Parallel Imports and Trademark Law

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Parallel importation has assumed much importance with the opening up of global markets and effective implementation of price differentials. While exponents of this practice often quote economic benefits that accrue to the ultimate consumers as a result of parallel importation, its critics usually assert monopoly rights of the owner over his products and their disposition. In this context, a study of the avenues available, especially under trademark law, to the owner to protect his rights and the exceptions thereto are imperative. The paper outlines concept of trademark, its territorial application, and principle of exhaustion as a counter measure against stifling effect of trademark territoriality. It identifies parallel importation as a practise that exploits the principle of exhaustion. Discussion on advantages and disadvantages of parallel importation has lead to the conclusion that a via media needs to be adopted to ensure a balance between owner’s right and consumer’s interest. The rules regulating parallel importation in two major jurisdictions, United States and European Union (more aptly the European Economic Area) are discussed followed by the Indian position. Due to the lack of discussion on the topic by jurists or by judiciary, there is ample room for creative arguments from both sides of the debate.

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A trademark indicates source of origin of goods. Essentially, basic purpose of a trademark is to ensure (a) minimal consumer confusion by clearly identifying a particular product to have originated from a particular manufacturer, and (b) maximum consumer satisfaction through quality control that the consumers start expecting out of the products of the trademark owner. Thus, for example, the mark Dairy Milk on chocolate bars indicates that those particular bars have been manufactured by Cadbury and the customers can expect such bars to be of quality that the public has come to associate with Cadbury’s products.

Trademarks have an existence only when put on a product. Thus, infringement occurs when trademark is put on a product without authorization of the trademark owner. Trademark right is a monopoly right in the sense that the trademark can be put to use either exclusively by the owner or with his consent. If a third person puts the trademark to use, the owner can prohibit the same and claim damages. This monopolistic right has been further rooted by the principle of territoriality whereby, within the territory, the owner has been granted monopolistic exclusive rights to protect his trademark and trademarked goods.

The trademark rights exist in each country solely according to that country’s statutory scheme. Disputes relating to trademark are adjudged by the law of the place where the dispute arose. The territorial character of trademark has been further ingrained because the foundational intellectual property conventions of the late nineteenth century were built around the principle of national treatment. As argued by Dinwoodie, different rules of trademark law possess a territorial character for different reasons:

(a) Trademark rights are territorial as the intrinsic purpose of trademark – to identify the source of origin - is served by recognizing rights in favour of the local producer.

(b) Trademark laws are territorial as they are promulgated primarily by national law making institutions, whether judiciary or legislature.

(c) A trademark is acquired through national mechanisms. Thus, a manufacturer has to obtain separate registrations in different countries to be entitled to protection.

(d) Trademark rights are enforced on a national basis. This means that, irrespective of the trademark owner holding rights in different countries, an action for infringement will lie in a country only so far as it involves the vindication of the rights available in such country.
In colloquial terms, territoriality of a trademark means that a trademark owner will have to obtain two separate registrations (the mark may be same) for two different countries – A and B. Consequently, within their respective territories, goods produced in both the countries are genuine. However, by virtue of territoriality, the owner can prevent import of genuine goods from B to A as they are made by legally separate undertakings. In simple words, Cadbury (India) has the right to prevent use of its mark on import of products manufactured by Cadbury (Sri Lanka) because this would be a situation of identical signs/identical goods as per Section 29(1) Trade Marks Act, 1999. To counter this restriction on trade imposed by territoriality of trademark, the principle of exhaustion was applied.

**Principle of Exhaustion**

Exhaustion means if the marked goods are once put on the market by the owner or by his consent, and once purchased legitimately, the IP owner or any one deriving his title from him cannot prevent sale of such good, as the exclusive right to sell goods bearing the mark is ‘exhausted’ by the first sale; then the exclusive right to sell goods bearing the mark cannot be exercised twice in respect of the same goods.

The way in which a country coexists with other countries can have a profound effect on the way it operates the doctrine of exhaustion. Three forms have been internationally recognized:

**Forms of Exhaustion**

**Domestic/National Exhaustion**

This means that if goods are sold for the first time in the domestic market or within the territory of the country in which the trademark is registered, the owner loses his rights over the goods and cannot prevent subsequent sales of the same in the domestic market within the country. However, if goods are sold for the first time in a different country beyond the jurisdiction of the nation in which the trademark is registered, then the owner can invoke his trademark rights to prevent the importation of such goods into the domestic market. India has adopted this form of exhaustion via Section 30 of the Trademarks Act, 1999.

**Regional Exhaustion**

If goods bearing a trademark are put on sale in any country within the specific region by the owner or with his consent, the owner cannot stop subsequent sales of that product in his own country or in any country within the region. But if the goods are put on sale in a country outside the region, the owner can sue anyone who imports them into that region and subsequently sells them. The EU has adopted regional exhaustion whereby an act of sale in one country is equivalent to it being an act of sale in any country within the region.

**International/Global Exhaustion**

Global exhaustion operates on the premise that if goods bearing a trademark are once sold in a specific country by the owner or with his consent, he cannot stop subsequent sales of those goods either in his own country or in any other country. This doctrine works on the assumption that the whole world is one market or one country and thus goods once sold in any part of such market or country operates as exhaustion of rights of the trademark owner over such goods.

**Parallel Import**

Parallel import is a practise whereby an unauthorized third party exploits the doctrine of exhaustion and imports goods which are less expensive in one country to be sold in parallel with more expensive goods which are either non-imported or imported from a source controlled by the trademark owner. The principle of exhaustion is exploited in the sense that effect of exhaustion to deflate the monopolistic right and inherent territoriality are utilized to make profits by selling the goods of the similar quality at cheaper rates than what are domestically available.

