



## **PARALLEL IMPORTATION**

*(Intellectual Property Rights)*

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**Abstract--** Parallel import is one of the most disputed issue of international trade. The term 'Parallel Import' refers to goods sold by a person without permission or license of the Intellectual Property Right (IPR) owner. Parallel importation is lawful import of a genuine trademarked product into a country; not for personal consumption but for further sale to make profit on reputed goods. The goods are not counterfeit goods but the medium through which they are coming in market is an unauthorised way. Parallel importing is based on the 'Exhaustion Principle' through which rights of IPR holder are limited to some extent. Exhaustion principle actually exhaust the rights of IPR holder to some extent and validate any further sale after such exhaustion. This paper aims to highlight gaps in Indian law in relation to parallel importation, various supreme court decision interpreting the concept and International as well as Indian perspective on parallel importation.

### **INTRODUCTION**

Every IPR holder has right to use, reproduce, sell and exploit his mark according to his terms but parallel importers infringe the rights of IPR holders by selling the marked goods without permission of the IPR holder. It is a practice whereby an unauthorised third party exploits the exclusive rights of owner of goods. They are the unauthorised distributing channels by which goods find their way to importing country.

Parallel imports are regulated differently in different countries and there is no consistency among countries for this practice. Some of the countries do validate these practices and some do not. Speaking about international view, neither the Berne Convention nor the Paris Convention explicitly prohibits these imports. The Article 6 of TRIPs agreement says that WTO dispute settlement system has no power to resolve the dispute as it is effectively a matter of national discretion. So, the TRIPs agreement leaves discretion to the member states to make rules relating to such imports.

The parallel importing is often advocated in the case of software, music, printed materials and electronic goods. On the one side, it is a practice of exploiting rights of an owner without permission and on the other side, it is a medium to provide reputed goods at low price. But, a conflict arises when parallel importation results in a misrepresentation of the source, reputation or quality of the trademark goods.<sup>1</sup> Even if parallel importers sell such marked goods at low price then also they can't guarantee the consumer about the quality of the product. Also, the rights of such consumer will be limited due to such unauthorised purchase.

### **RESEARCH QUESTIONS**

1. What do Parallel Importation mean and what is the reason behind such practice?
2. What is Principle of Exhaustion and how is this related to parallel import?
3. What is the International as well as Indian perspective on parallel importation?
4. What is the view of judiciary about the topic?
5. Does parallel importation infringe the rights of IPR holders and if yes, how the rights of such IPR holders can be protected?
6. What should be the solution to the problems relating to parallel importation?

### **PARALLEL IMPORT**

Parallel import is not a legally defined term. 'Parallel Importation' means to describe the importation of goods bearing protected IPR in a territory without the permission of the IPR owner.<sup>2</sup>

When a buyer imports some goods from one country to another for resale and not for his own use, then it is termed as parallel import. Parallel imports are also referred as 'grey market goods' because although goods are

<sup>1</sup>Parallel Import, available at: [https://en.m.wikipedia.org/w/index.php?title=Parallel\\_import&oldid=8000000](https://en.m.wikipedia.org/w/index.php?title=Parallel_import&oldid=8000000) (last visited on September 10, 2017).

<sup>2</sup>Borislav Boyanov & Damian Simeonov, Parallel Import, available at: <https://www.bma-law.com/parallel-import/> (last visited on September 27, 2017).



genuine but they are sold by unauthorised trade channels. They import reputed goods which are less expensive in one country to sell out those goods in another countries where goods are either non-imported or imported from a source controlled by the IPR owner at a high price. The reason of importation is to deflate the monopolistic rights of owner and to make profits by selling the goods of the similar quality at cheaper rates than what are domestically available.

