



Parallel Importing of Trade Marked Goods

Executive Summary

The Advisory Council on Intellectual Property (ACIP)¹ welcomes the opportunity to make a submission to the Competition Policy Review.

ACIP notes that the Draft Report of the Competition Policy Review highlights issues around parallel importation, including parallel importation of trade marked goods. While registered trade marks are only one aspect of intellectual property rights, they do play an important role in the competitiveness of businesses by allowing easy identification of goods by consumers.

ACIP recognises that there are a number of issues hampering the parallel importation of trade marked goods. ACIP notes that the legal issues which arise when seeking to implement a policy in favour of parallel importation are more complex than might be expected. This submission discusses some of the legal details affecting parallel importation of trade marked goods and makes the following recommendations for consideration in the event that the Review ultimately favours enabling parallel importation:

- (a) that the “New Zealand like” solution referred below be considered, taking into account the actual impacts of that solution on parallel imports in New Zealand;
- (b) that consideration be given to changing the onus of proof, such that the complaining registered trade mark owner is required to prove that they did not consent to the application of the goods in question if the defence in section 123 is pleaded by a defendant;
- (c) that consideration be given to limiting the damages available to a registered trade mark owner in certain circumstances, as mentioned below.

As the history of section 123 of the *Trade Marks Act 1995* suggests, if policy favours parallel importation, serious thought needs to be given to exactly how to make that policy real.

Introduction

This submission is written on the assumption that allowing the parallel importing of trade marked goods is considered to be an acceptable policy position: in line with the Competition Policy Review’s Draft Report. For the purposes of this submission, this assumption is not intended to constitute an endorsement of that position. ACIP notes that the Draft Report follows a long line of previous reviews of parallel importing of trade marked goods which have recommended such a policy position and government responses seem to have accepted those recommendations.² In writing this

¹ ACIP is an independent body appointed by the Australian Government, and advises the Minister for Industry on intellectual property matters. The Council was established in 1994 and its membership reflects a cross section of interests involved with the intellectual property system.

² Working Party to Review the Trade Marks Legislation (1992); Intellectual Property and Competition Review Committee, *Review of intellectual property legislation under the Competition Principles Agreement* (2000) (Ergas Report); Advisory Council on Intellectual Property, *Review of Trade Mark Enforcement* (2004); and

submission, ACIP has consciously chosen not to address the arguments for and against the parallel importation of trade marked goods including the broader economic and legal issues that surround this issue — eg warranty claims. Instead, it addresses some of the difficulties with the current legal position surrounding parallel importing of trade marked goods, regardless of the policy position. It also makes some recommendations about what steps may be taken to implement a pro-parallel importing policy more effectively than the current legal position does.

Background

A concise and exhaustive definition of parallel imports (sometimes referred to as “grey” imports) is somewhat elusive. The basic problem is that while trade may be global, and brands may be global, *trade marks* are national and may be owned or used by different people in different countries.

One possible definition is that parallel imports are goods that:

- are legitimately produced in a foreign country with the consent of the trade mark owner in that country and the trade mark is applied to them by or with the consent of that trade mark owner;
- are then imported into and sold in Australia without the consent of the owner of the (equivalent) trade mark in Australia; and
- then compete with goods that are sold in Australia by the owner of the Australian registered trade mark (or with their consent).

Under current Australian trade mark law (section 123 of the *Trade Marks Act 1995*), the importation of such goods into Australia is said to be lawful if the owner of the Australian registered trade mark consented to the marking of the goods with the trade mark at the time when the trade mark was applied (ie, in the foreign country), regardless of whether the trade mark owner consented to the (later) importation and sale of the goods in Australia.³ While the statement of the law is relatively simple, the actual task of determining whether the relevant consent to the application of the trade mark occurred or was necessary has been found by the Courts to be far more difficult in practice. A few examples of such Court decisions are given below.

House of Representatives Standing Committee on Infrastructure and Communications, *At what cost? IT pricing and the Australia tax* (2013)

³ Section 123 of the *Trade Marks Act 1995*.