**Advantages and Disadvantages**

Parallel imports promote free trade, encourage healthy competition and act as price levellers. Non-application of parallel importation may result in complete control in distribution channels thereby perpetuating monopolies. Hence application is essential to minimize monopolistic effect of the policies of multinational enterprises who try to control distribution channels. The biggest beneficiaries of parallel imports are the ultimate consumers who have the advantage of buying genuine products produced by another licensee, offered under an authentic mark, at a lower price.

However, parallel import often raises serious issues of unfair competition and ‘piggy-backing’. The term ‘piggy-backing’ here refers to the attempt by the parallel importer to encash the goodwill fostered by
the owner to sell his gray goods. Concerns of quality of the goods also arise when the gray goods have been manufactured for a different market comprising different tastes and demands. The raw materials used may also be from geographically different areas directly affecting the consumer health. Also, the corresponding guarantees and after-sales maintenance services attached with the goods may be different for different regions.

Whether it should be Prohibited or Regulated?

It is in the interest of the trademark owner and his local licensees to restrict parallel imports. For the owner, allowing them would be akin to losing a huge amount of revenue and royalty that he otherwise would have gained had there been no gray goods to compete with. However, the economic interests of the public justify its adoption. As a consequence of parallel importation, the ultimate consumer enjoys a broader price-range and a wide variety of goods.

To resolve these bipolar interests, two avenues have been recognized which ensure protection of the trademark owner’s rights and also takes into consideration the demands of the consumers.

Regulating Parallel Imports

Considering the proposition that parallel imports are beneficial, it is advisable to regulate them rather than completely prohibit them. Hence, two avenues have been recognized:

Contractual Regulatory Mechanism

As long as the terms of the contract are not too monopolistic and restrictive, trademark owners may impose restrictions on their licensees from selling their products in particular regions. Alternatively, the terms of the contract may also indicate towards implied consent of the owner to circulate his goods subsequent to his having made the first sale.

Legal Regulatory Mechanism

For the benefit of the consumers, many jurisdictions have given importance to the basic purpose of trademark – identification of source of origin – and have adopted certain practices that ensure clear distinction and differentiation of gray goods from local goods thereby ensuring that the trademark serves its purpose. Thus, delegated legislations by the executive in the form of Customs notifications allow parallel importation as long as the gray good is prominently marked as being a gray good.

United States and European Union

United States

The US trademark law gives much importance to territoriality of trademark. US trademark law propagates that a trademark’s proper function is not necessarily to specify the origin or manufacture of a good (although it may do that) but rather to symbolize the domestic goodwill of the domestic mark holder so that the consuming public may rely with an expectation of consistency on the domestic reputation earned for the mark by its owner, and the owner of the mark maybe confident that his goodwill and reputation (the value of the mark) will not be injured through use of the mark by others in domestic commerce.

Therefore, as far as US law is concerned, the ultimate issue as regards prohibition/regulation of parallel imports is the factual analysis of a likelihood of confusion of US customers as to the origin of the goods from foreign manufacturers or US exclusive importers. If the customers recognize the parallely imported goods as exactly that – goods manufactured by the foreign manufacturer - then the imports will not be blocked. However, if the customer is confused or feels that the imported goods originated from the US trademark owner, then parallel imports would be blocked.

To regulate parallel imports, US has adopted the legal regulatory mechanism identified above.

Tariffs Act § 526

§ 526 prohibits absolutely importation of products ‘that bears a trademark owned by a citizen of the US… and is registered in the US Patents and Trademarks Office.’ Such a ban on importation does not require a likelihood of confusion of the customers. Where there is a parent-subsidiary relation between foreign manufacturer and US distributor, the Tariff Act cannot be used to stop imported gray goods. However if the trademark is owned and registered in the US by an exclusive distributor who is independent of the foreign manufacturer and who has separate goodwill in the product, the distributor is entitled under §526 to prevent importation even of genuine merchandise obtained from the same foreign manufacturers.

Clearly, the Tariffs Act is limited in its application and provides protection to those trademark owners who are US citizens and form a different entity than the foreign manufacturer (that is they are not under any parent-subsidiary relation with the original
manufacturer). §42 of the Lanham Act, which allows trademark owners to prevent parallel imports of goods, as long as the goods copy or simulate a mark registered in the US, overcomes this limitation.

**Lanham Act § 42**

§ 42 clearly accentuates the principle of territoriality prevalent in the US and lays down that as long as the customers are aware that the gray goods are in fact goods not originating from the US manufacturer but are imported, parallel imports are allowed.\(^{15}\) It does not bar importation if the goods are genuine. It bars importation only if they copy or simulate a trademark.\(^{16}\) However what acts may be construed as copying or simulation is left for the courts to decide on the basis of the peculiar facts of the case.

The Lever Brothers case stipulated that § 42 bars foreign goods bearing a trademark identical to a valid US trademark but physically different, regardless of the trademarks' genuine character abroad or affiliation between the producing firms. On its face the section appears to aim at deceit and consumer confusion; when identical trademarks have acquired different meanings in different countries, one who imports the foreign version to sell it under that trademark will (in the absence of some specially differentiating feature) cause the confusion Congress sought to avoid through the Lanham Act. The fact of affiliation (which is a limitation of the Tariff Act) between the producers in no way reduces the probability of that confusion neither is it a constructive consent to the importation.\(^{17}\) On appeal, the Appellate Court upheld the judgment of the District Court and held that the affiliate exception\(^{18}\) is inconsistent with §42 of Lanham Act and cannot be enforced as against foreign goods which bear mark identical to valid US mark but which are materially, physically different, since nothing in §42's legislative history or administrative practice supports such exception, and since physically different foreign goods cannot be ‘genuine.’\(^{19}\)

Thus, the Lever interpretations of §42 became an exception to the ‘affiliate exception’ to bar import of gray market goods, the test being that the parallely imported goods were physically and materially different from the authorized goods. A natural corollary of the same is as long as the imported goods are genuine i.e. they are identical or similar to the goods authorized for importation by the US trademark holder, parallel imports will be allowed. But if the goods are different, they are not deemed to be genuine and hence importation is liable to be barred.

