

# The Trade Marks Act 1955 and Parallel Imports

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## I. INTRODUCTION

Parallel importation issues may arise in a number of different ways. Often a manufacturer's goods will be sold internationally although the manufacturer himself may have neither the resources nor the inclination to involve himself in the international marketing of his goods. Some international markets will be seen as rather insignificant. The Australian market for example, is approximately only 5% of the size of the market in the United States of America.

In each case, the manufacturer will seek to have orderly marketing arrangements for his goods, ensuring promotional activity, warranty services and the like. This will be most easily done by appointing a distributor in each territory or locality. Sometimes the distributor will be a subsidiary of the manufacturer.

For his part, the distributor will require exclusivity in his particular territory in exchange for the obligations which he undertakes. Primarily, the distributor will seek to secure a contractual monopoly. However, as such an arrangement will be enforceable only as against the manufacturer, he may seek to secure some trade mark rights in addition.

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Any number of arrangements may be made in respect of the use of the trade mark in the particular territory in order to further secure a monopoly. In Australia he may become the registered user of the trade mark. Alternatively, he may register the trade mark in his own name. In some instances, however, there will be no registration of the distributor either as proprietor or registered user.

The price for which the goods are sold in any particular locality will depend primarily upon market forces. Price differentials will often arise between different localities. If the price differential is sufficient to absorb transportation and related marketing costs, unauthorised importation may occur.

The issues involved with parallel imports have been fully debated for some decades in England, the United States of America and most European countries. International organisations have grappled with the problem and tried to formulate a universally acceptable solution but have been unable to find any such solution.<sup>1</sup>

For present purposes it is sufficient summary of these cases to say that each country has almost universally rejected the idea that the relevant trade mark legislation can be used as a vehicle for prohibiting parallel imports. This conclusion is subject to some important qualifications which are discussed below.

Although the English Courts have extensively canvassed the issues, recent English attempts to solve the problem have been in the context of European Economic Community legislation and doctrines which are not directly applicable in Australia. These are the doctrines of "territoriality" and "exhaustion".

### *1. The Doctrine of Territoriality*

Ladas<sup>2</sup> states the principle thus:

It really means that, in principle, the protection of a trade mark in a certain country depends exclusively on the law of that country, and that the effects of a trademark ownership by use or registration in a country do not reach beyond the borders of that country. It also means that only facts occurring

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1. The best survey of the cases is found in S.P. Ladas, *Patents, Trademarks and Related Rights* (1975) Ch.37. See also Note, "Trade Mark Infringement: the Power of an American Trade Mark Owner to Prevent the Importation of the Authentic Product Manufactured by a Foreign Company", 64 *Yale L. J.* (1955) 557 as to the United States position and D.M. Kerly, *Law of Trade Marks and Trade Names* (11th ed., 1983) 202 ff, 255ff; W.R. Cornish, *Intellectual Property: Patents, Copyright, Trade Marks and Related Rights* (1981) 569ff, as to the United Kingdom and European Community position.
  2. Ladas, note 1 *supra*.

in a certain country may affect the trademark right in that country, for instance, infringement, nationalisation, abandonment, annulment. Facts occurring outside the country are not generally considered as affecting the trademark in the country concerned.<sup>3</sup>

Ladas cites as an example attempts which have been made in European countries to justify prohibition of unauthorised importation of genuine goods by employing the territoriality principle. The owner of a trade mark who has registered it in, for example, France and Germany, will claim that his right of exclusive use of the trade mark in Germany will enable him to preclude any importation from France of goods to which he applied the trade mark so long as he has not authorised such importation. However, such an argument does not take the territoriality principle far enough in order to justify a prohibition of parallel imports. As Ladas says, it is a misapplication of the principle. The very principle requires that one must look to the law of any particular country in order to determine how far protection extends in any particular case. Accordingly, the principle itself cannot be said to establish territorial rights but simply states that rights must be determined on a territorial basis.

## **2. The Principle of Exhaustion**

Generally speaking the principle is that the registered proprietor's rights to control the use of the trade mark are exhausted upon application of the trade mark to goods.

In the context of the European Economic Community the principle has been stated as follows:

The proprietor of an industrial or commercial property right protected by the law of a member state cannot 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.<sup>4</sup>

Once having put the goods into "free circulation" the proprietor can no longer object to the further marketing of the goods.

This principle has been used in the European Economic Community to foster their primary object of a single, fully integrated market. To allow a member state to block imports by recourse to intellectual property rights would immediately partition the market.

Neither of these doctrines bears directly on the issue as formulated in Australia. Although some judicial pronouncements

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3. *Id.*, 1340.

4. *Terrapin v. Terranova* [1976] ECR 1039, 1061.

will be seen as endorsing these philosophies, the real issue is what is the function of the trade mark.

We shall look at some judicial pronouncements and generally at some policy considerations. In this context we shall consider whether in the parallel import cases there could be said to have been a relevant "use" of the trade mark. The analysis will involve a consideration of some complicating factors.

In this article we have concentrated on the rights conferred by the Trade Marks Act 1955 (Cth). Where necessary, we have considered the impact of other statutory provisions upon trade mark rights. Parallel import problems may raise questions of a wider nature. For example, the law of passing off and the provisions of sections 52 and 53 of the Trade Practices Act 1974 (Cth) may be relevant in some instances. However, such analysis is outside the scope of this article.

## II. THE ENGLISH AUTHORITY

The seminal English decision is *Champagne Heidsieck et Cie Monopole Societe Anonyme v. Buxton*.<sup>5</sup> That decision concerned section 3 of the Trade Marks Registration Act 1875 (U.K.) and the repealing provisions in the Trade Marks Act 1905 (U.K.).<sup>6</sup> Clauson J. rejected the argument that trade marks were "a badge of control" rather than, as before the Trade Marks Registration Act 1875 (U.K.), a "badge of the origin of the goods".

In the *Champagne Case* the plaintiff's wine which was produced in France was sold in both France and England under the same trade mark. The wine sold in France was sweeter and the labels on the bottles were different to those sold in England. The defendant sought to import into England wine which had been manufactured by the plaintiff for the French market. The plaintiff sought an injunction restraining the importation of its wine. The plaintiff argued that the trade marks legislation gave to them, as the owner

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5. [1930] 1 Ch.330.