Goods etc. to which registered trade mark has been applied by or with consent of registered owner

- (1) In spite of section 120, a person who uses a registered trade mark in relation to goods that are similar to goods in respect of which the trade mark is registered does not infringe the trade mark if the trade mark has been applied to, or in relation to, the goods by, or with the consent of, the registered owner of the trade mark.

Note: For *similar goods* see subsection 14(1)

- (2) In spite of section 120, a person who uses a registered trade mark in relation to services that are similar to services in respect of which the trade mark is registered does not infringe the trade mark if the trade mark has been applied in relation to the services by, or with the consent of, the registered owner of the trade mark.

Note: For *similar services* see subsection 14(2)

Various situations may arise, first through arm's length licensing arrangements or secondly through related party licensing and corporate group structuring so as to prevent or make it extremely difficult for a parallel importer to establish that the owner of the Australian registered trade mark gave consent for when the trade mark was originally applied to the grey market goods.

These two situations need to be addressed if a more pro-parallel importing policy is to be implemented, although this needs to be done in a way that is mindful of the fact that there are many legitimate reasons why such licensing arrangements and structuring occur. The 'trick' is to avoid interfering in these legitimate business decisions while still implementing a basic policy in favour of parallel importation.

State of the law – pre-1995

Legal difficulties around parallel importation have increased since the introduction of the *Trade Marks Act 1995*. Some understanding of how things changed with the 1995 Act is necessary to appreciate the current difficulties with the law surrounding parallel importing of trade marked goods.

Prior to the introduction of the *Trade Marks Act 1995*, which came into effect in 1996, Australian courts rejected the vast majority of cases in which registered trade mark owners sought to prevent parallel importation. The courts held that parallel importation did not involve use of the registered mark 'as a trade mark' – that is, parallel importers were not using the mark to indicate origin, and so did not infringe.⁴

There were however some case law exceptions to that general proposition.⁵ For example, in *Fender Australia Pty Ltd v Bevk*⁶, the owner of the registered Australian trade mark, Fender Australia Pty Ltd, took a conditional assignment of the 'Fender' trade marks in Australia from Fender Musical Instruments Corporation (FMIC), an American corporation. Under the terms of the conditional assignment, Fender Australia Pty Ltd had to re-assign the trade mark if it ceased to be the distributor of Fender guitars in Australia. Nevertheless, a parallel importer of Fender guitars was found to be using the registered 'Fender' trade marks as trade marks. As there was no equivalent of section 123 of the current legislation in the old legislation, the importer was therefore found to be infringing the Fender trade mark. The treatment of such arrangements has not been the subject of any definitive judicial consideration under the current legislation.

State of law – introduction of section 123 of the Trade Marks Act 1995

After the introduction of the *Trade Marks Act 1995*, the position became more complicated. Decisions at the level of the Full Federal Court have proceeded on the basis that a parallel importer

⁴ *Atari Inc v Fairstar Electronics Pty Ltd* (1982) 50 ALR 274; *R A & A Bailey & Co Ltd v Boccaccio Pty Ltd* (1986) 6 IPR 279; *Delphic Wholesalers Pty Ltd v Elco Food Co Pty Ltd* (1987) 8 IPR 545

⁵ *Fender Australia Pty Ltd v Bevk* (1989) 15 IPR 257; and *Atari Inc v Dick Smith Electronics* (1980) 33 ALR 20 (interlocutory decision however, the court found that in the circumstances parallel importing did constitute use of the trade mark).

⁶ *Fender Australia Pty Ltd v Bevk* (1989) 15 IPR 257

does use the trade mark as a trade mark (ie to indicate origin of the goods) and therefore is prima facie infringing the trade mark.⁷ The High Court appears to have endorsed that view although it has not directly considered the matter of parallel importing under the current legislation.⁸

Whether or not parallel importing is lawful then depends on whether section 123 of the legislation applies in the particular circumstances of the case before the court. Subsection 123(1) reads:

In spite of section 120, a person who uses a registered trade mark in relation to goods that are similar to goods in respect of which the trade mark is registered does not infringe the trade mark if the trade mark has been applied to, or in relation to, the goods by, or with the consent of, the registered owner of the trade mark.