To claim protection under the Lever rule, an application has to be made to the Customs Authority including a summary of the physical and material differences between the gray market goods and those goods authorized by the US trademark owner for importation or sale. However, if the Lever rule protection is granted and gray market goods are prohibited from entry, their entry may be allowed if the importer ensures that the goods are properly labelled as per the Customs Regulation 133.23(b). The goods have to be labelled with a notice stating ‘This product is not a product authorized by the US trademark owner for importation and is physically and materially different from the authorized product.’

The labelling is required on the merchandise or packaging and must be conspicuous and legible and remain on the product until first point of sale to a retail consumer in the US.\(^{20}\)

It is thus clear that the only remedies available to a parallel importer in case of a suit for infringement or if the gray market goods are detained is:

1. to prove that either the goods are not physically and materially different from the ones authorized by the US trademark owner; or
2. that proper labelling rules have been followed to make sure that there is no customer confusion as to the source or origin of the goods

(i) Material Differences

The purpose of the material differences test is to determine whether the allegedly infringing products are likely to injure the goodwill developed by the trademark owner in the trademarked goods.\(^{21}\) When the products sold by the alleged infringer and the trademark owner contain identical marks but are materially different, consumers are likely to be confused about the quality and nature of the trademarked goods.\(^{22}\) Characteristics of the alleged infringer's goods that are not shared by the trademark owner's goods are likely to affect consumers' perceptions of the desirability of the owner's goods.\(^{23}\) Sales of the alleged infringer's goods will tarnish the 'commercial magnetism' of the trademark, injuring the trademark owner.\(^{24}\) In such circumstances, the alleged infringer's goods are considered ‘non-genuine’ and the sale of the goods constitutes infringement.

In contrast, when the differences between the products prove so minimal that consumers who
purchase the alleged infringer's goods 'get precisely what they believed that they were purchasing.' Consumers' perceptions of the trademarked goods are not likely to be affected by the alleged infringer's sales. Although consumers may be unaware of the precise avenues that a given product has travelled on its way to the supermarket shelf, the authentic trademark on the alleged infringer's goods is an accurate indicator of their nature and quality. Hence in Iberia Foods Corp v Romeo, as the Plaintiff established no material differences, parallel importation of goods was allowed.

However, where difference existed between the parallely imported goods, injunction was granted and imports prohibited. Thus when significant differences existed between Italian made PERUGINA chocolate and gray imported Venezuelan made PERUGINA chocolate, it was held that the potential for consumer confusion is extremely high when a product catering to the indigenous conditions of a foreign country competes domestically against a physically different product that bears the same name. The existence of any difference between the registrant's product and the allegedly infringing gray goods that consumers would likely consider to be relevant when purchasing a product creates a presumption of consumer confusion sufficient to support a Lanham Act claim. So the threshold of materiality must be kept low enough to take account of potentially confusing differences – differences that are not blatant enough to make it obvious to the average customer that the origin of the product differs from his or her expectations. This presumption can be overcome by proof from the defendant that the differences are not of the kind that consumers, on average, would likely consider in purchasing the product.

Quality Control Measures — Further, in the Iberia case, Iberia argues that material differences exist between the Mistolin sold by the defendant and that sold by Iberia because Iberia conducts a 'quality control' inspection of every shipment of Mistolin on receipt from Caribe. Iberia contends that its rejection of substandard goods has raised the quality of the Mistolin sold by Iberia so that it is materially different from the uninspected Mistolin sold by defendant. Citing Casa Helvetia, the Court held that when a trademark owner arranges to have its mark placed on a product manufactured by another company, the owner's rigorous quality control and inspection procedure on receipt from the manufacturer has often been recognized as the basis of a material difference between products sold by the trademark owner and those offered by another company without the trademark owner's stamp of approval. Because quality control measures may create subtle differences in quality that are difficult to measure but important to consumers, courts do not require trademark owners to show that the actual quality of the inspected goods is measurably higher than that of the uninspected goods. Rather, the test is whether the quality control procedures established by the trademark owner are likely to result in differences between the products such that consumer confusion regarding the sponsorship of the products could injure the trademark owner's goodwill.

(ii) Customer Confusion as to Source or Origin

A French cosmetics firm sold its US operations to Bourjois (plaintiff) and assigned its JAVA trademark to them. They continued to buy the face powder in bulk from the French manufacturer and sold it in US in boxes prominently displaying that they are the importers. These boxes were considerably similar to the ones used by their predecessor French manufacturers. Defendants, a third party, purchased genuine face powder directly from the French manufacturer in the boxes used by them and imported it into the US. The defendant's boxes were similar to the plaintiffs.

During the 1920s, Courts were not in favour of protecting US trademark owners from imports of genuine goods obtained from the foreign manufacturer, thus the Court of Appeals allowed the defendant to sell the goods its had imported from the French manufacturer. In appeal, it was argued that the trademark here is that of the French house and truly indicates the origin of the goods. But the Supreme Court held that to be inaccurate as such importation tends to cause confusion as to the origin of the goods. Applying the principle of territoriality, the Court ruled that the trademark in issue indicated, by public understanding that the goods come from the plaintiff although not made by it. Further, vendors cannot convey their goods free from restrictions to which the vendors are subject. Since the French manufacturer had no right to vend the goods in US as the same had been effectively assigned to the plaintiff, a purchaser from the French firm had no greater right of use.

