International Journal of Law
www.lawjournals.org
ISSN: 2455-2194
Received: 31-01-2025, Accepted: 02-03-2025, Published: 18-03-2025
Volume 11, Issue 3, 2025, Page No. 85-89

Trademark law and parallel importation: A study of legal frameworks in the USA, EU, and Australia

Asaduszaman Sohag
Lecturer, Department of Law, Uttara University, Dhaka, Bangladesh

Abstract
With the introduction of global markets, the significance of parallel importation has become amplified. Parallel imports have relation with variety of practical matters such as legal, marketing and economic issues. In practice, it promotes healthy competition and it also forces to reduce the price of products; as a result, consumers can enjoy wider- price range and variety of varieties of goods. However, with the technological advancement of communication system, the whole world is becoming one global market where price discrimination strategies in different countries have become harder. These technical developments also accelerate innovative business models. It may be predicted that parallel import may lose its importance in the future world. This paper mainly focuses on the concept of parallel imports in trademark and its effects. It also enlightens legal provisions and some of the most important cases regarding parallel importation in different jurisdiction particularly in United States, European Union and Australia.

Keywords: Parallel importation, trademark law, global market, doctrine of exhaustion

Introduction

With the introduction of global markets, the significance of parallel importation has become amplified. Now-a -days, parallel importing has emerged as one of the controversial issues in international trade. Parallel imports have relation with variety of practical matters such as legal, marketing and economic issues. In practice it promotes healthy competition and it also forces to reduce the price of products; as a result, consumers enjoy wider price range and varieties of goods. It protects consumer from possible deception as regards the origin of branded products (Andrade,1993) [1]. Moreover, it is considered to be reasonable grounds for averting trademarks and copyright from being utilized to spilt markets and to make artificial blockade towards free trade. Hence, no consensus has yet been reached on the existing policy regarding parallel imports in case of trademark laws. Rothnie explained the legal meaning of parallel import as "Taking advantage of the lower price, some enterprising middleman buys stocks in the cheaper foreign country and imports them into the dearer, domestic country. Hence, the imports may be described as being imported in parallel to the authorized distribution network (Warwick,1993). This paper mainly focuses on the concept of parallel imports in trademark and its effects (Davision,2012). It also enlightens legal provisions and some of the most important cases regarding parallel importation in different jurisdiction.

Basic Principles of Trade Mark Law and Doctrine of Exhaustion

The origin of the trademarks lies in confirming different product or services from others in quality, quantity and price. The basic object of trade mark is to protect the consumer from confusion and deception by identifying a specific product which has originated from a particular manufacturer. It also carries the reputation of the company and thus it protects the trademark owner (Fitzgerald et al.2019).

Trademark is the mark put on the goods or services. It shows the origin of the products and ensures the quality of the products and services. By maintaining such quality, the trademarks achieve good will in the products or services. Therefore, infringement occurs if any third party uses the mark without the consent of the trademark owner. Trademark can be used either exclusively by the owner or with his authorization, so it is known as a monopolistic exclusive right. This right is a territorial in nature i.e. the proprietor can protect his trademark right within the territory. According to the country's statutory law, the rights of trademark are adjudged in each country. Trademark disputes are regulated as per the national law of the country where the disputes took place (Grame,2004).

1. Doctrine of Exhaustion

Exhaustion means that once a product has been legally marketed, by or with the consent of the trade mark holder, the proprietary rights of trademark are deemed to have been exhausted and trade mark holder cannot prevent the subsequent sales of the product in that marketplace (Anne et al.2003). Internationally there are three forms of exhaustion. Such as:

Domestic/National Exhaustion means that if the products are legitimately purchased for the first time in the local market in which the trademark is registered, the trademark owner exhausts his rights over the products and cannot avert the re-sale of that product in the domestic market.

The concept of Regional Exhaustion does not allow the trademark owner to control the commercial exploitation of products put on sale in any country within the particular region by or with the authorization of the owner and he cannot prevent the subsequent sales of the same in his country or in any country within the specific region (Irene,2012) [7]

The doctrine of International Exhaustion assumes that the entire world is one market. So, if products once have been authorized sold in any part of such market or country, the trademark owner loses his rights over such products and he cannot stop the re-sale of those products either in his own country or in any other country.

