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**CAN AND SHOULD A TRADE MARK OWNER BE
ABLE TO PREVENT PARALLEL IMPORTING**

LLM RESEARCH PAPER

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WORD LENGTH

The text of this paper (excluding contents page, footnotes and bibliography) comprises approximately 13 236 words.

I INTRODUCTION

ABSTRACT

The legitimacy or otherwise of parallel importing is of great commercial significance.

This paper aims to analyse the legal situations when a trade mark owner can and should be able to prevent parallel imported goods from entering the domestic market. The paper does so by attempting to reconcile the policies behind intellectual property and parallel importing. This paper then moves into the enabling legislation and discusses the function of a trade mark in particular. This paper argues that there is room for a wider definition of the function of trade marks. This definition should include quality, and a trade mark owner should be able to prevent parallel importing where the goods imported are of lesser quality. This paper also discusses trade marks and parallel importing in relation to pharmaceuticals, assignees, second hand goods, registered users and the European Union. This paper suggests New Zealand could benefit from adopting the European Union approach to parallel importing and trade marks. Lastly this paper discusses if a trade mark owner should be able to block parallel imports. In particular, what protection trade marks deserve as intellectual property rights. This paper concludes that the overall benefits of parallel importing are outweighed by the benefits of protecting trade marks.

competition and reduced prices of goods that may flow on from parallel importing.

WORD LENGTH

II THE SOCIO-LEGAL BACKGROUND TO THE CHANGE

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In the 1913, 1962, and 1994 Copyright Acts, copyright was infringed by importing into New Zealand, other than for private and domestic use, an object that the importer knew or had reason to believe was an infringing copy of the work.¹ Section 12(3) effectively prohibited parallel imports because if the importer had made the goods in New Zealand without permission, the copyright would have been infringed. Copyright was therefore

¹ *Copyright Act 1994* s 12(3) (emphasis added).

² Hereafter a trade mark will be taken to mean a registered trade mark. The same also applies to a proprietor of a trade mark, and reference to a proprietor will mean the proprietor of a registered trade mark.

³ Section 23 Copyright Act 1994.

I INTRODUCTION

The legitimacy or otherwise of parallel importing is of great commercial significance.¹ (Parallel importing occurs when goods are imported into the domestic market by someone other than the intellectual property rights holder in that country.) Up until 1998 copyright law was the easiest way to prevent parallel importing. Roughly speaking, prior to the law change in 1998 a parallel imported good would infringe copyright. The Government rushed through changes that in effect allowed parallel importation of goods into New Zealand. This paper analyses whether a proprietor's registered trade mark may allow them to prohibit parallel importing of goods bearing a registered trade mark.² In doing so, this paper discusses the function of a trade mark in particular. The law is by no means clear, but in some circumstances a trader may be able to use their registered trade mark to prevent parallel imports of trade marked goods. The question then arises whether a trade mark owner should be able to use their trade mark to prevent parallel importing of goods. This involves discussions of the effect and impact of parallel importing and the protection trade marks deserve as intellectual property rights. Trade marks serve a valid function in society of protecting consumers, and that function outweighs any benefit of increased competition and reduced prices of goods that may flow on from parallel importing.

J.C.F. abstract!

II THE SOCIO-LEGAL BACKGROUND TO THE CHANGE ALLOWING PARALLEL IMPORTING

In the 1913, 1962, and 1994 Copyright Acts, copyright was infringed by importing into New Zealand, other than for private and domestic use, an object that the importer knew or had reason to believe was an infringing copy of the work.³ Section 12(3) effectively prohibited parallel imports because if the importer had made the goods in New Zealand without permission, the copyright would have been infringed. Copyright was therefore

¹ *Zino Davidoff SA v A & G Imports Ltd* 18 [1999] RPC 631, 634 per Laddie J.

² Hereafter a trade mark will be taken to mean a registered trade mark. The same also applies to a proprietor of a trade mark, any reference to a proprietor will mean the proprietor of a registered trade mark.

³ Section 35 Copyright Act 1994.

the best and easiest way for a trader with an exclusive license to distribute products to prevent parallel importing.

In 1998 the New Zealand Government rushed through changes under urgency to amend the Copyright Act 1994 so as to allow parallel importing.⁴ The effect was the inclusion of subsection (5A) into section 12. This provision changes the definition of an infringing copy and in effect, allows parallel importing. The law now allows parallel importing if one of the four criteria in subsection (5A) are satisfied.