The Katznel case is considered precedent till date and is applied to decide almost all cases of parallel imports. However, a brief period of uncertainty reigned in the US legislative picture during 1983
when in *Bell & Howell: Mamiya Co v Masel Supply Company*, the Court allowed parallel imports of genuine MAMIYA brand Japanese cameras stating that there would appear little confusion, if any, because there was no showing that the parallelly imported cameras were inferior to those sold by the plaintiff.

The §42 of Lanham Act bars parallel imports bearing a name or a mark calculated to induce the public to believe that a foreign article is manufactured in any foreign country or locality other than the true country or locality. Hence it became mandatory, under the labelling provisions of the Customs rules to mark the imported goods with ‘country of origin.’ This also became necessary after the ruling in *Baldwin Bracelet Corp v Federal Trade Commission* where the plaintiff were ordered to cease and desist from selling products packaged in a manner where the purchaser was precluded from observing the foreign origin marking. Failure to mark gray goods with the country of origin may result in a suit under §43(a) of Lanham Act.

**European Union (EU) or the European Economic Area (EEA)**

Prior to the enactment of the Trademark Directive (TMD) 89/104, trademark owners sought protection through Article 28 of the Treaty of Rome (ex Article 30) read with Article 30 of the same (ex Article36) which laid down that no state can impose quantitative restrictions on imports except when such restriction is to protect industrial and commercial property. The essential purpose of the Treaty is to reconcile and balance the fundamental aim of single market and free movement of goods in the Community against the fundamental interest in protection of industrial and commercial property (read as trademark for our purpose) rights. The case law developed by the European Court of Justice (ECJ) under these provisions of the Treaty determined that any exercise of intellectual property rights, which prohibits or restricts trade between Member States, is only justified if this is for the purpose of safeguarding rights which constitute the “specific subject matter” or “essential function” of the intellectual property rights concerned.

The law developed by ECJ has now been codified in Article 7 of the TMD which stated:

*Article 7 – Exhaustion of Rights Conferred by a Trademark*

1. The trademark shall not entitle the proprietor to prohibit its use in relation to goods, which have been put on the market in the Community under that trademark by the proprietor or with his consent.
2. Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.

The same has been incorporated in the Community Trademark Regulation (CTMR) as also the national trademark laws of member states.

The EU law on parallel imports has to be understood under two categories:

(a) First Sale is outside the EEA

Prior to adoption of the TMD, it was unclear whether Article 28 read with Article 30 of the Treaty advocated a principle of international exhaustion thereby allowing parallel imports of goods placed in the market outside EEA. In practice, the approach taken by the Member States varied, with some applying a rule of international exhaustion and others applying a rule of Community exhaustion only.

Pursuant to Article 7, the main argument was that as both the TMD and the CTMR had not made any mention, the member states were free to adopt or reject international exhaustion principles. Initially, the approach as discussed in the Explanatory Memorandum for the Directive clearly indicated the Commission’s intention to adopt international exhaustion. However, this intention soon made an about turn. The view expressed in the Explanatory Memorandum to the amended proposal for the CTMR published in 1984, that absence of reciprocity in countries outside the EEA would result in discrimination against the industry within it, closed the debate and clarified that EEA did not adopt international exhaustion.

This became concrete with the interpretation of Article 7(1) by the ECJ in *Silhouette v Hartlauer* meaning that national rules providing for exhaustion of trademark rights in respect of products put on the market outside the EEA under that mark by the proprietor or with his consent are contrary to Article 7(1) of the Directive, as amended by the EEA Agreement. The Commission was, however, still hopeful that in the future, bilateral and multilateral agreements may introduce international exhaustion by the contracting parties.
Consent

Article 7 is no absolute but qualified with the consent of the trademark proprietor being an exception allowing him to prevent parallel imports if there has been no consent. Lawyers advocating parallel imports used this exception to argue in Zino Davidoff v A&G Imports\(^{44}\) that goods sold with the proprietor’s consent in Singapore where the distributor had contracted not to sell outside his specific territory and also to impose these obligations on customers to whom he sold clearly indicates an implied consent of the proprietor to the importation of goods in the EEA.

Justice Laddie laid down that on a proper construction of Article 7(1) of the Directive, the consent of a trademark proprietor to the marketing within the EEA of products bearing that mark which have previously been placed on the market outside the EEA by that proprietor or with his consent may be implied, where it is to be inferred from facts and circumstances prior to, simultaneous with or subsequent to the placing of the goods on the market outside the EEA which, in the view of the national court, unequivocally demonstrate that the proprietor has renounced his right to oppose placing of the goods on the market within the EEA.\(^{34}\)

Consent cannot be inferred from mere silence of the trademark owner\(^{44}\), the non-communication of his opposition to them being imported into the EEA\(^{44}\), absence of warning on the goods that indicate they are prohibited from being placed within the EEA\(^{44}\), the fact that original sale by the owner was not subject to contractual restrictions or that the national laws applicable to the sale includes in the absence of such restrictions and unlimited right of resale.\(^{44}\)

Irrespective of Davidoff, what is absolutely clear from the trend of the Court is that parallel importers who are caught with ex-EEA trademarked goods are to all intents and purposes automatically liable. It will take exceptional circumstances to mount a successful case of implied consent.\(^{45}\)

(b) First Sale is Within the EEA

Prior to explicit codification of exhaustion principle, the leading 1970s cases established a series of rules relating to the exhaustion of rights within the EU. The most important of these in relation to trademarks was that, once a product protected by a trademark has been put on the market in the Community by the trademark owner or with his consent, the owner’s proprietary rights are ‘exhausted’ throughout the Community and the rules of free movement must prevail.\(^{46}\)

It would be a conflict with the provisions prescribing the free movement of products within the common market for a manufacturer to exercise the exclusive right to distribute the protected articles, conferred upon him by the legislation of a Member State, in such a way as to prohibit the sale in that State of products placed on the market by him or with his consent in another Member State solely because such distribution did not occur within the territory of the first Member state.\(^{47}\)

