furniture was made in Vietnam before being imported and sold in New Zealand. It was earlier available for purchase, by others, in Vietnam.

[3] The plaintiffs contend “putting into circulation copies not previously put into circulation” means circulation in New Zealand, by or with the consent of the copyright owner. The defendant contends circulation means anywhere in the world, irrespective of whether the copyright owner consented. Existing case law is not decisive, or at least not obviously so.

[4] Other aspects of the case have been before the courts since 2014. Associated history approaches the Byzantine. With this in mind, I narrate only core background and strip everything else away. To do otherwise risks obscuring the analysis. For those interested, a chronology (of fact and litigation) comprises schedule 1 to this judgment.

Core background

[5] Ian Burden designs, makes and exports furniture. Mr Burden owns the remaining plaintiffs, PGT Reclaimed (International) Ltd and Plantation Grown Timbers (Vietnam) Ltd. The defendant, ESR Group (NZ) Ltd,⁴ sells furniture in New Zealand under the name, Early Settler.

¹ Copyright Act 1994, s 16(1)(b).

² The Act or our Act.

³ Emphasis added.

⁴ ESR.

[6] From March 2013, ESR imported from Vietnam and sold furniture here that infringed the plaintiffs' copyright. I call this the furniture.

[7] The furniture was copied from the plaintiffs' Irish Coast collection by a former colleague of Mr Burden. The furniture was made in Vietnam by companies in which that colleague had a controlling interest. ESR ordered the furniture from one of these companies after seeing its catalogue. The evidence implies the furniture pre-existed ESR's orders rather than being made to meet them.

[8] ESR knew the furniture infringed copyright from 28 August 2014. ESR then ceased ordering more. ESR sold the last item of the furniture on or about 22 November 2014.

[9] ESR earned a net profit of \$221,134.50 from sales of the furniture between March 2013 and 22 November 2014. ESR's net profit from sales of the furniture from 28 August 2014 until 22 November 2014 is much smaller; \$9,316.50 only.⁵

[10] ESR is unquestionably liable to the plaintiffs for this smaller figure as from 28 August 2014, it committed secondary copyright infringements by importing and selling the furniture, knowing it breached copyright.

[11] In dispute is whether ESR is also liable to the plaintiffs for the larger figure going back to March 2013, before ESR knew the furniture breached copyright.⁶ Liability rests on ESR having committed primary copyright infringement by issuing the furniture to the public, more particularly, by contravening the plaintiffs' right of first circulation. As observed, this turns on how first circulation operates under s 9(1) of the Act. If the provision confines first circulation to New Zealand by or with the consent of the copyright owner, ESR is liable for the obvious reason it put into circulation, here, the furniture in contravention of the plaintiffs' right. But, if first circulation in s 9(1) extends to anywhere in the world, irrespective of consent, ESR is

⁵ The parties agree on both figures.

⁶ Primary infringement of copyright does not require proof of knowledge the copies infringed copyright.

not liable: the furniture was earlier available for purchase by others in Vietnam, and it is immaterial it was copied without the plaintiffs' consent.⁷

The Act in context

[12] The Act is pivotal. The parties' submissions are best understood with it in mind, hence what follows. For reasons that will become apparent, I also touch on copyright law in the United Kingdom and other developments here and elsewhere, in something approaching chronological order.

[13] The Act is New Zealand's third (domestic) copyright statute. Earlier Acts were the Copyright Act 1913 and the Copyright Act 1962. The Act was introduced in response to New Zealand's accession to the Agreement on Trade-Related Aspects of Intellectual Property, or TRIP. As observed by our Supreme Court, because of (a) time-pressure to comply with TRIP and (b) our "historical reliance on United Kingdom copyright law", the Act was "largely based" on a United Kingdom statute: the Copyright, Designs and Patents Act 1988.⁸ I call this the United Kingdom Act.

[14] Section 16 of our Act provides the owner of copyright has "the exclusive right to do ... the following acts in New Zealand":

- (a) To copy the work;
- (b) To issue copies of the work to the public, whether by sale or otherwise;
- (c) To perform the work in public;
- (d) To play the work in public;
- (e) To show the work in public;
- (f) To communicate the work to the public;

⁷ Mr Brown QC accepted as much (in response to a question from me) at the beginning of the hearing.

⁸ *Ortmann v United States of America* [2020] NZSC 120, [2020] 1 NZLR 475 at [244].

- (g) To make an adaptation of the work;
- (h) To do any of the acts referred to in any of paragraphs (a) to (f) in relation to an adaptation of the work;
- (i) To authorise another person to do any of the acts referred to in any of paragraphs (a) to (h).

[15] The Act creates two broad types of copyright infringement: primary infringement and secondary infringement. Secondary infringement requires proof of knowledge the copy infringed copyright; primary infringement does not.