Section 123 seems to suggest that parallel importation should be allowed. However, the requirement for consent of *the owner* of the *Australian registered trade mark* means that certain licensing arrangements, and certain corporate group structures, can create a situation where the *Australian* trade mark owner is *not* the same entity that consented to application of the mark overseas, and the separate consent of the Australian owner is hard to prove: meaning the defence does not apply even though there is parallel importation.

In addition, since under present law the onus is on the parallel importer to prove the defence, a parallel importer may find themselves having to prove the presence of consent to the application of the mark. This would require information only known to the original overseas producer and maybe the owner of the Australian trade mark. The parallel importer would have no reason or way to know the details of the internal licensing or ownership structures around the global brand or mark.

Examples of problematic situations include the following:

1. In one case, an overseas manufacturer, that controlled manufacture of all products with the particular trade mark throughout the world, assigned the Australian trade mark to an Australian distributor. The relationship between the overseas manufacturer (the assignor of the Australian trade mark) and the Australian distributor was purely a contractual relationship. Like the situation in *Fender v Bev*, the assignment was conditional on a requirement that the distributor re-assign the trade mark if and when the distributorship arrangement came to an end. The issue was settled in that case without that aspect of the infringement action being addressed by the Full Federal Court.⁹ It is therefore still unclear whether the assignee of a trade mark in such circumstances will be, or will be likely to be, considered to have consented to the application of the trade mark to the goods manufactured overseas by the assignor of the trade mark.
2. In some other cases, overseas licensees are permitted to manufacture the goods overseas and apply the registered trade mark to them on the condition that such goods are only sold in a contractually prescribed geographical area. In one case, the owner of the Australian registered trade mark was the same as the owner of the registered trade mark in the overseas jurisdiction. When the licensee made goods for the purpose of selling them to

⁷ *Transport Tyre Sales Pty Ltd v Montana Tyres Rims & Tubes Pty Ltd* (1999) 93 FCR 421; *E & J Gallo Winery v Lion Nathan (Aust) Pty Ltd* (2009) 175 FCR 386;

⁸ *E & J Gallo Winery v Lion Nathan Australia Pty Ltd* (2010) 241 CLR 144

⁹ *Transport Tyre Sales Pty Ltd v Montana Tyres Rims & Tubes Pty Ltd* (1999) 93 FCR 421

someone outside the relevant geographical area, in breach of the licence, the court held that the trade mark had not been applied to the goods with the consent of the owner of the Australian registered trade mark.¹⁰ In another case, the facts were similar, save that the owner of the registered Australian trade mark was different to the owner of the trade mark in the overseas jurisdiction. The Full Court of the Federal Court in that case seemed to focus more on the breach of the licence than in applying section 123.¹¹

3. In another case, the original production of the goods was consented to by the trade mark owner. A contractual provision then prohibited a sub-contractor from selling the goods outside a particular geographical region. The goods were sold in contravention of that contractual prohibition. The court held that there was no trade mark infringement as the trade mark owner had consented to the application of the trade marks to the goods.¹²
4. In another case, an obiter comment was made that simply because one company within a global group of companies may have applied the trade mark to the goods in question, that fact would not of itself prove that the trade mark had been applied with the consent of the member of the corporate group that owned the trade mark in Australia.¹³ On the other hand, other Australian case law suggests that in similar situations, the trade mark owner may be able to rely on the sale of such products in Australia to resist any action for removal for non-use.¹⁴ One of the major difficulties here is that simply referring to 'a group of companies' does not address the specific issues concerning the particular relationship between particular members of the same corporate group. Some definition of what corporate relationship between two companies would be relevant to determining whether application of the trade mark by one member of the group would be considered to be consent to that application by another member of the group may be desirable.

As these cases demonstrate, (a) results under the present section 123 can appear arbitrary and irrational, (b) section 123 does not appear to be fulfilling its goals, and (c) addressing this situation through legislation is not at all straightforward.