Sale or importation is generally deemed infringement when the products sold or imported by an individual fall within the scope of trademarks, patent or copyright law valid in one specific country. Only the Owners of products having intellectual property rights possess the exclusive right to put such products on the market. However, once the IPR owner has put such goods in the market either himself or with his consent, then he cannot decide about further acts of commercial exploitation, such as resale etc., in the domestic market. It is always a question of law that whether these imports infringe the exclusive rights of IPR owner or not. The owners try to use, whether justifiable or not, economic muscle to obtain the desired results.

#### **PRINCIPLE OF EXHAUSTION**

Each IPR holder has the exclusive right to use his respective IPR. The rights conferred on the IPR holders to use their protected IPRs are limited by the '*Principle of Exhaustion*'. This principle actually limits the right of distribution and resale by excluding the use of patented goods after they have been put into circulation for the first time. So, once the IPR holder has sold the product bearing respective IPR in market, he cannot prohibit the subsequent resale of such product and his rights in respect of this product are deemed exhausted by the act of selling it. This means their rights are limited to '*first authorised sale*' only. Due to this reason, the principle is also called as doctrine of first sale.<sup>3</sup>

There are four approaches worldwide to the geographical area to which the exhaustion applies.<sup>4</sup>

1. *International exhaustion*- the exhaustion applies with respect to geographic area in the world and treats whole world as one market. It means once the IPR holder has sold a product in any market (anywhere in the world), it is presumed that he has exhausted his right to prohibit a further resale of such product and therefore the product can be resold by the purchaser in any market worldwide without infringing the rights of the IPR holder.
2. *National exhaustion*- under the second approach, the exhaustion applies only with respect to a country, where the IPR holder has sold the product. The holder cannot oppose to further commercialisation of the product within a particular country, however he can lawfully oppose to any resale outside that country. So, the IPR owner can still oppose the commercialisation of original goods marketed abroad based on the right of importation.
3. *No exhaustion*- the IPR holder would always be the sole owner of his goods, no matter how much times the goods are being resold. Under no exhaustion doctrine, the rights of IPR holder remain supreme.
4. *Regional exhaustion*- the buyer gets permission to resell the goods in a specific region, where some countries treat themselves as one economic entity. In case of regional exhaustion, the first sale of the IP protected product by the IP owner or his authorised agent, exhausts his rights over the sold out products not only domestically, but within the whole region.

#### **REASON FOR PARALLEL IMPORT**

The main reason for the existence of parallel import is the price difference for a single product between different markets. The traders take advantage of this price difference by purchasing a product from a country and selling it in another. Most of the time the IPR holder himself likes to sell his products, as a matter of commercial policy, at particular markets only, which results in price hike. There may be many reasons for price difference in different markets like currency difference, custom rules etc. As every patented good is not available everywhere at the same time so those goods are imported by these parallel channels to gain

<sup>3</sup> N. S. Gopalakrishnan and T. G. Agitha, *Principles of Intellectual Property*, p- 272, 273 (Eastern Book Company, Lucknow, second edition 2014).

<sup>4</sup> Sneha Jain, "Parallel Imports and trademark law", volume 14 of JIPR, p14-27 (January 2009).



profit. Consumer organisations tend to support parallel importation as it offers consumers more choices with lower prices.<sup>5</sup>

Parallel import has some advantages and some disadvantages also. Parallel import encourages free trade, healthy competition and acts like price leveller. The biggest beneficiaries of parallel import are the consumers who get the advantage of buying genuine products at a lower price. But, parallel import also raises serious issues of unfair competition and acts as an unfair medium to encash the goodwill of real owner. It is not good for the owner as he would lose a big amount of revenue and royalty that he otherwise would have gained. Also, it leads to confusion about the quality and ownership of goods as well.