A Intellectual Property Rights versus Competition Policy

Intellectual property rights are designed to promote the creation of innovation and thus to promote economic advance and consumer welfare.⁵ Intellectual property protection provides an incentive to businesses to conduct domestic research and development activity, encourages the transfer of state-of-the-art technology into the economy and its diffusion within the economy, and creates incentives for foreign direct investment as companies will invest in countries that have adequate intellectual property protection.⁶ Intellectual property rights protection does so by giving the innovator an exclusive legal right to the economic exploitation of his or her innovation for a set period of time.⁷

Competition policy seeks also to promote consumer welfare, but does so by removing impediments to the functioning of markets.⁸ This is achieved by preventing things such as price fixing, limiting output, restricting competition and raising barriers to entry into a market.⁹

⁴ The Copyright (Removal of Prohibition on Parallel Importing) Amendment Act 1998.

⁵ Organisation for Economic Co-operation and Development *Competition Policy and Intellectual Property Rights* (Organisation for Economic Co-operation and Development, Paris, 1989) 11.

⁶ R. Michael Gadbar and Timothy J. Richards eds *Intellectual Property Rights: Global Consensus, Global Conflict?* (Westview Press, Colorado, 1988) 20 and 28.

⁷ Organisation for Economic Co-operation and Development above n 5, 11.

⁸ Organisation for Economic Co-operation and Development above n 5, 11.

⁹ Organisation for Economic Co-operation and Development above n 5, 11.

The theory behind parallel importing, reducing barriers to trade and encouraging competition, forms part of government competition policy.¹⁰ This is because parallel importing aims to provide goods to consumers at the most internationally competitive prices by removing a barrier or barriers to the free movement of goods. In New Zealand's case this was the removal of a provision in the Copyright Act effectively preventing parallel importing.

Trade marks are a form of intellectual property, and give the owner an exclusive legal right to use that mark in application to specified goods and/or services.¹¹

The exclusive legal right given by a trade mark is said to be anti-competitive as it restricts what other traders may do in the course of trade. Parallel importing is therefore an uneasy conflict between allowing for free trade between countries and the recognition of intellectual property rights.¹² Some of the uneasiness of competition policy with respect to intellectual property rights can be traced to the notion that the creation of intellectual property rights conveys an economic monopoly, because it grants exclusive legal rights.¹³ At least in the case of trade marks the exclusive legal right conferred is "narrow and technical".¹⁴ Trade mark law prevents certain unauthorised uses of the mark by others, it does not confer a monopoly right to use the mark in all circumstances.¹⁵ Pickering says this is because the trade mark registration renders the mark unique and merely distinguishes a product from competitive substitutes.¹⁶ In order for a trade mark to be eligible for registration it must be distinctive¹⁷ and not one that other traders are likely to

¹⁰ Most countries deal with parallel importing under their competition departments. Specifically, in New Zealand and Australia it is that way. In New Zealand, parallel importing policy and law is dealt with by the Competition and Enterprise branch of the Ministry of Economic Development. In Australia parallel importing policy is steered by the Australian Intellectual Property and Competition Review Committee.

¹¹ See section 8 of the Trade Marks Act 1953. Section 8 is discussed further, particularly in relation to parallel importing.

¹² Lynne Eagle, Lawrence Rose and Brendan Moyle "Shades of Gray: The Impact of Gray Marketing/Parallel Importing on Brand Equity and Values" Department of Commerce, Massey University at Albany 1999 1, 3.

¹³ Organisation for Economic Co-operation and Development above n 5, 16.

¹⁴ C.D.G Pickering *Trade Marks in Theory and Practice* (Hart Publishing, Oxford, 1998) 80.

¹⁵ *Re Coca-Cola Trade Marks* [1986] RPC 421, 424 per Lord Templeman, cited in C.D.G. Pickering above n 14, 3.

¹⁶ C.D.G. Pickering above n 14, 80.

¹⁷ See sections 14 and 15 of the Trade Marks Act 1953.

wish to use. The law is careful not to confer monopolies to use a mark in application to goods and/or services where that would be unfair to other traders. Pickering states it is hard to see how the exclusive rights conferred by trade marks could be economically damaging.¹⁸ Williams J in *Levi Strauss & Co v Kimbyr Investments*¹⁹ found trade marks to be pro-competitive rather than anti-competitive and the belief that trade marks confer a monopoly a misnomer.²⁰ On balance, a trade mark must be unique to be registrable, and any monopoly right conferred is a narrow one.

As is evidenced by the case law trade mark owners do try to use the exclusive rights conferred by trade marks to prevent parallel importing and there is a source of conflict between the competing theories of competition policy and intellectual property rights protection, which both claim to protect consumers, underlying the cases.

B The Arguments For and Against Parallel Importing

Most arguments for parallel importing are based around the perceived benefits to consumers. This is interesting because as will be seen for trade marks, and has been shown for intellectual property in general, the aim is to protect consumers. However the policies are not easily reconciled, yet both claim the same goal. Parallel importers say their imports benefit New Zealanders as consumers can purchase quality goods at internationally competitive prices. Authorised distributors of goods say that parallel importers are free riders who lower their brand value.