[16] Under s 29(1), primary infringement occurs when a person “other than pursuant to a copyright licence, does any restrictive act”. Section 31 makes a restrictive act—hence a species of primary infringement—the “issue of copies of a work to the public”.

[17] As observed, s 9(1) defines the issue of copies to the public. It reads:

9 Meaning of issue to the public

- (1) References in this Act to the issue of copies of a work to the public mean the act of putting into circulation copies not previously put into circulation; and do not include the acts of—
 - (a) Subsequent distribution or sale of those copies; or
 - (b) Subject to subsections (2) and (3), subsequent hiring or loan of those copies; or
 - (c) Subsequent importation of those copies into New Zealand; or
 - (d) Distribution of imported copies that are not infringing copies within the meaning of section 12 subsequent to their importation into New Zealand.

[18] The Act recognises copies of a work as either genuine or infringing. A genuine copy is made by the copyright owner or someone under licence of the copyright owner. Parallel imports provide the best example of a genuine copy of a work. Section 12(5A)(a) addresses this situation. Such a copy “is not an infringing copy ... if ... it is made by or with the consent of the owner of copyright, or other equivalent

intellectual property right, in the work in question in the country in which the object was made”.

[19] Unsurprisingly, an “infringing copy” (in s 12(2)) involves “an infringement of the copyright in the work in question”. A copy of this type is made without the consent or licence of the copyright owner and, unlike a genuine copy, potentially damaging to sales of the copyright owner’s products and reputation. Infringing copies are often cheaper than genuine copies, of inferior quality to them, or both.

[20] Again, the Act is based on the United Kingdom Act. The latter created a right of first circulation by its s 16(1)(b). Section 9 of our Act is based on s 18 of the United Kingdom Act. That was framed this way when our Act was enacted:

18 Infringement by issue of copies to the public

- (1) The issue to the public of copies of the work is an act restricted by the copyright in every description of copyright work.
- (2) References in this Part to the issue to the public of copies of a work are [except where the work is a computer program] to the act of putting into circulation copies not previously put into circulation, in the United Kingdom or elsewhere, and not to—
 - (a) any subsequent distribution, sale, hiring or loan of those copies, or
 - (b) any subsequent importation of those copies into the United Kingdom;

Except that in relation to sound recordings [and films] the restricted act of issuing copies to the public includes any rental of copies to the public.

- (3) References in this Part to the issue to the public of copies of a work where the work is a computer program are to the act of putting into circulation copies of that program not previously put into circulation in the United Kingdom or any other member State, by or with the consent of the copyright owners, and not to—
 - (a) any subsequent distribution, sale, hiring or loan of those copies, or
 - (b) any subsequent importation of those copies into the United Kingdom,

Except that the restricted act of issuing copies to the public includes any rental of copies to the public.

[21] The United Kingdom Act has been amended repeatedly, including to accommodate the United Kingdom's departure from the European Union. It remains the position a United Kingdom copyright owner may sue for breach of the right of first circulation. If so, an alleged infringer may argue the plaintiff's claim is "exhausted", again, under their s 16(1)(b). The concept is explained this way by the learned authors of *Copinger and Skone James on Copyright*:⁹

Exhaustion of the distribution right: tangible objects

Exhaustion applies to the tangible object into which a protected work or its copy is incorporated if it has been placed on the market *with the copyright holder's consent*.

[22] Another leading text, *The Modern Law of Copyright and Designs*, says this about "exhaustion":¹⁰

It should be noted that the doctrine of exhaustion of rights is confined to the situation where the first marketing takes place in a Member State by or with the consent of the owner of the right. The right is not exhausted if the first marketing is by a third party who has acted without the consent of the owner of the right in the proposed country of importation, for example if the first marketing takes place in a territory where the right does not exist for one reason or another – for example, because the state concerned does not protect that sort of right.

[23] To recapitulate: in the United Kingdom, a copyright owner's right of first circulation is exhausted only when the acts of prior circulation have been by the copyright owner or with her, his, or its consent. Exhaustion does not occur when an infringer puts infringing goods into circulation, irrespective of where that occurs.

[24] I earlier mentioned TRIP, to which New Zealand acceded (before passing our Act). The concept of exhaustion was debated in the TRIP negotiations:¹¹

Lines were drawn with developed countries on one side and emerging countries on the other. Access to pharmaceutical drugs formed the core of the debate. Emerging countries championed an international exhaustion regime that would allow them to continue buying the cheapest drugs available, while

⁹ Gwilym Harbottle and others *Copinger and Skone James on Copyright* (18th ed, Sweet & Maxwell, London, 2021) at [7-08] (emphasis added).

¹⁰ Hugh Laddie and others *The Modern Law of Copyright and Designs* (4th ed, LexisNexis Butterworths, London, 2011) at [33.21].