6. Section 3 of the Trade Marks Registration Act 1875 (U.K.) provides:

The registration of a person as first proprietor of a trade mark shall be prima facie evidence of his right to the exclusive use of such trade mark, and shall, after the expiration of five years from the date of such registration, be conclusive evidence of his right to the exclusive use of such trade mark, subject to the provisions of this Act as to its connection with the goodwill of a business.

Section 39 of the Trade Marks Act 1905 (U.K.) provides *inter alia*: the registration of a person as proprietor of a trade mark shall, if valid, give to such person the exclusive right to the use of such trade mark upon or in connection with the goods in respect of which it is registered.

of the registered trade mark, the right to full control over the goods, into whosoever hands they might come, except in so far as they might expressly or by implication have released such right of control.

Clauson J. held:

It would be astonishing, if in an Act to establish a register of trade marks, such a remarkable extension of the rights of owners of trade marks were extended to be enacted by the use of such terms as appear in the section. The section appears to me to mean that the proprietor of a registered trade mark is to have the right exclusively to use such trade mark in the sense of preventing others from selling wares which are not his marked with the trade mark.<sup>7</sup>

The *Champagne Case* was cited with approval by the English Court of Appeal in *Revlon Inc. v. Cripps & Lee Ltd.*<sup>8</sup> In that case the plaintiffs were members of a group of international cosmetic companies. The parent company manufactured and marketed the goods in the United States. The second plaintiff was the United Kingdom registered proprietor of the "REVLON FLEX" mark. In the United States the parent company marketed anti-dandruff shampoos under the mark. The United Kingdom company marketed only non-anti-dandruff shampoos under the mark.

The defendant acquired authentic stocks of anti-dandruff Revlon products and sought to sell them in the United Kingdom under the "REVLON FLEX" mark.

Dillon J. held that the plaintiffs could not prevent the defendant importing those products. The Court of Appeal upheld that decision. Although technically the United Kingdom proprietor and the United States company were separate companies, the Courts looked through the corporate veil and held that in effect the trade marks were house marks.<sup>9</sup> The court held that by selling the products in the United States, the American parent company had consented to the subsequent sale of those products. Thus, Templeman L.J. summarised the reason for the refusal of an injunction by stating:

The reason that none of the plaintiffs can complain in the present case is that by section 4(3)(a) of the Trade Marks Act 1938 there is no infringement where the trade mark is applied by the proprietor. The object of the section is to prevent the owner of the trade mark claiming infringement in respect of a product which he has produced and to which he has attached the trade mark. In the circumstances of the Revlon Group, and applying the approach of Cross L.J. in *G.E. Trade Mark* [1970] RPC

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7. Note 5 *supra*, 338-339.

8. [1980] FSR 85.

9. See *Radiation Trade Mark* (1930) 47 RPC 37; *G.E. Trade Mark* [1970] RPC 339.

339, 395, use by the parent, Revlon Inc., may fairly be considered as user by the proprietor, the subsidiary Revlon Suisse itself. In more homely language, section 4(3)(a) cannot be evaded by substituting the monkey for the organ grinder.<sup>10</sup>

The authority of the English cases is somewhat diminished by the absence of "consent" (either express or implied) as a defence to an infringement action in the Australian trade marks legislation. The English authority relies heavily upon section 4(3)(a) of the Trade Marks Act 1938 (U.K.). That section states that the right of use of the trade mark is not deemed to have been infringed where the registered proprietor or registered user "has at any time expressly or impliedly consented to the use of the trade mark". The section is expressed in negative terms and does not deem the trade mark to have been not infringed where such consent is found.

In Australia relief may be refused on general equitable principles.<sup>11</sup> As has been seen above, the English Courts have readily torn away the corporate veil and found that the consent of a parent is the consent of a subsidiary. The conduct relied upon has been that of marketing the goods without any restriction on resale into other markets. In the light of the discussion by the High Court in *Interstate Parcel Express Co. Pty Ltd v. Time-Life International (Netherlands) B.V.*<sup>12</sup> in respect of sections 37 and 38 of the Copyright Act 1968 (Cth) it is doubtful that an Australian Court will find such a consent in this type of conduct. This case and its implications for parallel imports will be discussed below.

### III. THE TRADE MARKS ACT 1955 (CTH) AND AUSTRALIAN AUTHORITY

The following provisions of the Trade Marks Act are relevant and need to be set out in full.

Section 6(1)(a) provides that "trade mark" means:

except in relation to Part XI, a mark used or proposed to be used in relation to goods or services for the purpose of indicating, or so as to indicate, a connexion in the course of trade between the goods or services and a person who has the right, either as proprietor or as registered user, to use the mark, whether with or without an indication of the identity of that person.

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10. Note 8 *supra*, 116.

11. See R.P. Meagher, W.M.C. Gummow and J.R.F. Leane, *Equity: Doctrines and Remedies* (2nd ed., 1984) Ch. 36.

12. (1977) 138 CLR 534.

Section 58(1) provides:

Subject to this Act, the registration of a trade mark in Part A or Part B of the Register, if valid, gives to the registered proprietor of the trade mark the right to the exclusive use of the trade mark in relation to the goods or services in respect of which the trade mark is registered and to obtain relief in respect of infringement of the trade mark in the manner provided by this Act.

Section 62(1) provides:

A registered trade mark is infringed by a person who, not being the registered proprietor of the trade mark or the registered user of the trade mark using by way of permitted use, uses a mark which is substantially identical with, or deceptively similar to, the trade mark, in the course of trade, in relation to goods or services in respect of which the trade mark is registered.

The English authorities referred to have been considered in two recent Australian cases. Both of these reported cases concern applications for interlocutory relief only.

In *Atari Inc. v. Dick Smith Electronics Pty Ltd*<sup>13</sup> Starke J. considered section 6(1) of the Trade Marks Act. Before His Honour it was argued, on behalf of the plaintiff, that the *Champagne Case* could be distinguished on the basis that the relevant section of the English Act of 1905, which was considered in the *Champagne Case*, used the words:

... indicating that they are the goods of the proprietor of such trade mark and that the Australian Act used the words:

... indicate a connexion in the course of trade between the goods and a person who has the right either as a proprietor or as a registered user to use the mark ...