Possible Recommendations

If the government's policy position is one that is favourable towards parallel importing of trade marked products, the current legal position is unsatisfactory. As mentioned above, two particular situations can cause problems:

¹⁰ *Paul's Retail Pty Ltd v Sporte Leisure Pty Ltd* [2012] FCAFC 51. Another possible scenario is that the licence agreement permits production of a fixed number of goods. If the licensee produces more than the amount permitted, the goods produced via the production overrun will be identical to those created under the contractual agreement but there will have been no consent to the application of the trade mark to those goods.

¹¹ *Paul's Retail Pty Ltd v Lonsdale Australia Limited* (2012) 294 ALR 72. See also commentary on these cases in "Intellectual Property in Australia" 5th ed by Stewart and ors at paragraphs 20.16-20.17

¹² *Facton v Toast Sales Group Pty Ltd* (2012) 98 IPR 13

¹³ *Brother Industries Ltd v Dynamic Supplies Pty Ltd* (2007) 163 FCR 530 at [79]

¹⁴ *E & J Gallo Winery v Lion Nathan Australia Pty Ltd* (2010) 241 CLR 144

1. Arm's length licensing arrangements of which a potential parallel importer may have no knowledge of (or even if they did know 'of' the arrangements they would not have access to the details).
2. Related party licensing arrangements and corporate group structuring which again lack transparency to a potential parallel importer.

Both of these situations can however be characterised in two ways: first, as legitimate arrangements that do not have a focus in preventing parallel imports – eg proper tax structuring or the management of intellectual property in a corporate group structure—or alternatively, as arrangements where their focus, or at least their principal focus, is the prevention of parallel imports.

The dilemma

Therein lies the dilemma: how to draft law and policy so as to permit freedom of contract for legitimate commercial purposes, whilst at the same time taking steps which restrict such freedom in order to facilitate a practice that is deemed beneficial to the Australian economy. This is not an easy task.

New Zealand-like solution

Australia could seek to prevent those arrangements, whatever their motivation, in favour of parallel importation, by adopting a bright line test which deems consent, in certain circumstances, to the application of the trade mark. One model for such an approach may be found in New Zealand's legislation. The relevant New Zealand legislation is attached. It has a detailed, inclusive definition which, in broad terms, deems consent to the use of a registered trade mark in situations involving both (a) corporate groups, and (b) licensing cases (where there is one party in effective control of the trade mark overseas and in Australia). A similar approach in Australian legislation to what constitutes consent to the application of the trade mark to goods would amend section 123 of the *Trade Marks Act 1995* to provide that members of corporate groups or legal entities with a contract, arrangement or understanding concerning the ownership or use of a trade mark by another party to that contract, arrangement or understanding would be deemed to have consented to the application of the trade mark to goods. In Australia, the definition of connected corporations in section 64B of the Corporations Act (see attachment) may be of assistance in defining a relevant corporate connection that would result in consent to application being deemed to have occurred although that definition may need to be pared back in the context of section 123. Before seriously considering the implementation of the abovementioned "New Zealand-like" solution, it would be prudent to determine what impact that legislation has had on parallel imports in New Zealand.

Onus of proof

As an adjunct to adoption of a bright line rule, or as a less drastic alternative, it is probably appropriate to put the onus on the complaining registered trade mark owner to prove that they did not consent to the application of the trade mark to the goods in question if the defence in section 123 is pleaded by a defendant. A potential parallel importer is unable to know the details of any licence agreement between the trade mark owner and a foreign licensee whose application of the trade mark to goods may have been subject to a condition imposed by the trade mark owner that was not met by the licensee. Trade mark owners are unlikely to provide that sort of information.

Consequently, it may be reasonable to require them to prove that consent was lacking rather than requiring the importer to prove that consent to application of the trade mark was given.