Parallel Importing and Its Effects

Parallel Importing is one of the flexibilities under the TRIPS Agreement. Parallel importing indicates the importation of genuine goods into a country without the authorization of the trademark owner. The marked product is marketed at considerably lower price in the exporting country through a license and then third country can permit parallel import from the exporting country without the consent of the incumbent local distributor in order to take benefit of the price differential (Jain Sinha,2023). Thus, the practice of parallel import weakens the existing local prices fixed by the original owner and authorized distributor and this practice also exploit the principle of exhaustion (Philips,2003). However, there are debates regarding parallel imports.

1. Arguments for parallel imports

Parallel imports accelerate free trade and promote fair competition. Through parallel importing consumers can purchase genuine goods by another licensee at a lower cost, so ultimately consumers are the greatest beneficiaries of parallel importation. Non-application of parallel import may cause absolute control in distribution channels, consequently monopolies may perpetuate (Michael et al.2024). So, parallel importation is necessary for minimizing monopolistic effect on the strategies of multinational enterprises that administer distribution channels. Parallel imports do not create confusion among consumers so long as it provides clear information about the products.

2. Arguments against parallel imports

Parallel import is often referred to as the 'grey market'(Kirsten,1997) [16]. Sometimes grey products cause confusion as they are similar to authentic products in appearance but may be different in substance and quality. Ultimately the standards of health and safety may not be complied with the requirements of the imported goods. These deficiencies cause customer dissatisfaction which reduces the goodwill of the trade mark (Warlick,1990) [12]. Trademark owner has spent sufficient money and time in demanding a marked product, so it is unjustified to permit an unauthorized importer to share the advantages of the trade mark's reputation without contributing to the owner's investment (Andrade,1993) [1]. As a result, it will injure the motivations of the trade mark owner to improve a worth trade mark in the first place.

Discussion on Legal Provisions relating to Parallel Importing in Different Jurisdictions

Most of the rules and leading decisions regarding parallel importation have been emerged from jurisdictions of United States, European Union and Australia.

1. United States of America

Territoriality is the most important concern in the US trademark law. This law promulgates that specify of origin or manufacturer of goods is not the ultimate purpose of a trademark rather it reflects the domestic goodwill of the domestic mark holder. It ensures the consumers satisfaction about the consistency of the goodwill earned by the trademark owner and also assures that the owners' reputation will not be impaired by others in the local business."

So, the vital aspect in respect of regulation of parallel imports is the probability of US consumers' confusion about the origin of the goods (Philips,2023). If consumers can identify parallel imported goods as those foreign manufactured goods, then importation will not be prohibited, but if they become confuse about the origin of imported goods from the US domestic goods, then parallel imports will be prohibited. US have adopted the legal regulatory mechanism for regulating parallel imports.

§ 526 of Tariffs Act excludes absolutely importation of goods bearing a trademark owned by a US citizen and are registered in the USPTO. It does not depend on the probability of consumers' confusion. Nevertheless, the Tariffs Act will not apply in respect of parent-subsidiary relation between overseas manufacturer and native US distributor. However, the independent dealer who has separate goodwill upon the products and the trademark is owned and registered by him exclusively; then such dealer is entitled to apply the same provision. Thus, Tariffs Act has some limitations in its application. It is only applicable to the trademark owners who are US citizens and form an independent entity than the overseas manufacturers. Whereas, Lanham Act overcome this limitation; § 42 of this Act empowers trademark owners to restrict parallel imports of products on condition that trademark has been registered in the USPTO.

§ 42 of Lanham Act also emphasizes the principle of territoriality and states that parallel imports are permitted if the consumers identify that the products are gray goods and not originated from US producer. Importation is not prohibited as long as the products are genuine but if importer copies or simulates a trademark, it will be bared. Lever Brothers case established the principle that § 42 of Lanham Act excludes foreign products if its trademark is similar to a valid US trademark but physically different. The genuineness of trademark in abroad or affiliation between the manufacturing firms is not a concern here. When similar trademarks earn two different reputations in two different countries, the foreign version may cause confusion among consumers. In order to take the protection under Lever rule firstly-the parallel imported goods and US registered trademark goods must not be physically and materially different and secondly- proper labeling rules must be followed to ensure that there is no consumer confusion as to the origin of the products.