That argument had already been rejected by Templeman L.J. in the *Revlon Case*.<sup>14</sup> Although Starke J. had been referred to the *Revlon Case* he did not express any view in relation to this argument. For the reasons which we will discuss below we do not believe that this argument is sustainable.

Regrettably, the circumstances of the *Atari Case* allowed Starke J. little opportunity to make any significant contribution to this area of law. The action came before him as an application for interlocutory relief and His Honour was cognisant of the fact that no Australian authority had dealt with the issue previously. The case on balance of convenience was compelling and His Honour took a decision to deal with the matter principally on the basis of the balance of convenience.

His Honour's obligation, in such a case, was to first consider whether a *prima facie* case had been made out by the plaintiff.

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13. (1980) 33 ALR 20.

14. Note 8 *supra*, 114.

That is, upon the authority of *Beecham Group Limited v. Bristol Laboratories Pty Limited*,<sup>15</sup> to decide whether upon a final hearing, the plaintiff had a sufficient likelihood of success in his claim. Having regard to the number of pronouncements which have been made since *Beecham's Case*, there is now some doubt as to precisely what those words mean. However, a plaintiff must show some probability of succeeding in his claim. He must show something more than a mere possibility of success. Starke J. did not embark upon a detailed consideration of the circumstances of the case in order to determine whether there was a *prima facie* case. In these circumstances the value of the *Atari Case* as a legal precedent is significantly diminished.

The *Atari Case*, and the other authorities simply fail to address the two fundamental issues which must be addressed. Those issues are:

- (a) What is the function of a trade mark?
- (b) Has there been a "use" of the trade mark by the parallel importer within the meaning the Trade Marks Act.

### ***1. Has There Been a Relevant Use of a Trade Mark?***

Section 62 of the Trade Marks Act provides that there is only an infringement when there has been a use by a person other than the registered proprietor or registered user. There have been several cases which discuss what is and what is not a use of a trade mark.

In *W.D. & H.O. Wills (Australia) Ltd v. Rothmans Limited*<sup>16</sup> the following facts were considered:

The appellant was the proprietor of the trade mark "Pall Mall" in Australia under an arrangement with the British American Tobacco Company. Due to the war and later economic difficulties, trade in Pall Mall brand cigarettes ceased in 1941. In 1952 it became known to the appellant that there was a demand among smokers in Australia for the "Pall Mall" brand of cigarettes which at that time were manufactured and sold in the United States. The appellant arranged for quantities of the American cigarettes under the name Pall Mall to be supplied in packets bearing this trade mark in fulfillment of orders received from time to time by the company principally from American concerns operating in Australia. Cigarettes were purchased and paid for in the United States. No money was sent from Australia. The offer to purchase, sale, payment, and delivery of the goods to purchasers all took place in the United States. The purchasers completed the purchase and had the cigarettes consigned to Australia at their own risk.

It was held that the only trade in the goods took place in the United States of America and that therefore there had been no use

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15. (1968) 118 CLR 618.

16. (1955) 92 CLR 131 (Fullagar J.); (1956) 94 CLR 182 (Full Court).



of the trade mark in Australia. However, the Full Court stated:

If a purchaser instead of smoking the cigarettes had attempted to resell the packets he would, of course have used the trade mark and would have been liable to be sued for infringement under Section 53 of the Trade Marks Act [now Section 62]. But that would have been an unlawful use of the trade mark by the purchaser and not a use by the proprietor of the trade mark...<sup>17</sup>

The *Rothmans Case* was distinguished by the High Court in *Estex Clothing Manufacturers Pty Ltd v. Ellis & Goldstein Ltd.*<sup>18</sup> The High Court had to consider whether there had been a use of a trade mark for the purposes of an application to expunge the trade marks. Windeyer J. at first instance, and the Full Court on appeal, held that there had been a use of the trade mark.

The sale of goods took place in London. The property passed to the buyer in London. The purchaser was the agent of the registered proprietor. It was submitted by counsel for the applicant that the respondent had entered into no transaction in Australia and therefore had not used the mark in Australia.

It was held by Windeyer J. at first instance:

After the goods have been sold by him his mark may still, using the definition of trade mark in the Act, be used in relation to those goods for the purpose of indicating a connection in the course of trade between them and him, the registered proprietor of the mark. The manufacturer who sells goods marked with his mark, to a warehouseman, wholesaler or retailer does not, in my view, thereupon cease to use the mark in respect of those goods. The mark is his property although the goods are not; and *the mark is being used by him so long as the goods are in the course of trade and it is indicative of their origin, that is as his products. Goods remain in the course of trade so long as they are upon a market for sale. Only when they are bought for consumption do they cease to be in the course of trade.* The concepts upon which the case turns are economic, commercial, business concepts concerning the marking and marketing of goods, rather than the provisions of the Sale of Goods Act concerning the passing of property. (authors' emphasis)<sup>19</sup>

Distinguishing the *Rothman's Case* His Honour held:

The very reasons why, in that case, it was held that there had been no use of the trade mark in Australia show why, in my view, there was such a user in this case. There the cigarettes arrived in Australia to be smoked by the buyers; they, consumers, had bought them in America by mail orders sent there. The American company which sent them was not the proprietor of the trade mark, and had no interest in it. Here the garments arrived in Australia to be sold by retail in the ordinary course of business. The buyers were not consumers, they were traders.<sup>20</sup>

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17. *Id.*, 188.

18. (1967) 116 CLR 254.

19. *Id.*, 266-267.

20. *Id.*, 268-269.

These cases were again referred to in *Pioneer Kabushiki Kaisha v. Registrar of Trade Marks*<sup>21</sup>, a decision of Aickin J. under section 103 of the Trade Marks Act as it then was. Section 103 is complementary to section 62 and enables the Registrar of Trade Marks to prohibit imports which he considers to be an infringement of trade marks. Section 103 has subsequently been amended. There is some doubt as to whether section 103 will now allow the Trade Marks Registrar to prohibit parallel imports. Aickin J. cited the *Estex Case* as authority for the following proposition:

...that the foreign owner of an Australian mark uses it in Australia when he sells goods for delivery abroad to Australian retailers and those retailers import them into Australia for sale and there sell them. It demonstrates that such a situation does not differ from that where he sells the goods for delivery in Australia to the retailer or where he advertises the goods in Australia. It was not necessary in that case to consider whether the retailer also used the mark because the only relevant question was whether the registered proprietor himself had used the mark in Australia. There is no doubt if the retailer had on the same basis imported goods *other than those of the registered proprietor* but bearing its mark, he would have used the mark by infringing it. This is established by *W.D. & H.O. Wills (Australia) Ltd. v. Rothmans Ltd.* (authors' emphasis)<sup>22</sup>

On the basis of these Australian authorities, the passing of title is not a relevant consideration in determining whether there has been a use of the trade mark. The fundamental proposition which emerges is that there is a use of the trade mark for so long as the goods remain in the course of trade.