### INTERNATIONAL PERSPECTIVE

While the Paris Convention is silent about the issue of parallel importation but the other international treaties may influence domestic law on this point. TRIPs Agreement, 1994 provides considerable flexibility to member states to determine the scope and extent of exhaustion. Under TRIPs, some exclusive rights of use, sale, importation and distribution of goods are given to the IPR owners but on the other hand, it also permits member states to limit the exclusive right to import to the extent that such limitation relates in some way to the concept of exhaustion.<sup>6</sup>

Under the English common law, parallel importation of goods, produced abroad, is permissible, if these goods were produced with the consent of the domestic patent owner and subsequently sold without any clear notice of restriction. This rule has an application regardless of the existence of any patent rights in the exporting country. In United States, as long as the goods have been properly labelled according to the Custom Rules, parallel importation will be allowed. Any parallel import which has the effect of causing confusion to consumers as to the origin of the goods and thus affecting the goodwill of the US trademark owner, will be prohibited.

European Union allows a policy of regional exhaustion thereby allowing parallel importation of goods which have been placed in the market within the EEA but the trademark owner retains the right to prevent parallel imports of his goods which, even though are genuine, have been placed for sale outside the EEA.<sup>7</sup>

### PARALLEL IMPORT IN INDIA

India follows international exhaustion and such imports are legal here. The underlying rationale for liberal exhaustion is that trademarks are deemed to connote 'trade origins' and not 'trade control'. The owner may impose contractual restrictions on a third party against importing genuine goods into India.<sup>8</sup>

The exhaustion principle was not expressly addressed in the Trade Mark Act, 1958<sup>9</sup> but the concept was introduced in the new Trade Mark Act, 1999 under Section 30. The Trade Mark Act, 1999<sup>10</sup> provides under Section 30(3)(b) that, *where the goods bearing a registered trademark are lawfully acquired by a person, the sale of goods in the market or otherwise dealing in those goods by that person or by a person claiming under or through him is not infringement of a trade mark by reason of only the goods have been put on the market under the registered trademark by the proprietor or with his consent*. But, the owner can bring an action for infringement of trade mark against the importer where the genuine goods have been materially altered without the owner's consent after they were put on the market. The burden of proving such consent, express or implied, is on the importer.

The Act also defines some exclusive rights of the owner as to sale and distribution as well as issue of copies of work in public. So, the Act defines exclusive rights of the IP owner along with an exception under Section 30(3).

<sup>5</sup>Supra note1.

<sup>6</sup>Supra note4.

<sup>7</sup> Christian Heath, Parallel Imports and International Trade, available at: [https://www.wipo.int/sme/atrip\\_gva\\_99\\_6](https://www.wipo.int/sme/atrip_gva_99_6) (last visited on September 20, 2017).

<sup>8</sup> Parallel Import Issues in India, available at: <https://www.worldtrademarkreview.com> (last visited on September 25, 2017).

<sup>9</sup> The Trade Mark Act, 1958 (Act 43 of 1958).

<sup>10</sup> The Trade Mark Act, 1999 (Act 47 of 1999).



Ashwani Kr Bansal<sup>11</sup> points that Section 30(3) do permits parallel import. As the parallel imported goods are genuine i.e. they have been put in the market by the trademark owner or with his consent, parallel importation is allowed. However, Section 30(4)<sup>12</sup> authorises a right holder to restrict such imports where a 'reasonable reason' exists. What exactly constitutes a 'legitimate reason' has not been discussed as yet, either by Indian commentaries or by the Indian judiciary.

The provision of parallel imports is also given under the Patent (Amendment) Act, 2002<sup>13</sup>. Section 107A(b) provided that, *importation of patented products by any person from a person who is duly authorised by the patentee to sell or distribute the product, shall not be considered as an infringement of patent rights*. However, this provision was considered restrictive in scope as it protects the authorised person by the patentee and such a legal position thwarts the very idea of international exhaustion. Also, parallel imports have recourse to this clause as a defence against the option available of right holders to claiming infringement is also negated.