While interpreting the Treaty, the concept of regional exhaustion was established by the ECJ. The proprietor of an industrial property right protected by the law of a Member State could no more rely on that law to prevent the importation of a product which has lawfully been marketed in another Member State by the proprietor himself or with his consent.\(^{48}\)

This concept is now expressly stated in Article 7 of the TMD and Article 13 of CTMR. This means that there is no restriction on movement of genuine goods within the EEA. However, as noted earlier, Article 7 is not absolute but is qualified. When goods are marketed within the EEA, there are three instances in which the trademark owner has not exhausted his rights:

(i) Consent

If the sale of the goods has been without the trademark owner’s consent, his rights are not exhausted and parallel imports may be prohibited. In a leading case on this point, Sebago,\(^{49}\) the ECJ held that the fact that the trademark owner had consented to the marketing within the EEA of products identical to those in relation to which exhaustion was being claimed was not sufficient. The fact of consent had to be proved for the actual products in question. Allowing such a form of consent to stand would, for practical purposes, impose a rule of international exhaustion for parallel imports which is clearly against the purpose of the TMD and the CTMR. As already stated in Davidoff, consent must be expressed positively and unequivocally demonstrate that the trademark proprietor has renounced any intention to enforce his exclusive rights.\(^{50}\)

(ii) Legitimate Reasons

Whereas on one hand, Article 7 of TMD 89/104 recognizes regional exhaustion, on the other, it grants the right to the trademark owner to prohibit further
commercialization of goods where there exists ‘a legitimate reason’ to do so. Change or impairment in the condition of goods after they have been put on the market would give rise to such a legitimate reason.

‘Legitimate reason’ can mean ‘reason specifically provided for by law’. Where the gray goods contravene the local ingredients-labelling regulations, even if they have been marketed with the trademark owners consent, their parallel import may be prohibited as the reason for their prohibition is ‘legitimate’ in the sense that it has been commanded by law. Thus, in *Colgate-Palmolive v Markwell Finance*,\(^5\) where the Brazilian manufactured Colgate was found to have different ingredients than the one sold in the UK, the trademark owner was allowed to prohibit parallel importation. Also, in *London Borough v Cedar Trading*,\(^2\) Coca-Cola cans imported from the Netherlands could not be sold lawfully in the UK because the ingredients were listed in Dutch.

(iii) **Goods Changed or Impaired after having been put on the market**

One of the legitimate reasons explicitly mentioned in Article 7 is change or impairment in the condition of the goods after they have been put in the market. One of the first decisions on the interpretation of ‘change or impairment’ was under the national law of Germany.\(^5\) Operation of bleaching, dying in garish colours and conversion into shorts was regarded as modification of *Levi’s* jeans adversely affecting the *Levi’s* brand to such an extent that defence of exhaustion was not allowed.

Repackaging/Rebranding/Relabelling—Where the same mark was used in the country of origin and country of importation, the only necessary requirement is to change the packaging of the product to make it saleable to the consumers in the country of importation. However, when different marks are used in different countries, the parallel importer has to rebrand or relabel the product with the mark of the country of importation to sell his parallely imported product. The question is, whether such repackaging/rebranding/relabelling constitutes a change or impairment so as to give rise to a legitimate reason to prohibit parallel importation.

This answer to the above question lies in the facts of each case. Repackaging/relabelling/rebranding is essential to uphold the purpose of the trademark – avoid customer confusion as to origin. However, the form and manner of such repackaging/relabelling/rebranding is the decisive factor. When an adaptor was added to the boxes of Sony PlayStations to connect them to British television sets and the origin of such adaptors was not made clear, it was held to sufficient change to prohibit parallel importation.\(^5\)

The issue of repackaging/rebranding/relabelling is most relevant w.r.t parallel importation of pharmaceutical products. *Hoffmann La Roche v Centrafarm*,\(^5\) acknowledged that the proprietor of a trade-mark right which is protected in two Member States is justified pursuant to the first sentence of Article 30 (ex 36) of the Treaty in preventing a product to which the trade-mark has lawfully been applied in one of those states from being marketed in the other Member State after it has been repacked in new packaging to which the trade-mark has been affixed by a third party. However, certain situations were identified where prevention constituted a disguised restriction on trade between Member States within the meaning of the second sentence of Article 30 of the Treaty.\(^5\) Taking the *Hoffman La-Roche* ruling a step further, the *Paranova Case*\(^5\) established detailed guidelines for repackaging/rebranding/relabelling/co-branding/de-branding etc. for parallel importers to follow if they wished to prevent their goods from being detained or prevent any legal action. The issue of whether de-branding/co-branding damaged the trademark or its owner’s reputation was referred to the ECJ in *Boehringer*,\(^5\) which, although took *Paranova* a step further and clarified, expanded, discussed in extensor, reiterated, re-enforced the earlier guidelines, failed to answer the issue of damage to reputation in certain and unambiguous terms.

The *Paranova* conditions which were mainly applicable to pharmaceutical imports were extended as applicable to all goods in *Loendersloot*\(^5\) with one modification that the person carrying the re-labelling must use means which make parallel trade feasible while causing as little prejudice as possible to the specific subject matter of trademark right.\(^6\) The same were extended to other products through *Dior Case* where it was held that if the presentation of the repackaged goods is liable to damage the reputation of the trademark, the trademark owner has a ‘legitimate reason’ to prevent parallel imports.\(^6\) This ruling has given hope to the owner’s desire to maintain high retail price so as to preserve the image of the trademarked goods as being luxury products.\(^6\)

Agreements Restricting Parallel Imports — The Treaty provides that an agreement reached between parties that affects trade between Member States and
which have as their object or affect prevention, restriction or distortion of competition within the common market, are deemed incompatible with the common market and are void. Hence, any agreement between two parties regarding restrictions on parallel imports has to pass the test under Article 81 of the Treaty of Rome. Further, any agreement between undertakings that has the affect of abusing the dominant position of a party will also be incompatible with the common market as per Article 82 of the Treaty of Rome.

