Restricting Parallel Imports – trade mark owner's right or unfair competition?

Introduction

Trade mark indicates source of origin of the goods as they have territorial rights attached to them. The trade of such goods is controlled by the owners of the trade mark or its assignees or licensees. Parallel import is a practice where an unauthorized third party imports genuine goods from a country where they are sold for cheaper price to another country to sell the same goods for higher price as they are not imported in that country or imported from a source controlled by the trade mark owner. So, the parallel importers make profit by arbitrage or by exploiting the price difference existing between two countries.

The IPR (Imported Goods) Enforcement Rules, 2007 (**"IPR Rules"**) facilitated the trade mark owner to restrict the entry of any goods possessing similar trade mark to that of the trade mark owner without any due authorization obtained from him into the market. Therefore, parallel import was placed under scanner for potential trade mark infringement and detained/seized by the customs department. However, the circular no 13/2012 dated May 8, 2012 by Central Board of Excise & Customs (**"Circular"**) changed the practice and now parallel imports are given "free go" to enter the Indian markets without being subject to any scrutiny for IPR violations. The Circular raises two fundamental questions: can the trade mark owner restrict parallel import and do restriction on parallel trade amount to restriction of free and fair competition. In the present e-newsline, we shall try to examine the legality of parallel import by analyzing various judgments and relevant provisions under the Trade Marks Act, 1999 (**"Act"**) and also evaluate if restrictions on parallel imports can be considered as a restriction on competition.

1. Can trade mark owners restrict parallel imports?

Under the IPR Rules, the trade mark owners could register an alert with the customs & excise department to detain or seize the infringing goods imported to India. But now they will no longer be able to restrict parallel trade as the Circular has instructed all customs officers that the IPR Rules does not restrict parallel imports in trade marks.

An action for trade mark infringement can be taken only when the trade mark is put in use without required authorization from the trade mark owner. Similarly, no infringement action can be taken against parallel imports as the goods imported are genuine and subsequently sold without any material alterations. Therefore, there is no unauthorized use of trade mark. Further, section 30(3)(b) of the Act states that *"Where the goods bearing a registered trade mark are lawfully acquired by a person, the sale of the goods in the market or otherwise dealing in those goods by that person or by a person claiming under or through him is not infringement of a trade mark by reason only of……. (b) the goods having been put on the market under the registered trade mark by the proprietor or with his consent."* Section 30 (4) limits this by stating that: *"Sub-section (3) shall not apply where there exists legitimate reasons for the proprietor to oppose further dealings in the goods in particular, where the condition of*

the goods, has been changed or impaired after they have been put on the market" and thus permits parallel imports and restricts the trade mark owner from taking infringement action against parallel import. However, if any material alteration has been made to parallel goods after its first sale then the parallel goods loses its genuineness and the usage of trade mark become unauthorized which entitles the trade mark owner to take infringement action. Therefore, the trade mark owner can seek legal action to restrict parallel import only if the said parallel goods are materially altered after its first sale, the burden of proof for the same lies with the trade mark owner.

The trade mark owner exhausts his trade mark rights over subsequent sales based on the type of principle of exhaustion/first sale doctrine which the Act intends to follow. The principle of exhaustion is to determine the geographical limits within which the trade mark rights considered to be exhausted. Though it is evident from the provision of the Act that parallel imports are permitted under the trade mark law, the ambiguity remains with regard to the exhaustion principle to be followed to determine the kind of parallel imports under the Act. The manufacturers/trade mark owners doing business in India are concerned only if the Act intends to follow international exhaustion because the prices of the products are more or less similar throughout the country and, perhaps, a slight variation might occur due to respective state tax laws and, therefore, the actual problem arises only if the similar products are brought into Indian market from other countries to be sold for cheaper prices. Many well-known brands sold in India have different and higher price tag for their products sold in India compared to the similar products sold abroad and, therefore, it is more important for everyone who has either existing business in India or planning to enter the Indian market to be aware of the legality of parallel imports under the Act and analyze the possible methods to safeguard their business.

In the absence of express statutory provision to determine the type of exhaustion principle and the kind of parallel imports to be followed under the Act, the various decisions rendered by the judiciary and administrative commission have been analyzed below to determine the legality of parallel imports under the Act. The judiciary initially tried to restrict the act of parallel imports to the much delight of the manufactures/trade mark owners. In *Samsung Electronics Company Ltd & Anr (plaintiff) V G. Choudhary and Anr,*[1] (*defendant*) the Delhi High Court (**"DHC"**) granted interim injunction in favor of plaintiff and further appointed advocate commissioner to identify any material alteration to the parallel goods. The said decision is crucial for manufacturer/IP owner as they could take advantage of the precedent for seeking interim injunction to temporarily restrict the entry of parallel goods into the market and further provides an opportunity to restrict the parallel goods permanently if any material alteration is found in the products. In a recent judgment passed in the *DELL* case,[2] the customs commissioner was of the view that section 30(3) of Act supports international exhaustion of trade mark rights and, therefore, concluded that parallel imports are permitted under the Act. In another judgment in *Xerox Corporation V Puneet Suri,*[3] the DHC decided that

[1] CS (OS) No. 1602 of 2006 dated 06/09/2006

[2] Order no: CAO-DC/ 821/ R.P/ 2011-12 Adj. ACC. Passed by: Shri Ranjan Prakash (Dy. Commission of Customs) on 29/3/2012.