Owing to the restrictive nature of the exhaustion provision, the above Section was amended by the Patent (Amendment) Act, 2005. It now provided that, *it would be no infringement if there has been an importation of patented products by any person from a person who is duly authorised under the law to produce and sell or distribute the product*. Therefore, once the first sale has been authorised by the patentee, a parallel importer can buy such product from any reseller and not necessarily from the one that had the express permission of the patentee to resell or distribute. To this extent, the 2005 Amendment implement the principle of international exhaustion in its true spirit.

However, in compliance of its TRIPs obligation, the Government of India has notified the Intellectual Property Rights (Imported Goods) Enforcement Rule 2007. The rules lay down a detailed procedure for regulation of prohibition of parallel import.<sup>14</sup> Under the rules, the brand owner is require to give a notice to the customs requesting for suspension of clearance of goods suspected to be infringing trademark right. Such notice will be registered by the customs and on registration, import of all goods suspected to infringe the trademark rights will be suspended and proceedings for confiscation of goods will be initiated under Section 111(d) of the Customs Act. But, the rules do not apply to personal baggage or small consignments intended for personal use.<sup>15</sup>

### CASE LAW

Two major issues such as whether India recognises the principle of international exhaustion and whether parallel importation constitutes infringement are often discussed in the context of parallel importation and trademarks in India. The following cases can describe this point well.

In *Penguins Books Ltd. v. India book distributors*<sup>16</sup>, the plaintiffs were the owners of copyright in books published in USA and were selling those books in India. The defendants purchased these books from USA open market and imported them to India for resale. It was pleaded on the behalf of the plaintiff that the act of defendants amount to infringement of their exclusive rights as mentioned under Section 14(1) of the Copyright Act. It was held that conduct of the defendants amounted to infringement of exclusive rights of the plaintiffs as the goods were infringing copies of the work.

In this case, the court has invalidated parallel imports as that time owners had exclusive right to publish their work. But, the situations has changed in 1994 when India participated in TRIPs and made stand for international import.

In *Samsung Electronics Company Ltd. v. G. Choudhary and another*<sup>17</sup>, Samsung brought suit in the court seeking an injunction based upon a claim of trademark infringement against the unauthorised distributors from

<sup>11</sup> Ashwani Kr Bansal, *Law of Trademark in India*, p-429, 430, 432 (Centre for Law, Intellectual Property and Trade, 2006).

<sup>13</sup> The Patent (Amendment) Act, 2002 (Act 38 of 2002).

<sup>14</sup> The Custom Rules under US law, available at <https://www.cbec.gov.in/customs/csact/notifications/notfxs-2k7/csnt47.2k7.htm> (last visited on September 28, 2017).

<sup>15</sup> Shamnad Basheer and Mrinalini Kochupillai, "Exhausting Patent Rights in India: Parallel imports and TRIPS compliance", volume 13 of JIPR, p-486 to 497 (September, 2008).

<sup>16</sup> AIR 1985 Del 29.

<sup>17</sup> CS (OS) No. 1602 of 2006.



importing and distributing Samsung's products into India. The court held that a *prima facie* case has been made out for the issuance of *ex parte ad interim injunction*. The plaintiff was likely to suffer irreparable loss and injury if the balance of convenience was not shifted in favour of the plaintiff. Hence, injunction was allowed. However, the fact that Indian law follows the principle of international exhaustion was recognised by the Delhi High Court in the case of *Xerox Corporation*.

In *Xerox Corporation v. Puneet Suri*<sup>18</sup>, the plaintiff owned the trademark 'Xerox' and claimed that the defendant's act of importing and selling second hand Xerox machines constituted trademark infringement under Section 29 of the Trade Mark Act. The defendants, on the other hand, argued that their acts were covered under section 30(3), which recognized the principle of international exhaustion. The Delhi High Court agreed with the defendant's plea and said that import of second hand machines with proper documentation is permissible under the Trademark Act, provided there is no change or impairment in the machines.