Hence, where a trademark dispute has been resolved by a settlement agreement, the terms of which are arrived at through ‘proper negotiations between commercial parties,’ there is a ‘threshold requirement’ that is to be satisfied by the restrained party before the common law restraint of trade doctrine applies. A restraint imposed by an intellectual property dispute settlement should only be regarded as falling within the restraint of trade doctrine (and thus require justification) if the restrained party can show that the restraint: (i) actually imposes a real fetter on his trade, and (ii) goes beyond any reasonably arguable scope of the protection of e intellectual property right in issue.

If the restrainee can show, the restrainer can nonetheless justify by showing that the restraint provides a protection that he reasonably needs. Further, if the party rebutting the presumption that the restraints included in the agreement are reasonable by, for example, raising serious questions as to whether there was genuine use of the mark in issue at the time of the agreement, then in order to establish that the agreement was enforceable under the law of restrain of trade, it would be necessary for the party relying on it to prove that (i) the restraints contained in it were imposed for the purpose of protecting legitimate interests, and (ii) the restraints were no more than necessary to protect those interests.

Scope of Article 81

1 Assignment — If parties through an assignment (by the terms of the agreement or by their conduct) seek to partition the community, then such an agreement would fall within the ambit of Article 81(1) and be struck down as void.

2 Exclusive Licences — An ‘open’ exclusive licence is one whereby the owner of the right merely undertakes not to grant other licences in the territory concerned and not himself compete with his licensee in that territory. Such a licence does not normally fall within the ambit of Article 81(1), although particular facts will have to be examined to discover whether the licence has the effect of preventing or distorting competition within the EU. But if the parties go further and by their agreement seek to confer absolute territorial protection on the licence so that parallel importers or licensees from other territories are excluded, then the licence would be ‘closed’ and would fall within the ambit of Article 81(1).

3 Block Exemption — The block exemptions issued by the Commission on Technology Transfer Agreements (including exclusive licences) guides that as long as the trademark licence is not the primary object of the agreement, where distribution of goods or services and a licence of trademark are included in the same agreement, the agreement would not fall within Article 81.

4 ‘No Challenge’ Clauses — Clauses in agreements forbidding the licensee to challenge the validity of licensed right usually fall within Article 81. However, where it is necessary in order to establish a trademark in an already crowded market, such a clause may be acceptable. Where an agreement is for an indefinite period, the validity of a ‘no challenge’ clause may depend on whether the trademark in question remains in use, or at least is used sufficiently to maintain a trademark registration.

5 Minimize Confusion — An agreement (for example between holders of a mark of common origin) merely designed to avoid confusion but not the partition the market is outside Article 81(1). However trademark delimitation agreement would fall within article 81(1) where it is not evident that the holder of an earlier trademark could have recourse to national law to prevent the holder of a later mark from using it in one or more member states.

6 Distribution System — Any agreement with the network of dealers of a trademark owner, if restrictive of inter-state trade falls within Article 81(1). Any attempt to use passing off rights to prevent parallel imports where the alleged misrepresentation relates to the nature or a dealer (or giving of a guarantee) may fail if there was a related breach of Article 81(1).

7 Franchisee Agreements — In Pronuptia, the ECJ has recognized 3 types of franchise agreements,
(a) Service franchise agreements by which the franchisee offers service under the sign and trade name, or indeed the trademark, of the franchiser and complies with the franchiser’s directives,

(b) Production franchise agreements by which the franchisee himself manufactures, according to instructions of the franchiser, products which he sells under the franchiser’s trademark

(c) Distribution franchise agreements by which the franchisee restricts himself to the sale of certain products in a shop carrying the mark of the franchiser

In relation to the third type of the agreement, there will not normally be a breach of Article 81(1) by a clause protecting the franchiser’s know-how. Nor will there be a breach by a clause, which enables the franchiser to take appropriate measures to preserve the identity and reputation of the network, which is symbolized by the mark, at least where such clauses are indispensable for this purpose.76

Scope of Article 82

Further, for any person to rely on the breach of an agreement under Article 81/82, there has to be a close nexus between the proposed exercise of trademark rights and the breach.77 In ICI v Berk,78 a defence of abuse of dominant position (under Article 82) was struck down because there was no nexus between the abuse and the plaintiff’s cause of action. Further, for a party to rely on a defence available under Article 81/82, he has to prove that (1) the proprietor of the trademark has a dominant position in the market, and (2) he is abusing such a dominant position.79

Summary of US/EU Position

As for the US position on parallel imports, as long as the goods have been properly labelled according to the Custom Rules, parallel importation would be allowed. The threshold for material differences has been kept fairly low so as to invariably prevent almost all parallel imports. As the principle of territoriality is extremely dominant in the US trademark regime, any parallel import that has the effect of causing consumer confusion as to the origin of the goods and thus affecting the goodwill of the US trademark owner will be prohibited.

EU allows a policy of regional exhaustion thereby allowing parallel importation of goods which have been placed on the market within the EEA but the trademark proprietors retain the right to prevent parallel imports of their goods which, even though are genuine, have been placed for sale outside the EEA. Even for importation within the Member States of EEA, the importers have to follow stringent guidelines as enumerated by various case laws to prevent any action against them. Further, even parallel importation within the EU may be prohibited if a legitimate reason exists. What exactly constitutes legitimate reason depends on the circumstances of the case and the mark issued. Any agreement between the owner and the distributor stipulating restriction on further sale has to pass the tests under Article 81 and Article 82.