¹¹ Ryan Vinelli "Bringing Down the Walls: How Technology is Being Used to Thwart Parallel Importers Amid the International Confusion Concerning Exhaustion of Rights" (2009) 17 *Cardozo J Int'l & Comp L* 135 at 148.

developed countries argued for a standard that would allow rights holders to retain some control after the initial sale. The members' failure to reach an agreement left the status quo intact and each country to decide which regime it would implement.

[25] This explains why Article 6 of TRIP provides:

For the purposes of dispute settlement under this Agreement, subject to the provisions of Articles 3 and 4 nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.

[26] Our Act was amended in 1998 and 2003 to permit parallel importing.¹² Section 9(1)(d) of the Act was introduced to carve an exception for distribution of imported copies that are not infringing copies within the meaning of s 12 subsequent to their importation into New Zealand. Section 12(3) and (5A) were similarly introduced to recognise the distinction between genuine and infringing copies. This leaves three developments.

[27] First, in 1996 came the World Intellectual Property Office Copyright Treaty, or WIPO. New Zealand acceded to WIPO 17 December 2018. WIPO begins:

Desiring to develop and maintain the protection of the rights of authors in their literary and artistic works in a manner as effective and uniform as possible,

Recognising the need to introduce new international rules and clarify the interpretation of certain existing rules in order to provide adequate solutions to the questions raised by new economic, social, cultural and technological developments,

Recognising the profound impact of the development and convergence of information and communication technologies on the creation and use of literary and artistic works,

Emphasising the outstanding significance of copyright protection as an incentive for literary and artistic creation,

Recognising the need to maintain a balance between the rights of authors and the larger public interest, particularly education, research and access to information, as reflected in the Berne Convention.

¹² By Copyright (Removal of Prohibition on Parallel Importing) Amendment Act 1998 and Copyright (Parallel Importation of Films and Onus of Proof) Amendment Act 2003.

[28] Article 6 of WIPO requires recognition of the right of first circulation:

- (1) Authors of literary and artistic works shall enjoy the exclusive right of authorising the making available to the public of the original and copies of their works through sale or other transfer of ownership.
- (2) Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right in paragraph (1) applies after the first sale or other transfer of ownership of the original or a copy of the work with the authorisation of the author.

[29] Second, in 2003, s 97A of the Trade Marks Act 2002 was inserted to address international exhaustion of rights conferred by a registered trade mark.¹³ This reads:

97A Exhaustion of rights conferred by registered trade mark

- (1) A registered trade mark is not infringed by the use of the trade mark (including use for the purpose of advertising) in relation to goods that have been put on the market anywhere in the world under that trade mark under any 1 or more of the following circumstances:
 - (a) by the owner;
 - (b) with the owner's express or implied consent;
 - (c) by an associated person of the owner.
- (2) For the purposes of subsection (1)(c), a person is **an associated person of the owner** if—
 - (a) they are in the same group of companies; or
 - (b) they are both bodies corporate and they consist of substantially the same members or are directly or indirectly under the control of the same persons; or
 - (c) either of them has effective control of the other's use of the trade mark; or
 - (d) a third person has effective control of the use of the trade mark by each of them.
- (3) For the purposes of subsection (2),—
 - (a) **group of companies** includes a holding company and its subsidiaries within the meaning of section 5 of the Companies Act 1993; and
 - (b) a person has **effective control** of the use of a trade mark if that person may authorise the use of the trade mark or has significant influence over how it is used, regardless of how that authorisation

¹³ By Copyright (Parallel Importation of Films and Onus of Proof) Amendment Act 2003.

or influence arises (for example, whether directly or indirectly and whether by way of proprietary interest, contract, arrangement, understanding, a combination of those things, or otherwise).

[30] Third, in 2019, the Ministry of Business, Innovation and Employment¹⁴—the Ministry responsible for administering the Act—released a paper discussing the exhaustion of intellectual property rights:

In the context of intellectual property rights, exhaustion generally means that when a product covered by an intellectual property right is sold to the public, the ability of the rights owner to control further sale of the product is limited.

For example, the owner of copyright in a book has the exclusive right to issue the book to the public. But once the book is sold by the copyright owner, the purchaser is free to sell the book without seeking the permission of the copyright owner, or paying a royalty. That is, the right of the copyright owner to issue the book to the public is ‘exhausted’. Section 9(1) of the Copyright Act 1994 explicitly provides for this exhaustion of rights.

The Copyright Act 1994 and the Trade Marks Act 2002 provide for ‘international exhaustion’ of copyright and trade mark rights. This relates to situations where a copyright work or a product carrying a trade mark registered in New Zealand is placed on the market in another country by or with the permission of the copyright or trade mark owner. In these situations the copyright work or the trade marked product can be imported into New Zealand without the permission of the copyright owner or the trade mark owner. Such imports are known as ‘parallel imports’.