In *Aristoc Ltd v. Rysta Ltd*<sup>23</sup> Lord MacMillan also addressed the question of when goods cease to be in the course of trade. His Lordship said:

A connection with goods in the course of trade in my opinion means, in the definition section, an association with the goods in the course of their production and preparation for the market. After goods have reached the consumer they are no longer in the course of trade. The trading in them has reached its objective and its conclusion in their acquisition by the consumer.<sup>24</sup>

In our view based upon these authorities, the trade mark is being used when a parallel importer imports those goods, having acquired them for the purposes of resale in the country into which he has imported the goods. The goods remain in the course of trade. However, provided the person who applied the trade mark to the goods in the country of origin is also the registered

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21. (1977) 137 CLR 670.

22. *Id.*, 688.

23. [1945] AC 68.

24. *Id.*, 97.

proprietor of the trade mark in the country into which the goods are imported, the relevant use for the purposes of the Trade Marks Act is the use by the registered proprietor and not the use by the parallel importer.

The parallel importer is using the trade mark to indicate a connection in the course of trade between the goods and the registered proprietor. He is certainly not using the trade mark to indicate a connection between himself and the goods.

Although it appears that the behaviour of the parallel importer does fall within the wording of section 6(1) of the Trade Marks Act, it is submitted that the behaviour does not constitute an infringement of the trade mark. An examination of the policy considerations behind that Act and the general nature of a trade mark's function will confirm this view.

It is respectfully submitted that the position was correctly stated by Smithers J. in *Atari Inc. and Futuretronics Australia Pty Ltd v. Fairstar Electronics Pty Limited*.<sup>25</sup> His Honour refused to distinguish the *Champagne Case* or to hold that there had been a use of the trade mark in the relevant sense. He said:

... there would be serious consequences in ordinary commerce in relation to cases where people buy on the ordinary market goods which are sold with trade marks fixed to them. As the people who buy at auction or buy bankrupt stocks or people who buy in other circumstances, if they are to deal with them at all, they must deal with them under the name by which they are known. If doing so, such persons were infringing trade marks I have a suspicion that there would be some relevant authority which would make that clear...

If such people are not infringing the trade mark one reason would be that once a manufacturer puts a trade mark on his goods and sends them into the course of trade on the billowing ocean of trade, people bona fide deal with those goods under that name and by reference to that trade mark, not telling any lies or misleading any one in any way at all, they are simply not infringing the trade mark. They are not "using" the mark in the relevant sense.<sup>26</sup>

As can be seen, this statement bears some resemblance to the doctrine of exhaustion. Its application, however, need not be limited by that doctrine. As we have already seen by reference to the *Estex* and *Aristoc* cases, the "people" to whom Smithers J. is referring in the second *Atari Case* are certainly using the trade mark. However, they are not infringing the mark because their use indicates a connection not between the goods and themselves, but between the goods and the registered proprietor.

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25. (1983) 50 ALR 274.

26. *Id.*, 277.

## 2. Policy Considerations

A manufacturer, whether he sells to consumers, wholesalers or retailers places the goods on the market with no prohibition upon their resale. Upon the purchase of goods by consumers they cease to be in the course of trade and therefore any use of the trade mark ceases. The sale by wholesalers or retailers who will on-sell them either in that market or in another market will involve a use of trade mark of the registered proprietor.

The registered proprietor has placed the mark on the goods for the purpose of indicating that those goods originated from him. Subject to the exceptions mentioned below (and possibly in the case of abuse of market power also discussed below) it will usually not concern the registered proprietor whether those goods are sold by someone he has appointed to sell those goods or whether those goods are sold by someone who has bought those goods on another market so that he is able to import them more cheaply than the authorised distributor. As for the concerns expressed by an authorised distributor, that is a matter of contract between the authorised distributor and the registered proprietor. The authorised distributor cannot seek to enforce as against another importer a term of the distributionship contract that he be an exclusive distributor. That would be tantamount to enforcing contractual obligations against a third party.

Irrespective of the identity of the wholesaler or retailer into whose hands the goods pass, the trade mark will have fulfilled its function. It will have identified the origin of the goods.

Kerly<sup>27</sup> expressed the function of a common law trade mark to be "...to distinguish the goods from similar goods and identify them with a particular trader".<sup>28</sup>

Thus it was said in *Bowden Wire v. Bowden Brake Co. Ltd*<sup>29</sup> that the function of a trade mark is to give an indication to the purchaser of the trade source from which the goods come or the trade hands through which they pass on the way to the market.

In the words of Clauson J. in the *Champagne Case* a trade mark is a badge of origin not a badge of control.

Thus, section 62 of the Trade Marks Act is, in our opinion, not concerned with the application of the genuine mark to goods. Section 62 is only concerned with colourable imitations of the genuine mark.<sup>30</sup> It is our view that in the ordinary case, section 62

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27. Note 1 *supra*.

28. *Id.*, 14.

29. (1914) 31 RPC 385.

30. See *Mark Foy's Ltd v. Davies Co-op. & Co. Ltd* (1956) 95 CLR 190, 204.

cannot be used to prevent parallel imports. As Ladas<sup>31</sup> says in regard to the American authority:

If the owner of a trademark has affixed his trademark in his own country on goods, some of which he arranges to import into a foreign country and some of which third parties import, be it with or without authority or knowledge of the owner, it is the use of the owner's mark to identify and distinguish such goods that takes place, and such use cannot possibly be an infringing use so long as the trademark belongs in both countries to that owner.<sup>32</sup>

This argument is further strengthened by reference to the English cases which show that where one of two traders is known to the public as the manufacturer and the other is only a merchant, very little evidence will be required to show that it is on the producer's reputation that the purchaser will place reliance so that the real connection indicated in the course of trade is the connection with the manufacturer.<sup>33</sup> Each case will, of course, depend on its own facts. A trade mark may indicate that the goods are those of an importer or dealer although in fact the trade mark has been applied exclusively to goods of a particular manufacturer.<sup>34</sup>

Seen in this light the problem of parallel imports is not a "trade mark problem" at all. It is a question of balancing competing interests. On the one hand we have the interests of importers to be able to compete in the sale of such goods and also the interests of consumers in securing cheaper goods. On the other hand are the interests of manufacturers and distributors which can arise only where exclusive rights to import products are secured and the interests of consumers in securing quality products.