Indian Position

Prior to 2007

Commentary/opinion on the Indian trademark law as regards parallel imports is almost non-existent. P Narayanan80 seems to indicate that Section30 (2) (c) (i) allows unhindered and all-restrictions-barred parallel imports. Citing Winthrop v Sun Ocean,81 he has drawn an analysis that where a parent company chooses to manufacture and sell wholly or partly through subsidiary companies in different parts of the world, products which bear the same trademark, neither the parent nor any member of the group nor any subsidiary can complain in any country if those products are sold or resold under that trademark. He seems to be inclined towards acceptance of the theory of implied consent by the manufacturer by virtue of his placing the goods in the market all across the world through his subsidiaries. However, his reliance on this English case, which seems to have been long overruled in England itself, by subsequent cases that have already been discussed, is bad law.

Also, Section 107 allows a person to represent a trademark as foreign registered and operates the same in India as long as it is sufficiently indicated, in English, that the trademark is registered not in India but in a foreign country. Thus the option available to trademark proprietors under Section140 to request the Controller of Customs to prohibit imports of genuine gray goods has been negated by Section 107. Parallel importers have recourse to this clause as a defence against restriction on parallel importation. By virtue of the above, the option available to right holders to exercise Section 29(c) claiming infringement is also negated.

However, after stating all the above, it seems right holders in India can legitimately restrict parallel
imports. In the first ever case involving parallel imports and trademarks, *Cisco Technologies v Shrikanth*, the plaintiff’s employed the Section 29(6)(c)-read-with-Section 140 defence and were successful in getting an *ex parte* order directing the Customs authorities to notify all ports to bar imports of defendants goods and also appointing a local Commissioner to cease all goods bearing the mark in issue and inventory the same.

In another case tried by the Delhi High Court, an *ex parte* injunction was granted to the plaintiff thereby preventing the defendant from importing genuine Samsung products into India from China. It was held:

11. This passage from Exhaustion and Parallel Imports in India by Sonia Baldia only confounds the conundrum: Indian law is quite liberal in permitting parallel imports of genuine goods bearing registered trademarks, provided such goods have not been materially altered after they have been put on the market. The general rule is that once trademarked goods are released anywhere in the world, by or with the consent of the trademark proprietor, that proprietor cannot assert its trademark rights to prevent imports of such goods into India, provided that such goods remain materially unaltered. In other words, once genuine goods are released into commerce anywhere by or with the proprietor’s consent, all associated Indian trademark rights are exhausted. Such consent may be express or implied, direct or indirect. The underlying rationale for liberal exhaustion is that trademarks are deemed to connote trade origin and not control. The trademark proprietor may, however, impose contractual restrictions on a third party, such as a foreign licensee, against importing genuine goods into India, provided, that such restrictions pass muster under the Trademark Act and the MRTP Act, Indian’s competition statute. Subsequently, if such genuine goods are imported into India, the trademark proprietor’s remedy against the importer would be through a claim for breach of contract and not for trademark infringement. The issue of exhaustion was not expressly addressed in the 1958 Act, but the New Act statutorily introduces this concept. Section 30 of the New Act provides that where the goods bearing a registered trademark are lawfully acquired, the further sale or other dealings in such goods by the purchaser or by a person claiming to represent him is not considered an infringement if the goods have been put on the market under such mark by the proprietor or with his consent. Such goods may not have been materially altered or impaired after they were put on the market, however. A cause of action for trademark infringement may be available to the proprietor against an importer where the genuine goods have been materially altered without the proprietor’s consent after they were put on the market. The burden of proving such consent is on the importer. A cause of action on the grounds of passing off is available if the trademark proprietor can show that the importer is passing off the goods in a misleading or improper way causing confusion in the minds of the public. To date, there are no reported Indian court decisions on the issue of exhaustion or parallel imports involving trademarked goods. As in other forms of intellectual property rights, Indian courts routinely follow English precedent in the absence of guiding applicable Indian precedent.

Even though the opinion of the court seems to indicate towards a pro-parallel import tendency, the injunction was granted on the facts of the case.

Ashwani Kr Bansal points out that Section 30(3)(b) do permit parallel imports. As the parallely imported goods are genuine i.e. they have been put in the market by the trademark owner or with his consent, parallel importation is allowed. The rules regulating such parallel importation are found in Section1 (2)(n) of the Customs Act. However, Section 30(4) sub-section 3 authorizes a right holder to restrict such parallel imports where a ‘legitimate reason’ exists. What exactly constitutes a ‘legitimate reason’ has not been discussed as yet, either by Indian commentators or by the Indian Judiciary.

**After 2007**


Under the Rules, the brand owner is required to give a notice, in the prescribed format, to the
customs requesting for suspension of clearance of goods suspected to be infringing trademark right. Such notice will be registered by the customs on execution of an indemnity bond and the brand owner has to indemnify customs against all liability and expenses on account of such suspension of imported goods. On registration import of all goods suspected to infringe the trademark rights will be suspended and proceedings for confiscation of goods will be initiated under Section 111 (d) of the Customs Act. Confiscated goods will be either destroyed or disposed off outside the normal channel of commerce with the consent of the brand owner. The brand owner is also required to bear the costs towards destruction, demurrage and detention charges incurred till the time of destruction or disposal, as the case may be. The Rules do not apply to personal baggage or small consignments intended for personal use.\footnote{87}

**Conclusion**

Prior to 2007, not much attention had been given to the issue of parallel imports in India. Whatever few cases that came before the judiciary were decided ex parte. Ashwini Kr Bansal has simply stated the provisions which seem to be pro-parallel imports but he fails to give his own opinion on the issue. But it’s suggested that importance to the purpose of the trademark – as a source of origin should be given. The Indian law seems to be in line with the European model where lack of consent and legitimate reasons on the part of the trademark owner protected his rights and did not exhaust them. When the issue will actually arise before the court, what constitute legitimate reasons can be answered taking the aid of the ample case law available in other jurisdictions.