Case law

[31] Case law does not clearly determine the points raised. It is sufficient to refer to two New Zealand cases.¹⁵

[32] In *Inverness Medical Innovations Inc v MDS Diagnostics Ltd*,¹⁶ the defendant imported and sold pregnancy test kits. It argued events overseas constituted issuing to the public, so it could not be responsible for breaching the plaintiff’s right of first circulation. Woodhouse J rejected the argument, albeit exclusively on the facts:¹⁷

¹⁴ MBIE.

¹⁵ Counsel also referred to several United Kingdom cases: *Response Clothing Ltd v Edinburgh Woollen Mill* [2020] EWHC 148 (IPEC), [2020] FSR 25; *Abraham Moon & Sons Ltd v Thornber* [2012] EWPC 37, [2013] FSR 17; *Infabrics Ltd v Jaytex Ltd* [1982] AC 1, [1981] WLR 646; and *Independiente Ltd v Music Trading On-line (HK) Ltd* [2007] EWHC 533 (Ch), [2007] FSR 21. Unremarkably, these reflect the United Kingdom Act which, as observed, has been repeatedly amended.

¹⁶ *Inverness Medical Innovations Inc v MDS Diagnostics Ltd* HC Auckland CIV-2007-404-748, 24 June 2010, (2010) 93 IPR 14.

¹⁷ At [256]–[257].

In this case there are only two stages to be considered: the transactions between Phamatech and MDS and the point at which MDS sold products in New Zealand. In my judgment it is clear on the facts of this case that the issue to the public occurred when MDS first released the products into the market in New Zealand. Before that they were not in circulation. Before that there was no transaction with the public. The transactions between MDS and Phamatech did not involve the public. The issue can probably be resolved at that point from the primary expression, but the conclusion is reinforced by the definition in s 9 and supported by the opinion in *Copinger*.

It may be, in some cases, that the point at which a party acquires a product from the manufacturer does amount to an issue to the public. But the facts in this case are removed from such a possibility. This is exemplified by the fact that MDS ordered in bulk, completed packaging in New Zealand, released each of the products in packets under the name of MDS, and recorded the products on the packets as “MDS QuickStick™”, “MDS QuickCard™” and “MDS QuickStream™”. Nothing was put into circulation until it left MDS’s premises after the goods had been packaged.

[33] In *Jeanswest Corporation (New Zealand) Ltd v G-Star Raw CV*,¹⁸ the Court of Appeal held the defendant breached the right of first circulation by selling, within New Zealand, copied jeans. Interestingly, the infringing jeans “were launched simultaneously in Australia and New Zealand”.¹⁹

A précis of the competing submissions in relation to the Act

[34] On behalf of the plaintiffs, Mr Brown QC contends s 9(1) means:

References in this Act to the issue of copies of a work to the public mean the act of putting into circulation copies [in New Zealand] not previously put into circulation [in New Zealand by or with the consent of the owner].

[35] Mr Brown argues this interpretation follows “as a matter of necessary implication by reading ss 9, 16, 29 and 31 together”; is consistent with the United Kingdom Act, on which our Act is largely based; and accords the various developments described above, including New Zealand’s international obligations under WIPO.

¹⁸ *Jeanswest Corporation (New Zealand) Ltd v G-Star Raw CV* [2015] NZCA 14, (2015) 13 TCLR 787.

¹⁹ At [97].

[36] Mr Brown says s 9(1)(c) is not an impediment to the plaintiffs' construction. Its reference to "subsequent importation of those copies into New Zealand" refers to copies put into circulation in New Zealand by the copyright owner (or licensee) which are exported and then subsequently imported, hence its language of subsequent importation.

[37] Finally, Mr Brown contends the approach advocated by ESR would "emasculate" our Act and New Zealand copyright owners' right of first circulation. He stresses the furniture constitutes infringing copies, not genuine ones, which was placed in circulation in Vietnam without the plaintiffs' knowledge or consent.

[38] On behalf of ESR, Mr Pietras contends that, under s 9(1), circulation may occur anywhere, irrespective of the copyright owner's consent. Mr Pietras places particular weight on s 9(1)(c). He contends "the legislation envisages ... the first act of putting into circulation can occur outside New Zealand. This reflects the international nature of copyright and the way reciprocal rights apply between countries".

[39] Mr Pietras acknowledges New Zealand's international obligations but says these do not mandate the plaintiffs' construction; he says their general nature does not inform the particular issue before the Court.

[40] Mr Pietras contends the plaintiffs' construction would "tyrannise" New Zealand businesses importing and selling goods "in good faith". Relatedly, he argues secondary infringement liability is sufficient protection of the plaintiffs' intellectual property rights and the rights of others in this situation.

Analysis

[41] I begin in the thick of things with ESR's central and strongest point—s 9(1)(c). By definition, importation to New Zealand means bringing here from overseas, hence "subsequent importation" suggests circulation outside New Zealand qualifies as first circulation, irrespective of how it came about. And, because paragraphs (a), (b) and (c) of s 9(1) are apparently silent on the question of the copyright owner's consent, it

is arguable these provisions are unconcerned about that.²⁰ All of which is to say ESR's construction is plausible, a position reinforced by two leading texts.