That these interests are not always consistent is clear. The introduction of the regulated economy and with it enabling legislation such as the Trade Practices Act 1974 (Cth) has introduced a further complicating factor. For now there is a further factor to be balanced — "competition". This is generally associated with society's interest in an efficient economy.

However, consumers will always use trade marks as a "signal" that the goods they are buying are of the quality they have come to expect. Even in the Soviet Union economic planners have found that requiring consumer good manufacturers to imprint

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31. Note 1 *supra*.

32. *Id.*, 1341.

33. See *Inescourt's Trade Mark* (1928) 46 RPC 13; *Cf. Shauer's Application* (1925) 43 RPC 46.

34. See *Defries v. Electric and Ordnance* (1906) 23 RPC 341; *Allman v. Leuba* [1908] AC 443; *Knott v. Marshall* [1894] WN 214.

“production marks” upon goods helped guard against deteriorating product standards.<sup>35</sup> In choosing the marked goods recognised as being of high quality, consumers “reward” the manufacturer by repeated purchases. Likewise, trade marks are a source of distributional efficiency in that they save consumers making repeated enquiries about products susceptible to quality changes. Accordingly, trade marks are essentially information carrying devices. So long as they operate to inform the purchaser of the trade source of the goods they have fulfilled their function. The role of trade marks as information carrying devices is illustrated by *Bourjois & Co. v. Katzel*,<sup>36</sup> the only United States case barring parallel imports. An American company purchased the American business of a French cosmetics manufacturer including the trade marks “Bourjois” and “Java” used on its face powder. The American company continued to import the same face powder in boxes substantially identical to the French company’s. The American company sought to prevent the importation of the genuine face powders in their original boxes.

The Supreme Court overturned the Court of Appeal’s decision and reinstated the District Court’s judgment that the public regarded the produce as coming from the United States company. Emphasis was placed by the Supreme Court and the District Court upon the fact that the public relied upon the American company’s reputation and considered the face powder as an American product. It was held that, as the French manufacturer could not import the goods, neither could the defendant company.

### **3. When May Parallel Imports Be Prohibited?**

Although the general position has been stated above to be that parallel imports cannot be prohibited, there are a number of important qualifications to this principle. If the overseas manufacturer has parted with his rights to the trade mark and has allowed the local distributor to become the registered proprietor in Australia, any importation by a person other than the Australian registered proprietor is an infringement of the trade mark. By importing the goods the importer would be misleading the public by indicating a connection in the course of trade which the goods did not in fact have.

If one is to take the function of the trade mark as the overriding consideration in determining whether there has been an infringement of the trade mark the following rule shall apply:

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35. F.M. Scherer, *Industrial Market Structure and Economic Performance* (2nd ed., 1980) 378.

36. 260 U.S. 689, 43 Sup. Ct. 244 (1923).

[T]here cannot be interference with importation of the goods so long as the integrity of the trademark and its goodwill in the country of importation and the interests of the consuming public are not interfered with.<sup>37</sup>

Where the goodwill of the trade mark has been acquired in two countries upon two distinct sets of characteristics the registered proprietor may be able to prevent parallel imports of the genuine goods from one country to the other. For example, the consumers of coffee in Australia may like their coffee strong, black and bitter. In America they may like it weak and relatively sweet. The manufacturer of coffee in America may therefore alter the characteristics of the coffee sold in Australia under the trade mark. A liquor manufactured for the European market may have different characteristics to the same brand of liquor made for sale in a temperate climate.

Ladas notes:

In such case importation of the product of one country into the other may interfere with the very function of the trademark by creating confusion of the public as to the identity of the goods and by injuring the separate goodwill that the owner has in the latter country.<sup>38</sup>

The differences in quality or characteristics must, of course, be important in the eyes of the consumers who would be likely to purchase the goods. One may wonder whether, if this point had been taken in the *Champagne Case*, the differences in composition of the two wines would have been sufficient to persuade the Court that the trade mark was being infringed and thus to allow prohibition of the imports. It would be reasonably arguable that in such a case, use of the same trade mark would be deceptive. In the *Revlon Case* Buckley L.J. held that no "reasonably perspicacious member of the public" would be misled because the goods were clearly labelled as to the difference in characteristics.

The registered user provisions of the Trade Marks Act add an interesting complexion to the discussion and raises the possibility of a further important exception to the general principle that parallel importation cannot be prevented by reliance upon section 62 of the Trade Marks Act.

Section 77(1) of the Trade Marks Act provides:

The permitted use of a registered trade mark shall be deemed to be use by the registered proprietor of the trade mark and shall be deemed not to be use by a person other than the registered proprietor, for the purposes of Section 23 and for any other purposes for which use by the registered proprietor of the trade mark is material under this Act.

The object of the legislation is to allow a registered user to use the registered proprietor's trade mark while at the same time

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37. Ladas, note 1 *supra*, 1341.

38. *Ibid.*

preserving the registered proprietor's own rights in respect of the trade mark.

Thus, without the registered user provisions of the Trade Marks Act, an overseas manufacturer who licenses the use of his trade mark in Australia will risk the loss of that trade mark. If, under the licence agreement the goods are manufactured wholly in Australia so that the trade mark is applied to goods in Australia, there may be no use of the trade mark by the registered proprietor in Australia. The registration in the name of the registered proprietor would be liable to be expunged if the necessary control over the licensee was not established.

It is now clearly established, of course, that the registered user provisions are permissive only and not compulsory. Provided the conditions of control are adequate, use of a mark without a registered user agreement will not destroy the validity of the mark.<sup>39</sup>

The registered user provisions merely facilitate the licensing of the use of trade marks in Australia by deeming the use of the trade mark to be use by the registered proprietor thus establishing a relevant use to maintain its validity.