Hence, it can be conclusively suggested that India should follow a system of national exhaustion. This view seems to have been reinforced with the passing of 2007 notification. With the reams of debate already concluded in other jurisdictions, it seems India has a lot of guidance to help resolve this issue. The Indian position is unclear not due to lack of opinion but due to lack of awareness which the trademark owner seems to be plagued with. Till they actually come forward to demand protection of their rights, the judiciary is helpless and the jurists can simply continue to hope that when the issue finally comes before the judiciary, the court will not be ignorant of the work that the jurists have put in to simplify and resolve the issue for the court.

**References**

6. The act of importing a good bearing a particular trademark is itself considered use of the trademark under Section 29(6)(c) of the Trademarks Act, 1999, Thus, when the importer does not have the consent of the owner to import goods bearing his mark, the importer is guilty of infringement.
7. The principle of exhaustion is referred to as the First Sale Doctrine in the US. The term implies that on the first sale of a good, the IP owner has no more control over the means of disposal of that particular good which has already been sold with his consent.
9. The term ‘gray goods’ or ‘gray market goods’ unfairly implies a nefarious undertaking by the importer and a more accurate term would be ‘parallel imports.’ Hence the Third Circuit Court in *Weil Ceramics & Glass Inc v Dash* (878 F.29 659) has stated that the term ‘parallel imports’ accurately describes the goods and is a better term because it is devoid of prejudicial suggestion.
14. “No article of imported merchandise which shall copy or simulate the name of any domestic manufacture... or which shall copy or simulate a trademark registered in accordance with the provisions of this Act or shall bear a name or mark calculated to induce the public to believe that the article is manufactured in...country or locality..."
other than the country or locality in which it is in fact manufactured, shall be admitted to entry at any customhouse of the United States…"

16 Olympus Corporation v US 792 F.2d 315.
18 Which provides that foreign goods bearing mark identical to mark owned by US corporation will not be seized if foreign and domestic owners are parent and subsidiary companies or are otherwise subject to common ownership or control; Customs Regulation §133.12.
20 US CODE 19 CFR 133.23(b).
23 Martin’s Herend Imports Inc et al. v Diamond and Gem Trading Usa Co et al., 112 F.3d. 1296 (5th Cir. 1997) at 1302.
25 Iberia Foods Corp v Romeo, 150 F.3d 298 (3d. Cir. 1998).
26 El Greco Leather Products Co v Shoe World Inc, 806 F.2d 392 (2d Cir. 1986) at 395.
28 A Bourjois & Co v Katznel, 275 Fed. 539 (2d. Cir. 1921).
30 719 F.2d 42 (2d. Cir. 1983).
31 19 USCA 1304(a).
32 325 F.2d 1012 (D.C. Cir. 1963).
34 First Directive 89/104/EEC of the Council, of 21 December 1988, to Approximate the Laws of the Member States Relating to Trademarks. It is to be noted that the same has been replaced by Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to approximate the laws of the Member States relating to trademarks which came into force on 28 November 2008. For the sake of convenience, this article still refers to the old Directive. However, any reference to the old Directive should be read as reference to the 208 Directive.
35 Article 28 - Quantitative restrictions on importation and all measures with equivalent effect shall, without prejudice to the following provisions, hereby be prohibited between Member States.
36 Article 30 - The provisions of Articles 28 and 29 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants, the protection of national treasures possessing artistic, historic or archaeological value, or the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.
40 Section 12 of the UK Trademarks Act, 1994.
41 The Commission’s first proposal for the TMD and the Council Regulation was presented to the Council on 25 November 1980 and published in the EC Bulletin at COM (80) 635. The Explanatory Memorandum was presented as a part of this proposal as COM (80) 635, Explanatory Memorandum.
42 COM (84) 470, Explanatory Memorandum, at (vi). These comments were cross-referred to the equivalent amendment to the TMD.
51 1988 RPC 283.
56 (1) It is established that the use of the trade-mark right by the proprietor, having regard to the marketing system which he has adopted, will contribute to the artificial partitioning of the markets between Member States; (2) It is shown that repackaging cannot adversely affect the original condition of the product; (3) The proprietor of the mark receives prior notice of the marketing of the repackaged product; and (4) It is stated on the new packaging by whom the product has been repackaged.
58 Boehringer Ingelheim KG and Boehringer Ingelheim Pharma GmbH & Co KG v Swingward Ltd, (C-348/04) (AGO) 6 April 2006; [2007] ETMR 71 (ECJ).
60 Frits Loendersloot v George Ballantine & Sons [1996] E.T.M.R. p. I-6260, para. 46 – if the statements on the original labels comply with the rules on labeling in force in the Member State of destination, but those rules require additional information to be given, it is not necessary to
remove and reaflx or replace the original labels, since the mere application of a sticker with the additional information may suffice.

67 Tyler [1982] 3 C.M.L.R. 397 where a 10-year exclusive trademark licence for the whole of EU granted on the occasion of the grantor’s transfer of its European business to the grantee as constituting protection against competition was held to be an unreasonable length of time and hence struck by Article 81(1).

84 The parallely imported goods did not conform to the Indian laws and regulations - such as being accompanied with literature in English or the Vernaculars; and/or with a label indicating the maximum retail price; and/or that they are not covered with a warranty; and/or that use of these products is likely to constitute a breach of the warranty of other machinery which has been legally purchased etc.

85 Section 30(3) - Where the goods bearing a registered trademark are lawfully acquired by a person, the sale of the goods in the market or otherwise dealing in those goods by that person or by a person claiming under or through him is not infringement of a trade by reason only of: 