[42] The authors of *James and Wells Intellectual Property Law in New Zealand* observe:²¹

... one of the economic rights granted under s 16 is the right to issue copies of a work to the public by sale or otherwise. Under s 29 of the Act, this right is infringed by anyone who does so without the licence of the owner of the right. However, the right needs to be read subject to s 9 of the Act which defines 'issue to the public' as 'the act of putting into circulation copies not previously put into circulation'. And specifically excludes the subsequent distribution and sale, or subsequent importation into New Zealand, of those copies.

This means that the economic right relating to sale will usually only be breached where the person selling the goods in New Zealand is either the manufacturer, or has specifically commissioned the manufacture, of the goods. *Where the copied goods have been made by someone else and/or imported subsequent sale or commercial dealing with those goods will amount to a secondary infringement either through importing an infringing copy (s 35) or possessing or dealing with an infringing copy (s 36).*

[43] The authors of *Intellectual Property Law* say:²²

The question arises whether the reference to a previous act of putting into circulation envisages such an occurrence only in New Zealand or anywhere in the world. Section 18(2) of the [United Kingdom Act] is explicit on this issue: it refers to copies not previously put into circulation 'in the United Kingdom or elsewhere'. It is considered that s 9(1) likewise envisages circulation in New Zealand or anywhere else in the world. Such an interpretation is supported by the reference in s 9(1)(c) to subsequent importation into New Zealand of the copies previously put into circulation.

[44] Other matters support a different view. The common law presumes a statute does not have extra-territorial effect unless it expresses a (sufficiently clear) contrary intention.²³ Careful readers will have noticed that unlike the version of the United Kingdom Act in force when we enacted our Act, s 9(1)(c) does not say "or elsewhere"; see [20]. This has some significance: the Act is largely based on the

²⁰ Because s 9(1)(d) concerns parallel importation (of genuine copies), the copyright owner has consented to their first circulation.

²¹ Ian Finch (ed) *James and Wells Intellectual Property Law in New Zealand* (3rd ed, Thomson Reuters, Wellington, 2017) at 410 (emphasis added).

²² Brendan Brown, Delia Browne and Clive Elliot *Intellectual Property Law* (looseleaf ed, LexisNexis, Wellington) vol 1 Copyright and Design at [COP9.5].

²³ *Poynter v Commerce Commission* [2010] NZSC 38, [2010] 3 NZLR 300.

United Kingdom Act, yet we did not copy the phrase “or elsewhere”. Moreover, as Mr Brown observes, sometimes genuine copies of a New Zealand-made product (protected by copyright) are exported, only to later return to our domestic market. It follows s 9(1)(c) could well be directed at importation truly “subsequent” to first circulation of a genuine copy within New Zealand.

[45] The correct interpretation of s 9(1), and 9(1)(c) particularly, must be ascertained, of course, not merely from text and purpose, but the Act as a whole informed by relevant developments.²⁴ This broader analysis is decisive, as revealed by nine points.

[46] First, s 16 identifies an elementary feature of copyright: that it is *territorial*. Section 16 affords the owner of copyright in a work “the exclusive right” to do various things “in New Zealand”. Territoriality was highlighted by Tipping J in relation to the Copyright Act 1962 in *Atkinson Footwear Ltd v Hodgskin International Services Ltd*,²⁵ and recently reiterated by the Court of Appeal in *Gao v Zespri Group Ltd* in an analogous context (the Plant Variety Rights Act 1987).²⁶

[47] Second, s 16 creates a code of rights of a copyright owner. The right of first circulation is one such right. As with the others, it is exercisable in New Zealand only.

[48] Third, by ss 29 and 31 of the Act, contravention of the right of first circulation is a primary copyright infringement. So, it is no answer to an infringer of *this* right to say a plaintiff may have recourse to secondary copyright infringement; that is to invert statutory purpose.

[49] Fourth, if antecedent foreign circulation of infringing copies constitutes first circulation, then, in any such instance, the copyright owner has no actionable primary infringement, in turn compromising the efficacy of the right of first circulation and the Act more generally. Again, it is no answer to say a plaintiff may have recourse to

²⁴ Legislation Act 2019, s 10.

²⁵ *Atkinson Footwear Ltd v Hodgskin International Services Ltd* HC Christchurch CP141/94, 19 October 1994, (1994) 31 IPR 186.

²⁶ *Gao v Zespri Group Ltd* [2021] NZCA 442, [2022] 2 NZLR 219.

secondary copyright infringement. Primary infringement is a corollary of the right of first circulation; therein lies the whole point of ss 29 and 31.