In Iberia Foods Corp v Romeo (1998) 150 F.3d 298, parallel importation was allowed as plaintiff proved that there was no material difference between the goods. Whereas, in Societe Des Produits Nestle SA v Casa Helvetia Inc (1992) 982 F.2d 633, 641,642. there was significant difference between Italian made PERUGINA chocolate and Venezuelan made PERUGINA chocolate and the chance of confusion among the consumers was high and hence the importation of PERUGINA from Venezuela was prohibited. So, the object of the material differences test is to ascertain whether the gray goods are tarnishing the reputation developed by the trademark proprietor and if the material differences cause confusion the importation is prohibited.

In A Bourjois & Co v Katzel (1923) 260 U.S. 689 Plaintiff purchased the US operation from French cosmetics firm and trademark JAVA was also assigned to him. Plaintiff purchased the bulk of face powder from the French manufacturer and put on the US market in boxes exhibiting that they are authorized importers. These boxes were very much identical to the ones used by their predecessor French producers. The defendants started to import the genuine face powder with the similar box of plaintiff from the French

manufacturer. During 1920s, US trademark owners did not get favor from the foreign manufacturer by the court. Hence the defendant was allowed to import by the Courts of Appeal but the Supreme Court applied the principle of territoriality and ruled that as the French manufacturer assigned his trademark to the plaintiff before, the defendant who was a purchaser from the French manufacturer had no greater right than the plaintiff. This case acts as a precedent till date and this decision is applied in almost every case of parallel importation.

§ 42 of Lanham Act also prohibits importation of goods which confuse the consumers about the origin of the product i.e. if consumers presume any products' origin other than the true origin, the importation will be barred. Therefore, labeling of country of origin, as per the Customs rules, has become compulsory. Moreover, this provision was more restrict, after the ruling in the Baldwin Bracelet Corp v Federal Trade Commission (1963) 325 F.2d 1012) where plaintiff was directed to pack the product by making the country of origin, visible to the consumers.

2. European Union (EU) or the European Economic Area (EEA)-

Before the adoption of the Trademark Directive (TMD) 89/104 (now codified as 2008/95/EC) trademark protection was regulated by the Treaty of Rome. As per this treaty a state can impose bar on importation only for the protection of industrial and commercial property. The underlying intention of this treaty was to create free market among the community and to increase free trade among the community. The European Court of Justice also nourished this provision and developed case law. Now this principle has been incorporated in Article 7 of the TMD. As per this Article once the trademark goods put on the market in the Community by or with the consent of the trademark proprietor, he cannot prohibit subsequent sales of the same in the specific community. However, if the condition of the products has been changed or impaired after its marketing, then the proprietor can oppose subsequent commercialization of the goods. Article 13 of The Community Trademark Regulation (CTMR) 40/94 and the domestic trademark laws of member states have also adopted the same principle. EU law categorizes parallel import under two heads:

- **First sale is outside the EEA**

Before the enactment of TMD, the position of the principle of international exhaustion was ambiguous. In reality some states applied international exhaustion and some followed the rules of community exhaustion. In the initial stage after the adoption of TMD and CTMR, there was a view that as nothing had mentioned contrary to international exhaustion, member states were free to accept or reject this. Even though international exhaustion was accepted in the Explanatory Memorandum for the Directive but this was reversed within a short period by the Explanatory Memorandum to the amended proposal for the CTMR which stated clearly that international exhaustion was not adopted by EEA (Irene,2012) [7]. Furthermore, this position became absolute in Silhoutte v Hartlauer (1998) ETMR 539 case. In this case the ECJ decided that domestic laws providing for international exhaustion of trademark goods marketed outside the EEA, by or with the authorization of the trademark proprietor are contrary to Article 7(1) of TMD.

- **First sale is within the EEA**

Before the adoption of the principle of exhaustion, the concept of free movement of genuine goods within EEA without restriction was decided in Centrafarm v Winthrop (1974) ECR 1183. Now this principle has been clearly codified in the TMD and CTMR explaining that if a trademarked product is placed within any market of the community by the mark owner or with his consent, the owner's proprietary rights will be exhausted within the community.

However, Parallel imports may be restricted if the product is placed in market without the consent of trademark owner as his right does not exhaust. In Zino Davidoff v A & G Imports (2002) RPC 20 it was decided that consent must be communicated positively and trademark owner's intention of enforcing exclusive rights must be explicitly demonstrated.