Limiting damages

It may also be appropriate to limit the ability of a registered trade mark owner to obtain damages for trade mark infringement in some circumstances. As pointed out above, a potential parallel importer may have great difficulty in determining whether a trade mark owner has consented to the application of the trade mark to the goods in question where a licensing arrangement is in place and in those circumstances it may be inappropriate to award damages against the importer. One possibility would be to introduce a provision in the *Trade Marks Act 1995* similar to subsection 115(3) of the *Copyright Act 1968*.¹⁵ Doing so would not affect the vast majority of infringement cases that do not relate to the applicability of section 123 as the existence of the trade marks register and the capacity to search the register would negate any claim by a defendant of a lack of reasonable grounds to suspect that they were infringing a trade mark. Complementary to such an approach may be to continue to allow damages claims to be made where the relevant licence is recorded on the Trade Mark Register. The extent and nature of what is recorded would need to be considered if such an approach were to be adopted.

¹⁵ Section 115(3) of the Copyright Act reads:

- (3) Where, in an action for infringement of copyright, it is established that an infringement was committed but it is also established that, at the time of the infringement, the defendant was not aware, and had no reasonable grounds for suspecting, that the act constituting the infringement was an infringement of the copyright, the plaintiff is not entitled under this section to any damages against the defendant in respect of the infringement, but is entitled to an account of profits in respect of the infringement whether any other relief is granted under this section or not.

New Zealand Legislation – Trade Marks Act 2002¹⁶

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 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).

Section 97A: replaced, on 16 September 2011, by [section 16](#) of the Trade Marks Amendment Act 2011 (2011 No 71).

New Zealand Cabinet Paper — Trade Marks Act 2002 - Miscellaneous Issues¹⁷

Section 97A - Exhaustion of rights conferred by registered trade mark

40. Section 97A is intended to allow the parallel importation of legitimate goods purchased overseas for resale in New Zealand. Some uncertainty has arisen over the intended purpose of the section.
41. The issue in need of addressing is exemplified in the following example. An overseas business sells its goods in a number of countries; selling its goods in New Zealand through a local licensee. In order to prevent a person a parallel importing its goods into New Zealand for resale the overseas business first assigns the New Zealand registration of its trade mark to the local

¹⁶ Available from <http://www.legislation.govt.nz/act/public/2002/0049/latest/DLM164692.html>, accessed 1 October 2014.

¹⁷ Available from http://www.med.govt.nz/business/intellectual-property/trade-marks/cabinet-paper-trade-marks-act-2002-miscellaneous-issues/multipagedocument_all_pages, accessed 1 October 2014.

licensee. Next the local licensee threatens a person parallel importing legitimate goods produced by the overseas business with legal action alleging that the goods infringe the licensee's New Zealand trade mark registration. In doing so the local licensee claims the importer is not entitled to the protection of section 97A, because the goods purchased overseas were not put on the overseas market with the consent of the New Zealand trade mark owner (i.e. the consent of the local licensee of the overseas business).

42. This uncertainty is allowing some businesses to threaten infringement action to frustrate legitimate parallel importation of goods for resale into New Zealand.
43. In order to address this uncertainty, I recommend clarifying that it is not an infringement of a registered trade mark for a person to import goods under that trade mark, where the person who put goods on the market overseas and the person who owns the New Zealand trade marks are related parties, such as under a licence agreement or where parties are subsidiary companies controlled by a parent company.

Australian Legislation – Corporations Act 2001¹⁸

Section 64B

Entities connected with a corporation

Body corporate

- (1) A body corporate is connected with a corporation if, and only if, the corporation:
 - (a) can control, or influence materially, the body's activities or internal affairs; or
 - (b) is a member of the body; or
 - (c) is in a position to cast, or to control the casting of, a vote at a general meeting of the body; or
 - (d) has power to dispose of, or to exercise control over the disposal of, a share in the body; or
 - (e) is financially interested in the body's success or failure or apparent success or failure; or
 - (f) is owed a debt by the body; or
 - (g) is engaged by the body under a contract for services; or
 - (h) acts as agent for the body in any transaction or dealing.

¹⁸ Available from http://www.comlaw.gov.au/Details/C2014C00519/Html/Volume_1#_Toc395003753, accessed 1 October 2014.