[50] Fifth, the plaintiffs' construction is consistent with s 9(1)(d), whereas ESR's interpretation presupposes it a mistake. Sections 9(1)(d), 12(3) and 12(5A) would not have been necessary if earlier foreign circulation qualified under s 9(1).²⁷ That, by implication, cannot have been Parliament's view.

[51] Sixth, ESR's construction cuts across the Act's distinction between genuine and infringing copies and is inconsistent with the statutory regime in relation to parallel imports. When copyright works are genuine and have been placed in foreign circulation by the copyright owner or licensee, the legislature has chosen, as a matter of policy reflected in s 12(5A), to treat these copies as not infringing the owner's rights.

[52] Seventh, the plaintiffs' construction is consistent with the concept of exhaustion (discussed earlier), the approach of the United Kingdom in relation to that concept and importantly, Article 6 of WIPO, an international law obligation. Once the owner (or licensee) of a copyright places a copy in circulation in New Zealand, they may not control subsequent acts of distribution, sale, or importation of those copies. The owner has, by dint of *their* first circulation, exhausted her, his, or its rights.

[53] Eighth, the plaintiffs' construction is also consistent with the concept of exhaustion in relation to other forms of intellectual property; such as trade marks under s 97A of the Trade Marks Act 2002 (above at [29]). Sequence is important here too. Section 97A was enacted by the Copyright (Parallel Importation of Films and Onus of Proof) Amendment Act 2003. The 2003 amendment made only modest changes to the Act, in turn suggesting the right of first circulation operates as the plaintiffs contend rather than meaning that copyright owners lose their rights by unauthorised foreign circulation.

²⁷ Cf *Intellectual Property Law*, above n 22, at [COP10].

[54] Ninth, points one through eight are consistent with MBIE’s 2019 observations in relation to the Act, (above at [30]). For convenience, these I repeat:

In the context of intellectual property rights, exhaustion generally means that when a product covered by an intellectual property right is sold to the public, the ability of the rights owner to control further sale of the product is limited.

For example, the owner of copyright in a book has the exclusive right to issue the book to the public. But once the book is sold by the copyright owner, the purchaser is free to sell the book without seeking the permission of the copyright owner, or paying a royalty. That is, the right of the copyright owner to issue the book to the public is ‘exhausted’. Section 9(1) of the Copyright Act 1994 explicitly provides for this exhaustion of rights.

The Copyright Act 1994 and the Trade Marks Act 2002 provide for ‘international exhaustion’ of copyright and trade mark rights. This relates to situations where a copyright work or a product carrying a trade mark registered in New Zealand is placed on the market in another country by or with the permission of the copyright or trade mark owner. In these situations the copyright work or the trade marked product can be imported into New Zealand without the permission of the copyright owner or the trade mark owner. Such imports are known as ‘parallel imports’.

[55] In summary, while s 9(1)(c) is, in isolation, a little Delphic, there is no doubt what s 9(1) means once the Act’s text and purpose are considered alongside related developments. As Mr Brown contends, s 9(1) means this:

References in this Act to the issue of copies of a work to the public mean the Act of putting into circulation copies [in New Zealand] not previously put into circulation [in New Zealand by or with the consent of the owner].

[56] This is not adding words to the Act, nor is it recrafting it. Rather, to quote *Burrows and Carter Statute Law in New Zealand*, it is “just drawing out what is already implied in it” by virtue of ss 9, 12, 16, 29 and 31.²⁸

[57] Contrary to Mr Pietras’ submission, this conclusion will not “tyrannise” New Zealand businesses. Only those importing and selling infringing (or pirated) goods will be affected. Moreover, s 121(1) of the Act provides a defendant who did not know or have reason to believe copyright existed in the work is not liable for damages (as against an account of profits). In any event, tyranny is often in the eye of the beholder. It bears repeating that infringing (or pirated) copies can damage sales of the copyright owner’s products and reputation. Therein lies at least part of their harm.

²⁸ RI Carter *Burrows and Carter Statute Law in New Zealand* (6th ed, LexisNexis, Wellington, 2021).

Other ‘defences’ raised by ESR

[58] ESR raises three other contentions in its defence of primary infringement.

[59] In *Independiente Ltd v Music Trading On-line (HK) Ltd*,²⁹ the Hong Kong-based defendant was found to have engaged in first circulation by sending CDs and DVDs to the United Kingdom. Mr Pietras contends this means the company that dispatched the furniture from Vietnam to New Zealand is responsible for breaching the plaintiffs’ right of first circulation, not ESR.

[60] Mr Pietras also raises s 34(1) of the Sale of Goods Act 1908, which reads:

Where, under a contract of sale, the seller is authorised or required to send the goods to the buyer, delivery of the goods to a carrier, whether named by the buyer or not, for the purpose of transmission to the buyer is prima facie deemed to be a delivery of the goods to the buyer.

[61] Mr Pietras contends delivery of the furniture to the shipping company in Vietnam means someone earlier in the chain, not ESR, engaged in first circulation by dint of s 34(1).