1 The case for parallel importing

¹⁸ C.D.G. Pickering above n 14, 80.

¹⁹ *Levi Strauss & Co v Kimbyr Investments* [1994] 1 NZLR 332.

²⁰ *Levi Strauss & Co v Kimbyr Investments* above n 19, 360 to 362 per Williams J. When considering the famous pocket tab device Williams J found the protection of genuine well-established trade marks from free-riding competitors is pro-competitive rather than anti-competitive. Williams J rejected any notion that trade marks confer monopolies and found that trade marks lower search costs and foster quality control and there is public benefit in that function of trade marks.

(a) Price

Parallel importers claim that distributors create a domestic market of high prices in a world of lower prices by deliberately segregating markets to keep prices high in some countries by keeping out lower cost products.²¹

Parallel importers say they promote competition, which in turn protects consumers because it gives consumers a choice and keeps prices down.²²

(b) Free trade

Parallel importing is said to be consistent with the goals of free trade as it reduces the barriers that stand in the way of international flows of goods.

2 *The case against parallel importing**(a) Price discrimination*

Manufacturers deny that they engage in international price discrimination. There are said to be valid reasons why prices are higher in domestic markets, including possibly creating, registering and promoting a trade mark. The additional promotion and marketing and the pre and post sale service that the authorised distributor undertakes may raise the cost of goods. If the domestic market is smaller than the foreign market, the unit cost may be higher in the domestic market than the equivalent cost in the foreign market.²³

(b) Confusion

Consumers may be confused between parallel imported goods and those of authorised distributors if the goods are similar but differ in substance and character. Brand image marketing will usually focus on quality, while inevitably the parallel importers will focus on the low cost of their products.²⁴ Consumers may be confused by the

²¹ Kirsten Scholes "Parallel Importing" *Canta LR 6* (1997) 564, 587.

²² Warwick Rothnie *Parallel Importing* (Sweet and Maxwell, London, 1993) 562.

²³ Warwick Rothnie above n 22, 566.

²⁴ Lynne Eagle, Lawrence Rose and Brendan Moyle above n 12, 4.

different brand images that are circulating.²⁵ This effect can devalue the trade mark as a valuable asset.

(c) Free riders

An authorised distributor creates demand and brand value through promotion and advertising and the unauthorised importer reaps the benefits, without contributing. Indeed, a parallel importer is unlikely to import an unknown brand or trade mark into a domestic market and spend the time and money promoting and marketing the brand and/or the trade mark.²⁶

(d) Counterfeit goods

Counterfeiting of genuine branded goods was identified as the biggest problem associated with parallel importing.²⁷ It has become difficult for Customs to distinguish between parallel import goods and counterfeit goods.²⁸

3 *The relationship between arguments for and against parallel importing and trade marks*

The arguments for and against parallel importing have very little to do with trade mark law. The arguments for and against parallel importing are mostly about the goodwill and reputation of a brand owner/trade mark owner and whether an importer may exploit that reputation to their own benefit. For example, whether a parallel importer may free ride on the advertising efforts of the authorised distributor, or the post-sale service provided by

²⁵ The argument is that this adversely affects the brand image to the authorised distributors disadvantage. See Lynne Eagle, Lawrence Rose and Brendan Moyle above n 12, 4.

²⁶ This would appear to defeat the purpose of parallel importing as it would raise the cost of the product because these marketing costs would have to be passed onto the consumer. All brand owners in Eagle, Rose and Moyle's research of 15 large brand owners in New Zealand supported the notion that parallel importers gain a free ride on market demand and brand image, see Lynne Eagle, Lawrence Rose and Brendan Moyle above n 12, 9.

²⁷ Elizabeth Light "To Have or Have Not" *Retail*, June 2000, 13, 15.

²⁸ The problem appears to be a large one for New Zealand as F Rotherham "Prophets of Parallel Importing Doom Proved Wrong" *The Independent* 10 March 1999 24-25, cited in Lynne Eagle, Lawrence and Brendan Moyle above n 12, 5 notes that \$15 million of fake goods branded under the Microsoft name alone have been seized by Customs in the most recent 12 months, up from \$9 million the previous year.

the authorised distributor. The theoretical arguments are therefore more the subject matter proper of passing off rather than trade mark law. Passing off provides protection for a trader's goodwill they may have established through business activities.²⁹ A trader's goodwill is damaged by another's actions which may confuse or deceive someone relying on that goodwill.³⁰ Trade marks are about ownership and the granting of an exclusive right to use a mark in application to goods and/or services. Although the trade mark registration system evolved from the common law action in passing off, it has grown to be quite distinct.³¹ The actions are not mutually exclusive though. A trader may be successful in both actions, or in one action but not the other.