Article 7 of the TMD provides regional exhaustion as well as it provides prohibition on further commercialization on the ground of 'a legitimate reason'. However, 'legitimate reason' has to be provided by the law specifically. In Colgate-Plamolive v Markwell Finance (1988) RPC 283 as local ingredients-labeling regulation was violated, the parallel import was prohibited though it was marketed by the consent of the trademark owner.

Alteration or impairment in the condition of the goods after they have been marketed is another reason of non-exhaustion of rights stipulated in Article 7 of TMD. In this connection the leading case is Levi's Jeans cases where modification of jeans was considered impairment of condition and hence defense of exhaustion was denied. Repackaging of the goods is the only requirement during parallel import if the same mark is used in the country of origin and country of importation. However, if the re-packaging injures the reputation of the trade mark, it will be a legitimate reason to bar parallel import.

Australia

The approach towards parallel import was considerably different in Australia before 1995. After the enactment of Trade Marks Act 1995 (Cth), the previous tolerant view turned into difficult position for parallel importers by the legislature and courts. Before 1995 most of the cases held that trade mark in parallel imported goods did not constitute as trade mark and as a consequence there was no question of trade mark infringement; because once the trademark owner put the products on market then subsequent transactions with those trademarked products by others were immaterial. In Fender Australia Pty Ltd. V Bevk (1989) 25 FCR 161, Fender-US was the original proprietor and assigned the trademark rights to Fender-Australia via an agreement. Bevk had separately imported Fender goods directly from American market. Court held that Fender-Australia was the local distributor and had been assigned the trademark rights. Fender-Australia had established an independent status and achieved goodwill in trademark. So, Fender-Australia could prohibit parallel imports of Fender products. This case is one of two cases of that period where the parallel importer was found infringer.

Since 1995 enactment, the views regarding parallel import have changed in cases. New legislation is significantly different from the previous Trade Marks Act 1955 (Cth). Specifically, insertion of section 123 causes a fundamental change in the approach developed by the Federal Court. This section states that if the trade mark is attached by or

with the consent of trade mark owner there is no question of trade mark infringement. The view followed in the Fender case of differentiating between the authorized identity of a trademark and its physical identity is radically changed after enactment of legislation in 1995. In Montana case Federal Courts stated that trade mark is used as trade mark during parallel imports without engaging in any meaningful discussion. As a consequence, now the importer has to justify his conducts first. The trademark owner has only to establish the Prima Facie case by indicating the importation. Then the importer has to prove that the trade mark is applied by or with the consent of the trade mark owner.

In Sporte Leisure Pty Ltd v Paul's International Pty Ltd (2010) 88 IPR 242, (2010) FCA 1162) It was held that as per the license the licensee Paul's had the right to produce goods for a specific geographic location but the licensee breached this contractual obligation. In contrary to the agreement goods were imported to Australia beyond the specific geographic location. The court held that as owner did not consent this importation and therefore the licensee infringed the owner's trademarks by marketing goods in Australia bearing the trade marks. The same principle is also applied in Lonsdale Australia Limited v Paul's Retail Pty Limited (2012) FCA 584. In Australia, the trade mark relating to Lonsdale brand is owned by Lonsdale Australia Ltd. The same trade mark is owned by Lonsdale Sports Limited (LSL) in Europe. LSL gave a license to Punch GMBH for using the Lonsdale mark in the clothing to promote, distribute and sell within Europe. Punch sold its product to Unicell Ltd in Cyprus. Paul's Retail managed to buy those products from Cyprus and import the same to Australia but Lonsdale Australia Ltd previously supplied Paul's Retail with Lonsdale trademarked products. The Full Federal Court found that LSL consented to use the mark within a specific jurisdiction i.e. Europe but Punch breached the territorial limitation. Accordingly, Lonsdale Australia did not consent to Paul's Retail to import the goods bearing the Lonsdale trademarks and which were produced by Punch. Therefore, Paul's Retail infringed Lansdale Australia's trademark rights and could not rely upon the defense under section 123 of Trade Mark Act 1995.

Concluding Remarks

When parallel imported goods are put on the market, it shares revenue and royalty of the trademark owner or his licensees' product. To secure the interest of trademark owner or his licensee, they always try to prevent parallel import. On the other hand, its adoption is justified considering the economic interest of consumers. Parallel imports create the most significant opportunity 'to increase overall foreign sales and market share and it also help to identify consumers in foreign markets whom the manufacturer may not be aware of. The best policy should be considered and it must ensure a balance between trademark owner's right and consumer's interest. However, with the technological advancement of communication system, the whole world is becoming one global market where price discrimination strategies in different countries have become harder. These technical developments also accelerate innovative business models. It may be predicted that parallel import may lose its importance in the future world.