[62] I do not accept either contention. *Independiente Ltd* turned on the application of s 32(4) of the Sale of Goods Act 1979 (UK), which meant delivery was deemed to have occurred when the items reached customers in the United Kingdom. Furthermore, ESR admits to importing the furniture in its statement of defence³⁰ and was found liable for importation during the earlier litigation in this Court.³¹ It is not open to ESR to advance a submission it did not import the furniture, which is the core premise animating both of Mr Pietras’ submissions.³²

[63] Finally, Mr Pietras contends that because others in Vietnam appear to be copying and selling the plaintiffs’ copyrighted works, ESR is not liable for breaching the plaintiffs’ right of first circulation in relation to the furniture:

²⁹ *Independiente Ltd v Music Trading On-line (HK) Ltd*, above n 15.

³⁰ Fifth Amended Statement of Defence, at para 10.

³¹ *Burden v ESR Group (NZ) Ltd* [2016] NZHC 1542.

³² Similar difficulties arise in relation to paras 9-11 of an affidavit of Craig Morrow, which ESR adduced at the hearing. These paragraphs are inconsistent with the factual findings of Duffy J in *Burden v ESR Group (NZ) Ltd*, above n 31, at [242]–[264]. I decline to place any weight on them for this reason.

Section 9 does not say that the “copies” released to the market must be the exact same units put into circulation by the defendant. We submit it is therefore open to construe s 9 as allowing a defence where copies of the same design have been put into the market as a result of earlier sales to other Morrow Marketing customers. In other words, the copies previously put into circulation in s 9 may be copies made to the same design but circulated to entities other than the defendant.

[64] Again, I disagree. In a case like this, the focus is on the *copies in question*, not other copies. This is apparent from s 9(1) itself, which refers to “putting into circulation copies not previously put into circulation” and its exclusion of subsequent dealings “of those copies” in paragraphs (a), (b) and (c). This conclusion is affirmed by *Intellectual Property Law*:³³

However, it is important to note that the question of prior circulation needs to be determined in relation to particular copies. It is of no avail to a person who, by way of sale, puts into circulation copies of a work which have not previously been put into circulation, that the person also sells several other copies of the work which have previously been put into circulation. A person who sells or distributes the latter copies will not infringe copyright by reason of s 31, whereas a person who sells or distributes the former copies will infringe pursuant to that section.

[65] It is also affirmed by *Copinger and Skone James on Copyright*:³⁴

The Act makes the act of putting particular copies of a work into circulation in the UK for the first time a restricted act, even where the work has already been published in the sense that other copies of the work have previously been put into circulation in the UK. So, for example, the putting into circulation of a further 10 copies of a work which has already been published is a restricted act.

Conclusion

[66] All this means ESR (also) committed primary copyright infringement by issuing the furniture to the public, thereby contravening the plaintiffs’ right of first circulation in relation to the furniture.

Result

[67] ESR is liable to the plaintiffs for \$221,134.50.

³³ *Intellectual Property Law*, above n 22, at [COP31.5].

³⁴ *Copinger and Skone James on Copyright*, above n 9, at [7-146].

Costs

[68] The plaintiffs are entitled to costs. I am inclined to award 2B scale costs. If the parties disagree, they may file memoranda confined to seven pages each:

(a) The plaintiffs on or before **Friday, 2 September 2022**.

(b) ESR on or before **Friday, 16 September 2022**.

.....

Downs J

Schedule 1

Commencement: 2013–2014

[1] The plaintiffs issued a copyright notice in May 2013.³⁵ New Zealand Customs detained ESR's furniture importations between July and September 2014 and issued notices of determination.³⁶

[2] The plaintiffs commenced a proceeding against ESR and four other defendants on 18 September 2014.³⁷

[3] Just before trial, ESR made an interlocutory application to the High Court seeking an order for release of the detained items.³⁸ Muir J declined the application.³⁹

Liability phase: 2015–2017

[4] Duffy J presided trial in the Auckland High Court in September 2015.⁴⁰ The Judge found: (a) Mr Burden was the author and owner of the copyright; (b) ESR was liable for secondary copyright infringement by way of importation;⁴¹ and (c) ESR did not breach the Fair Trading Act 1986.⁴² Duffy J rejected ESR's counterclaims relating to the notices of determination issued by Customs.⁴³

[5] ESR subsequently appealed to the Court of Appeal. The plaintiffs cross-appealed.⁴⁴

³⁵ Pursuant to s 136(1) of the Copyright Act 1994.

³⁶ INV 17912 and 17913 on 4 September 2014; INV 17913 on 12 September 2014; INV 18043 on 17 October 2014; INV 18061 and 18064 on 22 October 2014.

³⁷ CIV-2014-404-2456.

³⁸ Pursuant to s 141(3) of the Copyright Act.