A trade mark can be quite distinct from the good will or reputation associated with it.³² Mark Davison points out that there may be no goodwill at all associated with a trade mark as it may not be in use by its owner.³³ For an action to succeed in passing off, a trader must show the mark has achieved a secondary meaning, that the public recognise that mark and associate certain qualities, with it and the owner,³⁴ these are usually factors such as name awareness, customer loyalty, quality and associated images.³⁵ This action considers the factual elements that are not considered in trade mark infringement. A trade mark owner does not have to establish an associated reputation in order to be successful in trade mark infringement actions.³⁶

In assessing the concerns involved, it may be useful to analyse the impact of parallel importing and whether the theoretical arguments have any truth in fact.

²⁹ Warwick Rothnie above n 22, 14.

³⁰ Warwick Rothnie above n 22, 14.

³¹ Mark Davison "Parallel Importing of Trade Marked Goods – An Answer to the Unasked Question" AIPJ 10 (1999) 146, 150.

³² Mark Davison above n 31, 150.

³³ Mark Davison above n 31, 150. Many companies register or attempt to register their trade marks before they begin to use them on application to goods and services. They do so in order to establish their rights, and the availability and eligibility of the chosen mark, before launching the goods or services into the market place. Note that a trade mark may be removed from the Register for non-use if the proprietor has not used the mark for 5 years since registration, see section 35 of the Trade Marks Act 1953.

³⁴ C.D.G Pickering above n 14, 29.

³⁵ C.D.G Pickering above n 14, 53.

³⁶ C.D.G Pickering above n 14, 3.

C The Impact of Parallel Importing

The argument goes that parallel importing benefits consumers as they can purchase goods at the most internationally competitive prices. Competition is said to be “a cornerstone of the modern consumer society.”³⁷ Consumers can benefit on two levels: as individuals, or as a whole. Most research assesses any benefits for the group as a whole. Eagle, Rose and Moyle found that it was difficult to evaluate whether consumers are better or worse off due to parallel importing. This seems to be the unknown quantity of parallel importing. However, up to 30% of Eagle, Rose and Moyle’s respondents noted substantial losses in sales as a direct result of parallel importing.³⁸ All of their respondents believed parallel importation of their products was impacting negatively on their businesses. Light to the contrary found that respondents felt genuine competitive sales of parallel imported products had not seriously affected their business.³⁹ The overall impact of parallel importing in reducing the incentives to innovate and improve, appears to be widely agreed on.⁴⁰

It appears difficult to evaluate whether the consumer actually benefits from parallel importing. The economic argument is that any trade is good for society. To the contrary, do individual consumers really benefit from being able to buy outdated models of brand products from discount stores? The argument that parallel importing benefits the average consumer seems a somewhat romantic view of the situation. Parallel importers have the same objective as authorised distributors: to profit from the sale of goods. The argument would also only seem to hold any sway in relation to essential items. Surely individual consumers can only benefit from parallel importing if they can purchase essential items at lower prices. There does not seem to be any societal benefit in being able to buy Revlon’s “last years’ lipsticks” at discount prices. The same argument could be applied to most

³⁷ C.D.G Pickering above n 14, 72.

³⁸ Lynne Eagle, Lawrence Rose and Brendan Moyle above n 12, 9.

³⁹ Elizabeth Light above n 27, 15. Of more serious concern to Light’s respondents was the counterfeiting of their genuine goods.

⁴⁰ See below in *J Should a Trade Mark Owner be able to Prevent Parallel Importation of Goods?* for specific discussion of this point in relation to trade marks.

goods including motor vehicles. Some motor vehicles are a necessity. They perform the function of taking passengers from A to B. However, expensive luxury cars are hardly a necessity and the argument does not seem as effective in relation to luxury items. Parallel imports will not usually be essential items to consumers. They are usually luxury, branded items.

The objective of allowing parallel importing is that barriers to trade are reduced thereby improving efficiency and the economy *as a whole* benefits. It is difficult to tell if the economy overall has improved by allowing parallel importing. The current situation, nearly two years on from the law change is that parallel importers are happy with the current state of the law. Brand owners and trade mark owners are disgruntled. It is unclear whether consumers as individuals, or the economy as a whole, has benefited from allowing parallel importing. Therefore it is difficult to assess if any benefit to the economy is outweighed by the protection of intellectual property rights. Matthew Coull states in his 1999 paper⁴¹ that possibly the only way to see whose argument (those in favour of free trade or those in favour of intellectual property protection) is stronger is to see what the newly open market delivers, yet the picture still remains unclear. The community as a whole may actually benefit from the adequate protection of intellectual property rights, yet this is difficult if not impossible to measure in quantitative terms. The Organisation for Economic Co-operation and Development (OECD) believes the obvious conflict between the policies can be reconciled if consumer welfare is viewed in the long-run.⁴² The theory goes like this: long-run consumer welfare depends on the dynamic efficiency of the economy. Dynamic efficiency includes the invention and commercial introduction of new products and processes which enhance welfare by increasing the quality of goods and promoting growth through increased productive efficiency, in other words the protection of intellectual property.⁴³ The OECD appear to be saying that in the long-run the protection of intellectual property is necessary for the growth and efficiency

⁴¹ Matthew Coull "New Zealand's Approach to Parallel Imported Goods and the Copyright Amendment Act 1998" (1999) 29 VUWLR 253, 282.