By using the trade mark the registered user will be indicating either:

- (a) that there is a connection in the course of trade between the goods and the registered proprietor *e.g.* "Manufactured by ABC Inc.", or
- (b) that there is a connection in the course of trade between the goods and *both* the registered proprietor and the registered user *e.g.* "Manufactured by ABC (Australia) Pty Ltd under licence from ABC to Japan Inc.", or if the goods are unlabelled as to source.

In all cases a connection in the course of trade with the registered proprietor must be established.<sup>40</sup>

If the goods are labelled (or unlabelled) so as to indicate a connection in the course of trade between both the registered proprietor and the registered user, any use by a parallel importer of the trade mark will, it is submitted, be a relevant use within the meaning of the Trade Marks Act. By importing the genuine goods the parallel importer will be indicating that the goods have passed through certain trade hands on their way to consumers when, in fact, they have not passed through the hands of the registered user at all.

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39. See *Re "Bostitch" Trade Mark* [1963] RPC 183; *Re G.E. Trade Mark* [1969] RPC 418 and the *Pioneer Case*, note 21 *supra*, 682.

40. *Pioneer Case*, note 21 *supra*, 686-687.



Thus, if the label used on the goods sold by the registered user is "Manufactured by ABC (Australia) under licence from ABC Inc." any importation of goods bearing the trade mark "ABC" will be an infringement because the Australian manufacturer will have built up a reputation in the goods.

However, should the goods be labelled so as to indicate a connection in the course of trade with the registered proprietor alone, even a registered user agreement will not allow the prohibition of parallel imports. By importing the goods and indicating a connection in the course of trade between the goods and the registered proprietor, the parallel importer will be simply committing no deception and is not impugning the integrity of the mark. His use therefore will not be a relevant use of the mark. In the same way an auction sale of a bankrupt's stock will not be an infringement. There will have been no relevant use of the trade mark. *Smithers J.*, it is submitted, was correct in the second *Atari Case* in detecting that no action under the Trade Marks Act could be taken in such circumstances.

Although the exceptions mentioned above are relatively limited, it should be remembered that the rights given by the Trade Marks Act are not the only rights allowing a possible prohibition of parallel imports. The issue should be seen in the context of the whole range of intellectual property rights available to the manufacturer or marketer of goods. Particularly important are the rights given by the copyright legislation.

#### IV. THE COPYRIGHT ACT 1968 (CTH)

Section 37 of the Copyright Act provides:

The copyright in a literary, dramatic, musical or artistic work is infringed by a person who, without the licence of the owner of the copyright, imports an article into Australia for the purpose of —

- (a) selling, letting for hire, or by way of trade offering or exposing for sale or hire, the article;
- (b) distributing the article —
  - (i) for the purpose of trade; or
  - (ii) for any other purpose to an extent that it will affect prejudicially the owner of the copyright; or
- (c) by way of trade exhibiting the article in public, where, to his knowledge, the making of the article would, if the article had been made in Australia by the importer, have constituted an infringement of the copyright.

Section 38 contains a similar prohibition in the case of an imported article upon the selling and distributing of that article.

Thus, where —

1. the making of the article in Australia would be an infringement of copyright;
  2. there is appropriate knowledge on the part of the importer or distributor;
- copyright has been infringed by that person.

It is generally held that copyright can subsist in a trade mark if it falls within the definition of an artistic work.<sup>41</sup> The trade mark, of course, is not the only work which might have copyright subsisting in it. Regard should also be had to any instruction manuals or packages which may embody artistic works.

In order to take action pursuant to the Copyright Act it is necessary to show that the exclusive distributor or registered proprietor of the trade mark has an exclusive licence or is the owner of the copyright which it is sought to enforce. Care should be taken that such an exclusive licence is given.

One of the difficulties in using the provisions of the Copyright Act is that it may be held that a licence has been given by the owner of the copyright to use the copyright work. Thus it has been argued (using cases concerned with implied consent under the patents legislation) that the placing of goods onto the market without any further restriction on their resale into other markets gives rise to an implied licence to import them without infringing either section 37 or section 38 of the Copyright Act: *Interstate Parcel Express Co. Pty Ltd v. Time-Life International (Netherlands) B. V.*<sup>42</sup> The argument was rejected by the High Court in that case.

Under most patent legislation throughout the world the Courts have held that there must be a clear and explicit prohibition of importation if their movement into another country was to be forbidden. The High Court in the *Time-Life Case* held that this principle was not to be followed in the case of copyright legislation and gave to the copyright owner a strong and unfettered power to prohibit importation. Murphy J. very properly recognised that this decision to allow post-sale restrictions on the sale of goods has strong implications for the use (or abuse) of market power and insisted that an examination of these issues be undertaken.<sup>43</sup>

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41. See *Karo Step Trade Mark* [1971] RPC 255; *Enzed Holdings Ltd v. Wynthea Pty Ltd* (1984) ATPR 40-447.

42. (1977) 138 CLR 534.

43. B.W.R. Cornish and P.G. McGonigal, "Copyright and Anti-trust Aspects of Parallel Imports under Australian Law", (1980) 11 *IIC* 731.

## V. THE TRADE PRACTICES ACT 1974 (CTH)

It is stated above that the real problem of parallel imports is that of balancing competing interests. The extra element of society's interest in an efficient economy has been highlighted by legislation such as the Trade Practices Act with its overriding concern for competition.

The use of intellectual property rights to prohibit imports is inherently suspect under the Trade Practices Act for several reasons:

- (a) The business of parallel importing can only flourish in the long run while there is a maintainable price differential between the imported product and the product marketed by the person entitled to the intellectual property rights. Thus, if the parallel importer can import the goods no cheaper or only at a premium on the price charged by the person entitled to the intellectual property rights, he will not last long in the market place. Thus, any person entitled to the intellectual property rights who tries to prevent parallel imports is open to the charge that he is trying to maintain an artificially high price.
- (b) The judicious use of trade marks can be a means by which the world market can be partitioned artificially so that higher than normal profits might be earned. The registered proprietor may wish for a partitioning of markets in order, for example, to impose onerous terms upon the local licensee or merely to take advantage of the artificially inflated price.
- (c) There are a number of cases which are discussed below which have found that the relevant market in goods is that of a single brand name. Therefore, apart from trivial infringements, it is likely that should these cases be followed there would be a sufficiently substantial effect on competition because of the very restricted nature of the market.
- (d) Intellectual property rights may be themselves sources of market power. Intellectual property rights are a set of rights in the nature of a legal monopoly. They do not necessarily lead to an economic monopoly. For example, a patented product is unique in its characteristics but there may be substitutable products. While copyright and patent rights prevent others from copying the product, the holder of a trade mark, merely by virtue of the trade mark, may not prevent others from copying the product and selling it under a different name.<sup>44</sup>

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44. See *Golden West Insulation Inc. v. Stardust Investment Group* (1980-81) Trade Cases 63, 616.