In *Warner Bros. Entertainment Inc. & others v. Santosh V. G.*<sup>19</sup>, the plaintiff and their associated companies carried the business of film production and are the owners, assignees, licensees of rights and titles in the films produced by them. The defendant was the proprietor of the concern which carries on business by the name of Cinema Paradise.

The plaintiff alleged that the defendant offers rental DVDs which are either collected by the consumers from the shop or delivered to them. Several DVDs, so hired out by the . It was alleged that giving such film DVDs on hire without the copyright's owner license is an act of infringement of copyright under Section 14(d)(ii) r.w. Section 51 of the Copyright Act, 1957. The court held that the defendant's actions amount to infringement of copyright. In *John Wiley and Sons Inc. & Others v. PrabhatChander Kumar Jain & others*<sup>20</sup>, there was sale and distribution of low price edition books, which were restricted by the publisher for sale in a few countries. The defendant started exporting such books outside India. The plaintiff moved to the court to seek an order of injunction restraining the defendant from infringing their copyright in the books. The defendant contended that since the low price editions were legally purchased in India and subsequently exported, no act of infringement had been committed within the territory.

The court observed that the doctrine of exhaustion do not curtail the rights of the copyright owner. The applicability of first sale doctrine would partially exhaust the rights of the licensee, but it cannot defeat those of copyright owner.<sup>21</sup> The court passed an order of injunction, restraining the defendants from indulging in any kind of circulation of the low price editions books outside the territory.

In *KapilWadhva v. Samsung Electronicsco. Ltd.*<sup>22</sup>, the plaintiff company(P1)had licensed the use of the Samsung trademark in India to 'Samsung India Electronics Private Ltd.'(P2). The grievance of the plaintiff is that the defendants are purchasing printers manufactured by the plaintiff under the trademark Samsung from the foreign market and after importing the same into India, are selling the product in the Indian market under their registered trademark and are thereby infringing the registered trademark of the plaintiffs in India. The defendant pleaded for international exhaustion. The main issue in this case was whether the provisions of the trade Mark Act, 1999 provided for the import of goods as an infringement.

The Delhi High Court Division Bench upheld the legality of parallel import and held that the Trademark Act enshrines the principle of international exhaustion. It was held that the exclusive right of a trademark owner over its goods is exhausted once the goods have been put on the market either by the trademark owner or with his consent. The court held that the word 'market' used in the statute implies a 'global market'.

### CONCLUSION

Parallel import is necessary to stop the monopolies of IPR holders in public domain. The first sale price should be taken as ultimate price for the marked works and inventions. It is beneficial for the consumers also that they get the genuine products in original cost only.

<sup>18</sup> CS(OS) No. 2285/2006; Unreported Order dated 20.02.2007.

<sup>19</sup> CS(OS) No. 1682/2006.

<sup>20</sup> CS (OS) No. 1960/2008.

<sup>21</sup> *Supra* note 3 at p285.

<sup>22</sup> (2012) 53 PTC 112(Del).



So, we should follow a system of international exhaustion. This view has been reinforced with the passing of IPR Rules, 2007. The IPR Rules, 2007 have given specific power to the brand owners by stopping parallel import in country on brand owner's request.<sup>23</sup>

The benefits given to an IPR holder should not be unlimited and they need to be controlled with exhaustion principles. Even in recent judgements also, the courts have given emphasis on international exhaustion principle. In this era of globalization, market should be read as international market and rights of IPR holders should be limited to first sale in any country. Unreasonable restrictions in the trade of goods will lead to increase in prices of such imported goods and will create monopoly of goods in the hands of IPR holders only. Normally, the IPR holders get their reward for mark or patent after first sale of products as made by them on specific terms and conditions. A further sale by any other person should not be taken as infringement to the rights of IPR holders as that would be against to the principles of globalization and free trade. Any practice like parallel importation should be used to increase the mobility of marked goods to all consumers at low price and any unusual restriction will restrict free flow of trade.

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<sup>23</sup>*Supra* note 15.