⁴² Organisation for Economic Co-operation and Development above n 5, 11.

⁴³ See Organisation for Economic Co-operation and Development above n 5 for a detailed discussion of intellectual property rights protection and competition policy.

of the economy, and the protection of intellectual property outweighs any short-term gains of increased competition.

III TRADE MARK LAW

If a trader does not like the existence of parallel imports in the domestic market, he or she may be able, in certain circumstances, to use his or her trade mark to prevent the importation of products bearing the trade mark.

A The Aim of Trade Mark Law – Historical Roots

Trade mark protection grew out of the need in the industrial revolution to indicate the identity of the producer of goods in connection with which the marks were used.⁴⁴ The motivation for such protection was to prevent the injury done to consumers and producers alike by counterfeit goods.⁴⁵ Schechter provides that this was to “prevent the grievous deceit of the people by the sale of defective goods and to safeguard the collective goodwill”.⁴⁶ In more recent times, Pickering states “the influence of the interests of consumers on the law of trade mark is undoubted”.⁴⁷

(The aim of trade mark law today can still be seen as avoiding confusion to consumers and thereby protecting them.) This aim is also reflected in sections 16 and 17 of the Act, and the protection against trade mark infringement in section 8 of the Act. Section 16 prevents the registration of any matter the use of which would be likely to deceive or cause confusion. Section 17 prevents registration of identical or similar marks if use of the conflicting mark is likely to deceive or cause confusion. The trade mark system is

⁴⁴ C.D.G. Pickering above n 14, 56.

⁴⁵ C.D.G. Pickering above n 14, 56.

⁴⁶ Frank I. Schechter “Rational Basis of Trade Mark Protection” Harv L Rev Law Review 40 (1927) 813, 819.

⁴⁷ C.D.G. Pickering above n 14, 99

said to be an instrument of consumer protection.⁴⁸ If it is accepted that trade marks serve to identify the source of the goods, then consumers can make decisions between different goods based on what they know about the proprietor, and trade marks protect consumers in that way.⁴⁹ Consumers need information in order to make informed choices and trade marks provide a short-cut method of imparting that information about a product and its source.⁵⁰

B The Trade Marks Act 1953

The Trade Marks Act 1953 (the Act) was not designed to deal with parallel imports. Nor does the Act have any direct references to parallel imports or trade mark proprietors' rights in relation to them. However, section 8(3) appears to cater for parallel importing. Of course, prior to 1998 in New Zealand, the Copyright Act was the easiest way to prevent parallel imports entering the domestic market.

Section 8(1) provides that the registered proprietor of a trade mark acquires the exclusive right to use the mark in relation to the respective goods and services. That use of the mark must be use in the course of trade. So, at first glance it would appear a proprietor of a trade mark may sue a parallel importer for infringement for the act of importing goods bearing the registered trade mark. A parallel importer can avoid liability if he or she can satisfy section 8(3)(a). Section 8(3)(a) provides:

In relation to goods connected in the course of trade with the proprietor or a registered user of the trade mark if, as to those goods or a bulk of which they form part, the proprietor or the registered user conforming to the permitted use has **applied** the trade mark and has not subsequently

⁴⁸ Anselm Kamperman Sanders and Spyros M. Maniatis "A Consumer Trade Mark: Protection Based on Origin and Quality" (1993) 11 EAPR 406 in Alison Firth, Shelley Lane and Yvonne Smyth eds *Readings in Intellectual Property* (Sweet and Maxwell, London, 1998) 253.

⁴⁹ The function of trade marks is to be further discussed at length.

⁵⁰ *Mishawaka Rubber and Woollen Mfg Co v SS Kresge Co* (1942) 316 US 203, 205 cited in C.D.G Pickering above n 14, 46 and 91. See C.D.G. Pickering above n 14 for further discussion that the function of the trade mark system to benefit and protect consumers.

removed or obliterated it, or has at any time expressly or impliedly **consented** to the use of the trade mark. (emphasis added)

In short, the parallel importer can claim that the proprietor or registered user applied the mark to the goods, or consented to the use of the mark.