References

1. Andrade R. The Parallel Importation of Unauthorized Genuine Goods: Analysis and Observations of the Grey Market. Univ Pa Int Bus Law Rev,1993:14:409-428.
2. Long C. Dilution. Columbia Law Rev,2006:106(5):1029-1033.
3. Davison M. Parallel Importing in Australia: What is the Objective and is it being Achieved? Monash Univ Law Rev, 2012, 38(1).
4. Fitzgerald A, Fitzgerald B. Intellectual Property in Principle. Sydney: Thomson Law Book Co, 2004.
5. Dinwoodie GB. Trademark and Territory: Detaching Trademark from the Nation State. Houston Law Rev,2004:41(3):886-904.
6. Calboli I. International Intellectual Property Scholars Series: Reviewing the (Shrinking) Principle of Trademark Exhaustion in the European Union (Ten Years Later). Marquette Intellect Prop Law Rev,2012:16(2):258-262.
7. Jain S. Parallel Imports and Trademark Law. J Intellect Prop Rights, 2009, 14.
8. Michael J. A Supplemental Distribution Channel? The Case of U.S. Parallel Export Channels. Multinational Bus Rev, 1998, 6(1).
9. Phillips J. Trade Mark Law: A Practical Anatomy. London: Oxford University Press, 2003.
10. Rothnie AW. Parallel Imports. London: Sweet & Maxwell, 1993.
11. Scholes K. Parallel Importing. Canterbury Law Rev,1997:6:581-583.
12. Warlick TJ. Blue Light Specials and Grey Market Goods: The Perpetuation of the Parallel Importation Controversy. Emory Law J,1990:39:347-357.
13. Fitzgerald A, Fitzgerald B. Intellectual Property in Principle. Sydney: Thomson Law Book Co, 1st ed, 2004, 377.
14. Calboli I. International Intellectual Property Scholars Series: Reviewing the (Shrinking) Principle of Trademark Exhaustion in the European Union (Ten Years Later). Marquette Intellect Prop Law Rev,2012:16(2):258-262.
15. Phillips J. Trade Mark Law: A Practical Anatomy. London: Oxford University Press, 2003, 273-275.
16. Scholes K. Parallel Importing. Canterbury Law Rev,1997:6:581-583.
17. Warlick TJ. Blue Light Specials and Grey Market Goods: The Perpetuation of the Parallel Importation Controversy. Emory Law J,1990:39:347-357.
18. Andrade R. The Parallel Importation of Unauthorized Genuine Goods: Analysis and Observations of the Grey Market. Univ Pa Int Bus Law Rev,1993:14:409-428.
19. Rothnie WA. Parallel Imports. London: Sweet & Maxwell, 1993, 193.
20. Long C. Dilution. Columbia Law Rev,2006:106(5):1029-1033.
21. Phillips J. Trade Mark Law: A Practical Anatomy. London: Oxford University Press, 2003, 273-275.
22. Person's Co v Christman,1990:900 F.2d 1565.
23. Dinwoodie GB. Trademark and Territory: Detaching Trademark from the Nation State. Houston Law Rev,2004:41(3):886-904.
24. Rothnie WA. Parallel Imports. London: Sweet & Maxwell, 1993, 193.

25. Transport Tyre Sales Pty Ltd v Montana Tyres Rims & Tubes Pty Ltd,1999:93 FCR 421.
26. Brother Industries Ltd v Dynamic Supplies Pty Ltd,2007:163 FCR 530.
27. Dyed Jeans Bundesgerichtshof Case,1997:ETMR 530.
28. RA & A Bailey & Co Ltd v Boccaccio Pty Ltd,1986:6 IPR 279.
29. Champagne Heidsieck et cie Monopole Society Anonyme v Buxton,1930:1 Ch 330:338-341.
30. Deutsche Grammophon v Metro GmbH,1971:E.C.R.487.
31. Olympus Corporation v US,1986:792 F.2d 315.
32. Lever Brothers Co v USA, et al, 1992:981 F.2d 1330.
33. Premier Dental Production Company v Darby Dental Supply Company,1986:794 F.2d 850.