However, in the case of any rights to prevent parallel imports, artificially high prices are observed and this is a clear sign of economic monopoly power. Further, the exercise of these rights leads to the erection of barriers to entry to the Australian market. In the United States, intellectual property rights are sometimes seen as giving rise to a presumption of market power.<sup>45</sup>

Section 5 of the Trade Practices Act gives that Act an extended operation. Section 5 provides:

- (1) Parts IV and V extend to the engaging in conduct outside Australia by bodies corporate incorporated or carrying on business within Australia or by Australian citizens or persons ordinarily resident within Australia.
- (2) In addition to the extended operation that sections 47 and 48 have by virtue of subsection (1), those sections extend to the engaging in conduct outside Australia by any persons in relation to the supply by those persons of goods or services to persons within Australia.

As long as there is some effect on the Australian market that will be sufficient nexus for the section to be brought into operation. Indeed, that may be its purpose.<sup>46</sup>

Regard should also be had to the operation of the exceptions set out in section 51 of the Trade Practices Act. Nothing in that section would seem to preclude the Trade Practices Act from applying in the case of parallel imports. While the registered proprietor of a trade mark may seek to protect the goodwill associated with the trade mark by means of control over quality, kinds and standards of goods to which it is applied (section 51(3)(c)), section 51 does not exempt restrictions on quantity from the scope of the Trade Practices Act. Indeed, it acknowledges the scope for abuse of market power by expressly stating that acts or things authorised under the Trade Marks Act are not within the class of acts or things to which no regard is to be given in determining whether there have been contraventions of Part IV of the Trade Practices Act (section 51(1)(a)).<sup>47</sup>

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45. C.W.G. Lavey, "Patents, Copyrights and Trade Marks as Sources of Market Power in Antitrust cases" (1982) *The Antitrust Bulletin* 433. See also S.P. Ladas, note 1 *supra*, Ch.38; M. Flinn, "Basic Antitrust Problem Areas and their Significance for Trade Mark Owners and to Practitioners" 67 *The Trademark Reporter* (1977) 255; B.E. Hawk, *United States, Common Market and International Antitrust* (1981) 233ff; W.L. Fugate, *Foreign Commerce and the Antitrust Laws* (2nd ed., 1973); D.M. McClure, "Trade Marks and Unfair Competition: A Critical History of Legal Thought" 69 *The Trademark Reporter* (1979).

46. See *Wells v. John R. Lewis (International) Pty Ltd* (1975) 25 FLR 194, 208.

47. See W.M.C. Gummow, "Abuse of Monopoly: Industrial Property and Trade Practices Control" (1976) *Sydney L. Rev.* 339.

There are three sections of the Trade Practices Act under which the conduct of a person entitled to intellectual property rights may be held to be engaging in restrictive trade practices should he try to prevent parallel imports.

### **1. Section 45(2)**

Section 45(2) prohibits a corporation making a contract or arrangement or arriving at an understanding or giving effect to such contract, arrangement or understanding if that contract, arrangement or understanding:

- (a) contains an exclusionary provision (see section 4D), or
- (b) has the purpose, or is likely to have the effect, of substantially lessening competition.

This provision of the Trade Practices Act is likely to be of relevance only where it can be proved that there was some agreement between an Australian corporation and, for example, the overseas manufacturer of the goods that it would take action to prevent parallel imports. Section 5 of the Trade Practices Act would catch the conduct of the Australian corporation even if the contract, arrangement or understanding was arrived at overseas.

### **2. Section 46**

Section 46 prevents corporations which are in a position substantially to control a market for goods or services taking advantage of their power in order to eliminate or substantially damage a competitor of the controlling corporation or a related corporation, to prevent the entry of a person into a market for goods or services or restricting a competitor from engaging in competitive behaviour.

Section 46(3) will be of particular importance in the context of intellectual property rights and the power they give to determine prices and control the production and distribution of the relevant goods.

The reported cases in the United States concerning anti-trust law and parallel imports are cases alleging that the corporation seeking to prevent parallel imports is engaging in monopolising conduct.

### **3. Section 47(4)**

Section 47(1) prohibits exclusive dealing. Section 47(4) provides:

A corporation also engages in the practice of exclusive dealing if the corporation

- (a) acquires, or offers to acquire, goods or services; or

- (b) acquires, or offers to acquire, goods or services at a particular price, on the condition that the person from whom the corporation acquires or offers to acquire the goods or services or, if that person is a body corporate, a body corporate related to that body corporate will not supply goods or services, or goods or services of a particular kind or description, to any person, or will not, or will not except to a limited extent, supply goods or services, or goods or services of a particular kind or description —
- (c) to particular persons or classes of persons or to persons other than particular persons or classes of persons; or
- (d) in particular places or classes of places or in places other than particular places or classes of places.

This section may be relevant where an Australian corporation seeks to become the “exclusive” distributor of an overseas corporation, that is, on the condition that the overseas corporation not supply any other Australian corporation.

Reference should be made to section 47(10) in relation to the degree of competition which must be affected or the purpose for which the conduct was engaged in. Reference should be made to section 47(13) in relation to the meaning of a “condition”.

Section 47 does not apply where the conduct engaged in is by a body corporate by way of restricting dealings by another body corporate if those body corporates are related to each other (section 47(12)).

It is not the purpose of this article to examine the detailed considerations which must be undertaken in an analysis of market and competition under the Trade Practices Act.<sup>48</sup> Attention is merely drawn to some of the considerations making these issues of vital relevance to those advising in this area.