(Since the change of copyright law in 1998 there surprisingly has not been a case concerning a trade mark proprietor attempting to use trade mark law to prevent parallel imports entering the New Zealand market.) This would indicate traders are not using the trade mark legislation to attempt to prevent parallel importing, despite the change of law allowing it.

The approaches other jurisdictions take to parallel importing is often useful for New Zealand courts determining parallel importing cases, as the legislation is often similar, if not identical. English and Australian cases are particularly useful as section 4(3)(a) of the United Kingdom Trade Mark Act 1938 and section 123 of the Australian Trade Marks Act 1955 are substantially very similar to section 8(3)(a) of the New Zealand Trade Marks Act 1953.

(Whether a court finds that parallel imports infringe a trade mark may depend on the definition of the function of a trade mark that the court adopts. While a trade mark is defined in the Trade Marks Act, the function of a trade mark is not expressly defined.)

In section 2 of the Trade Marks Act a "trade mark" means:

any sign or any combination of signs, capable of being represented graphically and capable of distinguishing the goods or services of one person from those of another.

A "sign" includes a brand, colour, device, heading, label, letter, name, numeral, signature, smell, sound, taste, ticket, or word and, any combination of signs.

C The Function of Trade Marks

1 Introduction

Courts seem to be divided in their views between the nature and function of trade marks. Commonwealth courts differ as to whether a trade mark indicates anything but the nature of the goods, and to whether trade marks are strictly territorial.

Trade marks in theory, are territorial by nature. A registration in New Zealand is only valid in New Zealand. A trader with a registered trade mark can only sue in New Zealand for the use of an identical or confusingly similar mark in New Zealand. Trade mark law, like all other areas of the law, recognises that it cannot legislate for other countries and does not cater for the cross-border nature of international trade. Lloyd LJ in *Colgate-Palmolive Ltd v Markwell Finance*⁵¹ stated trade mark law as being "perhaps under-developed in this respect".

2 Origin

The traditional view of the function of trade marks is that a mark allows consumers to identify the origin of the goods and indicate a connection with the trader in the course of trade. Thus a trade mark indicates source.⁵² This protects consumers so as they are not confused as to the source of goods. In *Hoffmann-La Roche & Co AG v Centrafarm* the European Court of Justice (ECJ) said:⁵³

[R]egard must be had to the essential function of the trade-mark, which is to guarantee the identity of the origin of the trade-marked product to the consumer or ultimate user, by enabling him without any possibility of confusion to distinguish that product from products which have another origin. This guarantee of origin means that the consumer or ultimate user can be certain that a

⁵¹ *Colgate-Palmolive Ltd v Markwell Finance Ltd* [1989] RPC 497, 535 (CA).

⁵² *Re Powell's Trade Mark* [1893] 2 Ch 385 (CA); *Aristoc Ltd v Rysta Ltd* [1945] AC 68 (HL).

⁵³ *Hoffman-La Roche & Co AG v Centrafarm* [1978] ECR 1139, para 7.

trade-marked product which is sold to him has not been subject at a previous stage of marketing to interference by a third person, without the authorisation of the proprietor of the trade-mark, such as to affect the original condition of the product. The right attributed to the proprietor of preventing any use of the trade mark which is likely to impair the guarantee of origin so understood is therefore part of the specific subject-matter of the trade mark right.”

*Champagne Heidseick Et Cie Monopole Societe Anonyme v Buxton*⁵⁴ is the leading case for the proposition that a trade mark owner who applies the mark to the goods cannot complain of infringement. The case is also important for the proposition that trade marks indicate source.

In *Champagne* the plaintiff produced two types of champagne in France. The sweeter kind was to be sold only in France with the word “Brut” attached to the label. The drier version of the wine was sold in England with the same label and get-up as the French wine, only without the word Brut. There was also a contractual arrangement that the French wine was not to be sold in England and the plaintiff took steps to ensure the markets were segregated. The French sweeter wine eventually made it to the English market and was sold there for several years without complaint by the defendant. During this time the English market learned to differentiate between the two wines and saw them as different products.

Clauson J in rejecting the plaintiff’s claim for trade mark infringement stressed the function of a trade mark being to indicate the source of the goods. He also strongly rejected the contention that a trade mark proprietor had a right to control subsequent dealings with the goods.

Clauson J’s ruling focuses on the point that as long as the goods are genuine, there can be no confusion or deception to consumers and therefore no infringement.

In *Champagne* the consumers were not deceived or confused as to the origin of the goods and therefore the claim for infringement failed.

⁵⁴ *Champagne Heidsieck Et Cie Societe Monopole Anonyme v Buxton* [1930] Ch 330.