[3] CS (OS) No. 2285 of 2006 dated 20/02/2007

Indian trade mark law recognizes international exhaustion and opined that parallel imports are permissible under the said law provided the goods were not altered after first sale.

However, in *Samsung electronics Company Ltd (plaintiff) V Kapil Wadhwa & Other (defendant),*[4] the DHC passed a decision contrary to previous precedents stating that the Act recognizes national exhaustion principle and, accordingly, restricted parallel imports under the Act. The plaintiff had filed trade mark infringement suit against the defendant and while deciding the issues involved the DHC gave their opinion on the following two questions: **(i)** whether import of genuine goods without the consent of right holder in India amounts to infringement of trade marks under section 29(1) read with section 29(6) of the Act?; and **(ii)** whether section 30(3) of the Act recognizes national exhaustion or international exhaustion? The DHC while deciding the first question concluded that import of goods by unauthorized person or without due consent from the registered proprietor of IP rights would amount to infringement under section 29(1) read with section 29(6) of the Act. While deciding the second question, the Hon'ble judge stated that section 30(3) of the Act recognizes only national exhaustion and not international exhaustion. Therefore, the goods purchased in the foreign market and sold in the Indian market are not permissible under the Act. However, the Division Bench of DHC issued a stay order against the said decision and at present the matter is sub-judice.

To date, there are not many reported judgments in India decided on the issue of legality of parallel imports under the Act. But the above decisions of various courts provide that the Indian courts have accepted that the Act recognizes international exhaustion and permits parallel imports unless the imported goods were materially altered after first sale.

2. Do restriction on parallel trade amount to restriction of free and fair competition?

IPR and competition go hand in hand as they are innovation driven. The Competition Act, 2002 (**"Competition Act"**) was enacted with a view to **(a)** promote and sustain competition; **(b)** protect interests of the consumers; **(c)** ensure freedom of trade; and **(d)** economic development of the country. Section 3 of the Competition Act prohibits anti-competitive agreements between undertakings which cause or are likely to cause an appreciable adverse effect on competition within India. This may be done by creation of barriers to new entrants in the market, driving existing competitors out of the market, foreclosure of competition by hindering entry into the market and accrual of benefits to consumers, among others. Here, agreement includes any arrangement or understanding or action in concert whether or not formal or in writing or intended to be legally enforceable. Vertical agreements, including exclusive distribution agreements, refusals to deal and resale price are considered void if they have an appreciable adverse effect on competition. If any restriction is imposed on parallel import it would bar the entry of new competitors in the market thereby affecting the freedom of trade in the market and detrimental to the interest of the consumers as they would be compelled to purchase the similar goods for higher sale price. Thus, restriction of parallel imports will have appreciable anti-competitive effects.

[4] CS (OS) No. 1155 of 2011 dated 17/02/2012

However, on the other hand lifting the restriction on parallel import would have a huge impact in the economy of the country as many people would lose jobs due to the manufacturers low profit, further it also affects the interest of the manufacturers in research and development of advanced technology/goods as their profit margin would decrease due to parallel import. Thus, restrictions on parallel import will also have pro-competition effect too. Therefore, both anti-competition effects and pro-competition effects arise out of each and every individual cases should be analyzed in detail by considering all the aspects relating to that particular trade to determine whether the restriction to be imposed on parallel trade will protect the main objectives of the Competition Act and ensure the free and fair competition.

Further, section 4 of the Competition Act deals with abuse of dominant position and prohibits any actions of imposing unfair conditions/prices on sale and purchase of goods, restricting supply, denial of market access, etc. Therefore, any action of the manufacturer to restrict the parallel import could also be considered as an abuse of their dominant position. This is because the main reason for their action to impose restriction is to maintain high price for their goods and, further it also restricts the market access to new entrants. Even any action of the manufacturer to decrease the supply of goods to less expensive countries to decrease the parallel imports in order to maintain a high sale price for the goods in India can also be considered as abuse of dominant position. This action is prohibited as it will have adverse effects on Indian market by again compelling the consumers to pay high price for the goods. Section 32 of the Competition Act declares that it has extra-territorial application by stating that the Competition Commission of India will have the power to inquire into any agreement or abuse of dominant position even if the activity has taken place outside India or the parties are located outside India as long as the agreement/act has an appreciable adverse effect on competition in India. In light of the aforesaid, though any restraints to parallel import prima facie will have an anti-competitive effect, the pro-competitive effects should also be considered at the same time to determine whether the said restriction ensures free and fair competition or not.

Conclusion

As per the Act, Circular and various judgments rendered by different courts and discussed above, it appears that parallel imports are legal in India. A trade mark holder in India cannot block parallel imports unless the articles are changed or altered. Though, the DHC, in *Samsung electronics Company Ltd V Kapil Wadhwa & Other*, has opined that parallel imports would amount to infringement of trade marks, this has been stayed by the Division Bench. It now depends upon the decision of the Division Bench to set a clear interpretation of the law on the legality of parallel imports. Though, the provisions of Competition Act is sufficient to deal with the issue of parallel imports, to date no case has been decided by the Competition Commission, therefore, it still remain a question on the implementation and the approach to be followed.

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