³⁹ *Burden v ESR Group (NZ) Ltd* [2015] NZHC 1649, (2015) 113 IPR 594 [HC pre-trial judgment, 14 July 2015].

⁴⁰ A three-week trial in the Auckland High Court ran from 7 to 24 September 2021.

⁴¹ *Burden v ESR Group (NZ) Ltd* [2016] NZHC 1542 [HC liability judgment, 7 July 2016], at [201] and [242]–[264].

⁴² At [294]–[299].

⁴³ At [300]–[304].

⁴⁴ Notice of Appeal, filed by ESR 4 August 2016; Plaintiffs' cross-appeal filed 17 August 2016.

[6] The Court of Appeal upheld Duffy J’s decision but concluded copyright was owned by the second and third plaintiff companies, not Mr Burden.⁴⁵ Judgment for the second and third plaintiffs was substituted, accordingly.⁴⁶ The Court of Appeal found ESR had knowledge of the infringement from 28 August 2014.⁴⁷

Amended claims: 2018–2021

[7] In 2018, the plaintiffs began a second proceeding against ESR.⁴⁸ It alleged primary copyright infringement by issuing copies to the public.

[8] ESR pursued a strike-out application, arguing the plaintiffs were prohibited from commencing a new proceeding. In response, the plaintiffs applied to amend their earlier proceeding to include primary infringement.⁴⁹ The High Court dismissed the strike-out application and amendment application.⁵⁰

[9] The plaintiffs appealed. The Court of Appeal allowed the plaintiffs to amend their earlier proceeding.⁵¹ It held the amended pleading should minimise factual disputes at the remedies hearing.⁵²

[10] The defendants sought leave to appeal to the Supreme Court. Leave was declined.⁵³

⁴⁵ *ESR Group (NZ) Ltd v Burden* [2017] NZCA 217 [CA liability judgment, 26 May 2017].

⁴⁶ At [82].

⁴⁷ At [78(f)]. Duffy J found that knowledge arose “from June 2014 at the earliest and by receipt of the 7 August 2014 letter at the latest”: see [HC liability judgment, 7 July 2016], above n 41, at [263].

⁴⁸ CIV-2018-4040-2775.

⁴⁹ Application filed 15 May 2019.

⁵⁰ *Burden v ESR Group (NZ) Ltd* [2019] NZHC 1546, (2019) 146 IPR 525 [HC amendment judgment, 3 July 2019]; Leave to appeal the strike out decision was granted on 29 October 2019: *Burden v ESR Group (NZ) Ltd* [2019] NZHC 2745. There was an appeal as of right under s 66 of the Judicature Act 1908 in relation to the amendment decision.

⁵¹ *Burden v ESR Group (NZ) Ltd* [2020] NZCA 560, [2020] 157 IPR 217 [CA amendment judgment, 12 November 2020].

⁵² At [45]–[48].

⁵³ *ESR Group (NZ) Ltd v Burden* [2021] NZSC 22 [SC leave judgment, 23 March 2021].

[11] In May 2021, the plaintiffs filed a fourth amended statement of claim in relation to their earlier proceeding.⁵⁴ In July 2021, ESR filed a fourth amended statement of defence to the earlier proceeding.⁵⁵

Interlocutory application: 2021

[12] In September 2021, the plaintiffs filed an interlocutory application seeking further particulars regarding pleadings in the fourth amended statement of defence.⁵⁶ ESR opposed the application but filed a fifth amended statement of defence addressing further particulars.⁵⁷

[13] In December 2021, the plaintiffs withdrew the interlocutory application because the fifth statement of defence provided further particulars.⁵⁸

Remedies hearing: 2022

[14] Downs J presided the remedies hearing on 27 and 28 June 2022. A statement of agreed facts obviated the need for evidence, save that ESR adduced an affidavit from one witness, Craig Morrow. The plaintiffs did not cross-examine Mr Morrow, while objecting to passages on the bases of issue estoppel and res judicata.

⁵⁴ Fourth amended statement of claim filed on 27 May 2021; the plaintiffs also discontinued proceedings against all defendants other than ESR.

⁵⁵ ESR fourth amended statement of defence filed 16 July 2021.

⁵⁶ Notice requiring Further Particulars of Defendants' Statement of Defence to Fourth Amended Statement of Claim dated 16 July 2021 CIV-2014-404-2456, filed by the plaintiffs on 15 September 2021.

⁵⁷ Notice of Opposition CIV-2014-404-2456, filed by ESR on 8 October 2021. Fifth Amended Statement of Defence CIV-2014-404-2456, filed by ESR on 8 October 2021.

⁵⁸ Plaintiffs' Withdrawal of Interlocutory Application dated 24 September 2021, filed on 2 December 2021; *Burden v ESR Group (NZ) Ltd* HC Auckland CIV-2014-4040-2456 (Minute of Moore J: Vacation of interlocutory fixture), 3 December 2021.