The Australian case of *R.A. & A Bailey & Co Ltd v Boccaccio Pty Ltd*⁵⁵ considered the judgment in *Champagne* when determining whether the importation of the liqueur Baileys into Australia infringed the registered trade mark. In *Bailey* the plaintiffs manufactured Baileys in Ireland. The product was imported into Australia by Swift & Moore who had a distributorship agreement with the plaintiffs in Australia. The labels on the bottles had, inter alia, Swift & Moore as the "sole Australian importers" on the label. The defendants obtained supplies of Baileys in the Netherlands and began selling the product in Australia. The labels on the bottles were exactly the same except they had the name of the sole importer for the Netherlands on them. The defendant relied heavily on the decision of *Champagne* and that the importation and sale of genuine marked goods cannot constitute infringement. The judge found that genuine goods correctly designated as originating with the Australian registered proprietor of the trade mark and could not constitute an infringement of the registered mark. There had been no trade mark infringement by the defendant in importing and selling bottles of liqueur manufactured overseas by the plaintiff and to which the plaintiff had affixed their own mark.⁵⁶

The case of *Colgate-Palmolive Ltd v Markwell Finance Ltd*⁵⁷ is more famous for its discussion as to quality, but the case also discusses application of the mark to the goods. In that case the plaintiff was Colgate United States, who was the parent of an international group. Colgate US had a subsidiary Limitada who manufactured and marketed toothpaste in Brazil. The Brazilian toothpastes found their way to the United Kingdom market where they were sold in the same outlets as the Colgate United Kingdom's products at cheaper prices. The packaging and get-up of the Brazilian toothpastes was almost the same as the United Kingdom products, and the trade marks concerned were identical. The Brazilian products were inferior in quality and therapeutic benefit to those manufactured in the United Kingdom.

⁵⁵ *R.A. & A Bailey & Co Ltd v Boccaccio Pty Ltd* (1986) 6 IPR 279.

⁵⁶ The plaintiff also claimed infringement of copyright in the label on the bottle and was successful on that issue.

⁵⁷ *Colgate-Palmolive Ltd v Markwell Finance Ltd* above n 51.

The court considered the meaning of “applying” the trade mark to goods and the effect of section 4(3)(a) of the United Kingdom Trade Mark Act 1938 (equivalent to section 8(3)(a) of the New Zealand Act). Lloyd LJ decided the section must mean applying the United Kingdom trade mark, but the matter was confused by the fact the United Kingdom trade mark was identical to the Brazilian trade mark and therefore it could not be distinguished which trade mark had been applied to the goods. Lloyd LJ claimed the place the mark had been applied is irrelevant but what matters is which mark has been applied.⁵⁸ In order to do this Lloyd LJ considers it necessary to look at the intention of the proprietor to see which mark he or she intends to apply at the time he or she applies the mark to the goods. In this case Lloyd LJ found that it was clear beyond doubt that the proprietor had applied the Brazilian mark and therefore section 4(3)(a) did not apply as the proprietor had not applied the United Kingdom mark to the goods.⁵⁹

A more recent Australian case *Transport Tyre Sales Pty Ltd v Montana Tyres Rims & Tubes Pty Ltd*⁶⁰ considered the parallel importation of tyres and criticised the approach of Lloyd LJ in *Colgate*. In the face of parallel imports of Ohtsu tyres, Transport Tyres had the trade mark of Ohtsu (the tyre manufacturer) assigned to them. Transport Tyres argued that section 123 of the Trade Marks Act 1955 (equivalent to section 8(3)(a) of the New Zealand Act) did not apply because the marks were not applied to the goods in Australia and the manufacturer did not intend for the goods to end up on the Australian market. The Full Court found that a trade mark may be applied to goods or services in any part of the world and is still a trade mark in Australia, whatever may have been the intention of the person who applied the mark to the goods.⁶¹ The Full Court considered that it would require quite an impractical inquiry in order to determine which trade mark the proprietor had intended to apply at the time of manufacture in order to determine if section 123 even had any application:⁶²

⁵⁸ *Colgate-Palmolive Ltd v Markwell Finance Ltd* above n 51, 533 per Lloyd LJ.

⁵⁹ *Colgate-Palmolive Ltd v Markwell Finance Ltd* above n 51, 533 per Lloyd LJ.

⁶⁰ *Transport Tyre Sales Pty Ltd v Montana Tyres Rims & Tubes Pty Ltd* [1999] 43 IPR 481.

⁶¹ *Transport Tyre Sales Pty Ltd v Montana Tyres Rims & Tubes Pty Ltd* above n 60, 495 – 496 per Beaumont, Heerey and Emmett JJ.

For example, it is easy to imagine a manufacturer who markets his goods worldwide with a trade mark which is registered in identical terms in numerous countries. Such goods might be produced on a continuous production line. Such a manufacturer may not at the time of the actual application of the trade mark, give any consideration to the country in which each individual item of production would ultimately be marketed. It would follow from the argument of Lloyd LJ that in those circumstances section 123 would have no application to any of the goods.

