hunt & hunt lawyers

Customs and Global Trade Update

August 2015

New intellectual property considerations for exporting to the United States

Recent free trade agreements with China, Korea and Japan are getting a lot of attention from Australian exporters. However, the lure of the United States (US) remains strong, with a recent survey showing it is still the number one new target market for Australian exporters. With no language barriers and similar cultures, trade with the US should be relatively easy. However, a recent case demonstrates trade difficulties that flow from the US concept of protecting intellectual property (IP).

WIDENING IP PROTECTION

In the recent case of *Suprema, Inc V USITC* the US Federal Circuit held that the US International Trade Commission had the power to block the import of goods on the grounds of protecting intellectual property, even though the goods themselves did not infringe intellectual property rights at the time of import. It was enough that on importation the goods were intended to be used in conjunction with software that would result in infringement of another's right and the seller of the goods had induced that use.

In taking this wide view of what imported goods infringe a US patent, the Court felt that it was interpreting the legislation in a way that safeguards US commercial interests at the border. In doing so, it overturned the previous decision of the same Court that the infringement must exist at the time of import.

Ultimately, the decision reflects a novel way of interpreting the legislation and more widely reflects a trend of developed economies finding new ways to protect domestic industries.

IP CONSIDERATIONS WHEN EXPORTING

The above decision represents a stricter approach than most exporters will face. It also demonstrates that if a Government wants to protect local industries, they can find a way to do so. In this environment it is important that exporters ensure their goods do not infringe intellectual property rights belonging to those in the country of import.

As an example, Customs Authorities will generally have the right to prevent the importation of goods which breach the trademark rights of the domestic trademark holder. These rights can be infringed even when the relevant import is genuine and the trademark was applied with the authority of the Australian trademark owner. Australian ownership of the trademark does not create international rights. The key issue is whether the trademark is taken to have been applied with the consent of the trademark holder in the country of import.

Exporters of branded goods should ensure that trademark searches are undertaken in the export market. This will help identify the risk that goods will breach trademark rights in that country. It will also highlight if, unbeknown to the exporter, someone has in bad faith registered their trademark in the export market.

The best way to manage this risk is to register intellectual property in your key export markets as early as reasonably possible. Waiting until your brand is valuable outside Australia will increase the risk of a third party registering the brand.

WHAT IF YOUR GOOD/S IS NOT INFRINGING AT THE POINT OF IMPORT?

The above decision demonstrated that non-infringing goods can still be blocked at the point of import based on how they may be used in the US. While such a finding requires evidence that the seller induced the breach, such inducement can be proved by demonstrating the seller failed to exercise due diligence. This risk can be addressed by including in your supply agreements a warranty that the purchaser will not use the imported good in a way that will breach the intellectual property rights if a third party. Additionally, the risk of the goods being denied entry into the US should be passed onto the US customer. This is appropriate given that it is the use of the goods in the US that would prevent otherwise compliant goods from being allowed entry into the US.

These steps could have helped manage the risks that arose in the above case. However, they will only be effectively if the written supply contract is accepted by the US customer in a manner that can proved at the time a dispute arises. Unfortunately, it is all too often the case that a failure to have a supply agreement properly signed is only identified when you wish to rely on that contract.

The US is a highly regulated market and IP protection can be both a benefit and a barrier to business. While the US legal system can be complex, it is transparent and does uphold contracts. This means that while the strong US IP protection system can present a risk, the ability to enforce contractual exclusions and warranties is equally strong and is an effective way to manage that risk.

Hunt & Hunt's Customs and Global Trade team, through its network of international affiliates, helps importers and exporters take advantage of the opportunities, and manage the risks, of entering new markets, such as the United States.

Please contact a member of our team for more information.

Authors: Russell Wiese, Partner | Lynne Grant, Special Counsel