There are several reported cases which hold that the relevant market is comprised of a single brand name product, although the decisions appear doubtful on the particular facts and the way in which they were reached. In *Top Performance Motors Pty Limited v. Ira Berk (Queensland) Pty Limited*<sup>49</sup> the Full Court of the Federal Court of Australia found a market for all Datsun vehicles. In *Ah Toy J. Pty Limited v. Thiess Toyota Pty Limited*<sup>50</sup> a single judge of the Federal Court of Australia impliedly found a market for Toyota vehicles and parts. In the *Top Performance Motors Case* the court relied on a dictionary definition of the

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48. See N.R. Norman and P.L. Williams “The Analysis of Market and Competition under the Trade Practices Act: Towards the Resolution of Some Hitherto Unresolved Issues” (1983) *Australian Business Law Review* 396; P. Areeda and D.F. Turner, *Antitrust Law*, (1978) Vol.II. esp. 372ff.

49. (1975) 5 ALR 465.

50. (1980) 30 ALR 271.

work "market" which stated that it consisted in the "trade or traffic in a particular commodity".<sup>51</sup>

The United States position in regard to parallel imports is now complicated by section 526 of the Tariff Act 1930 (U.S.) which prohibits the import of goods bearing a properly registered trade mark in the United States. This section was designed to protect independent American trade mark owners from fraud against them by foreign assignors of a business. In *US v. Guerlain*<sup>52</sup> District Judge Edelstein considered the evidence as to the relevant market when considering the importation of a particular brand of perfume. He stated:

From these facts the defendants would draw the conclusion of the substantial fungibility of their products with innumerable others, so that the relevant market must be considered to constitute no one single brand but the aggregate of products of similar price and quality. But this conclusion, I feel, ignores certain other meaningful evidence, evidence that came from defendants' witnesses. This evidence supports the conclusion that the most important element in the appeal of a perfume is a highly exploited trade mark. There seems to be agreement that no quality perfume can be successfully marketed without a famous name. It would appear that, to a highly significant degree, it is the name that is bought rather than the perfume itself. This fact gives the market a rigidity not found in the *Cellophane Case*. [*U.S. v. E.I. du Pont de Nemours* 351 U.S. 377 (1956)].<sup>53</sup>

His Honour therefore discounted the possibility of high cross-elasticities of demand and on the evidence held that the kind of cross-elasticity discussed in the United States Supreme Court in the *Cellophane Case* "does not exist for perfumes bearing the names and trade marks of the defendants". Thus it was stated:

Objectively, the products may be more than reasonably interchangeable with others. But the lack of objectivity in consumer demand impairs the basis of interchangeability and negates a finding of cross-elasticity.<sup>54</sup>

The distinction between what is objectively reasonable and the consumers' perception of the goods is open to some doubt. However, this case is clearly one where a zero cross-elasticity of demand was found. It is submitted that in principle, this finding was open to the Court. There have been a number of other United

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51. See G.Q. Taperell, R.B. Vermeesch and D.J. Harland, *Trade Practices and Consumer Protection* (3rd ed., 1983) 298-301; *CCH Trade Practices Reporter*, para. 5-350.

52. (1957) Trade Cases 73, 136. The other United States cases are *U.S. v. Parfums Corday Inc.* (1954) Trade Cases 66, 128; *U.S. v. Lanvin Parfums Inc.* (1954) Trade Cases 66, 128; *U.S. v. Empro Corp.* (1954) Trade Cases 66, 128. See W.L. Fugate, note 45 *supra* and B.E. Hawk, note 45 *supra*.

53. *US v. Guerlain*, note 52 *supra*, 73, 142.

54. *Ibid.*

States cases in which it has been found that the relevant market is that for a single brand name good.<sup>55</sup>

It is apparent that the reasoning in the *Guerlain Case* cannot be applied without reservation in all parallel importing situations. Thus, the peculiar feature about the *Guerlain Case* is that consumers bought the name rather than the product. This will not always be the case. For example, the name of a particular brand of carbon pencil is unlikely to be of great relevance in determining the extent of the market because consumers will look for performance characteristics rather than names.

The reasoning in the *Guerlain Case* however, will be important where products are of a highly personal nature (such as perfumes or certain types of clothing) or where the brand name is seen as a guarantee of quality such that the consumer will always ask for the product by name rather than by product type. The more important the trade mark as an information carrying device the more likely the relevant market is that for the single brand name good.

For example, it may be thought that at one stage the Coca Cola brand cola constituted a market by itself despite the large number of alternative cola drinks on the market. Even the rival cola drink manufacturers play on this fact in their own advertising (for example, the Pepsi "taste test" advertisements). As a general proposition it can be stated that the more successful the advertising campaign the more likely it is that the goods bearing a single brand name will constitute the market. Indeed this is the aim of promotion of a trade mark — to have consumers ask for the product by name rather than by generic type.

This is not the only area where advertising is a double-edged sword for trade mark proprietors. Advertising can also make the trade mark non-distinctive of the good and thus lead to the possibility of its expungement.

Before the United States Supreme Court was able to adjudicate on these issues in the *Guerlain Case* and the other cases referred to above, the United States government abandoned its case. The District Court in each case had found that the person seeking to

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55. For an interesting commentary on the single brand market see S. Breyer, "Five Questions about Australian Anti-trust Law" (1977) *ALJ* 28, 32ff. Breyer argues that the single brand market is a suitable starting point for section 47 analysis but that it should not be imported into section 46 analysis. He argues that section 47 is designed to prevent territorial restraints. These are often found against dealers who carry only one brand of a product and in such cases the only effect on competition is within the single brand market.



prevent parallel imports had attempted to monopolise the market by the exercise of his intellectual property rights. While the suits were on appeal to the Supreme Court, however, the government moved to dismiss the appeals in order to move in the District Court for dismissal of each complaint. This was stated to be a policy decision in that the main problem involved was "inappropriate for judicial resolution in anti-trust litigation." The motions to dismiss were granted with prejudice to the United States government.

Those policy considerations, however, are unlikely to deter a parallel importer relying upon section 46 or any other section of the Trade Practices Act. Further, Murphy J. in the *Time-Life Case* has given a clear indication that such questions should be considered in the context of the use of the Copyright Act to prevent parallel imports. It is submitted that to date the issues under the Trade Practices Act have generally been taken too lightly and that the future direction of such cases will be to give thought to the implications of the exercise of intellectual property rights in relation to the exercise of market power.