The Full Court found that the mark had been applied to the goods by the proprietor, and there was no infringement of the trade mark.⁶³

3 Quality

As early as 1927 Schechter recognised that while the function of trade marks is *said* to be to indicate origin, trade marks do not always do so, and links this idea to the quality of goods. Schechter's view was seen as controversial but is being reviewed more favourably today.

Schechter says that the true functions of the trade mark are to identify a product as satisfactory and thereby stimulate further purchases by the consuming public.⁶⁴ He says this is so because the actual source of the goods may be unknown to consumers and consumers only wish to know if the goods emanate from the same source, and are of the same quality, as the last goods they purchases bearing that mark.⁶⁵ He provides the case of *Re McDowell's Application* which considered the registration of confusingly similar marks, as authority for this view:⁶⁶

[The] deception which I think the registration would be calculated to produce is that the two products emanate from the same source, and for the purposes of the present question it does not, in my opinion, matter whether the public do, or do not, know what that source is.

⁶² *Transport Tyre Sales Pty Ltd v Montana Tyres Rims & Tubes Pty Ltd* above n 60, 498 per Beaumont, Heerey and Emmett JJ.

⁶³ This case is further discussed under the heading of *Local Distributor as Assignee* at page 30.

⁶⁴ Frank I. Schechter above n 46, 815.

⁶⁵ Frank I. Schechter above n 46, 816 – 818.

*Colgate-Palmolive Ltd v Markwell Finance Ltd*⁶⁷ is one of the most controversial trade mark cases. This case is controversial because it introduces a concern in trade mark infringement cases not previously relevant: the judgment focuses on whether the goods were of different quality.

The court found there was trade mark infringement. Much of the judgment focuses on the fact the Brazilian products were of lesser quality than the United Kingdom product. It was on this basis the court was able to distinguish *Revlon Inc v Cripps and Lee Ltd*⁶⁸ and *Champagne*. In those cases the trade marks were found to convey the same message wherever they were sold because the quality was the same.⁶⁹ The same did not apply in *Colgate* as the same message about the products was not conveyed as the Brazilian products were of lesser quality.

The court did not find that the Colgate-Palmolive corporate group consented to the use of the mark. This is quite a different finding to that in *Revlon*, where the court found as an international company, Revlon must have consented to the use of the mark.

Slade LJ stated that if the goods were of the same quality he would have followed *Revlon* in ruling that the products originated from the same international corporate group. He is at pains to state that *Revlon* involved “very different facts” and the facts are “readily distinguishable”. (The most important finding of Slade LJ’s is that trade marks not only indicate the origin of goods but also indicate quality. Consent to use the mark cannot be implied in circumstances where this would amount to a misrepresentation to consumers as to the quality of the goods.)

Slade LJ introduces a secondary function to that of origin in *Colgate*, he provides that:⁷⁰

⁶⁶ *Re McDowell’s Application* (1926) 42 RPC 313, 337.

⁶⁷ *Colgate-Palmolive Ltd v Markwell Finance Ltd* above n 51.

⁶⁸ *Revlon Inc v Cripps and Lee Ltd* [1980] FSR 85 (CA). The case of *Revlon* is to be discussed under the heading of consent.

⁶⁹ *Champagne* involved a different kind of wine, not lesser quality wine. In *Revlon* the goods were of the same quality.

⁷⁰ *Zino Davidoff SA v A & G Imports Ltd* above n 1, 527.

a trader applying a United Kingdom registered trade mark to goods and thereby indicating their origin gives an assurance to consumers in this country that the goods are of the quality which they have come to expect from products bearing that trade mark. I accept Mr Hobbs' submission that there is nothing incongruous in holding that a United Kingdom registered trade mark is infringed in relation to goods which do not conform to an identifiable quality which purchasing members of the public in this country ordinarily receive by inference to that trade mark.

This is a controversial view (because quality is not usually seen as a function of trade marks) yet it is still authority that parallel imports may be blocked where they denote a different quality to the authorised goods. Rothnie states that recognition that trade marks serve a dual function, indicating both source and quality has much commonsense yet acknowledges that the view is controversial and unorthodox.⁷¹ Rothnie also comments that the whole concept of the function of a trade mark requires reconsideration.⁷²

Laddie J in *Zino Davidoff SA v A & G Imports*,⁷³ contrary to *Colgate*, finds that the function of a trade mark is to guarantee identity.⁷⁴ In *Davidoff* the plaintiff manufactured high quality, expensive toiletries. The products were made in France and distributed from there. The defendant sourced cheaper genuine stocks of the product "Cool Water" from outside the EEA. Laddie J states that a trade mark says nothing about the design, novelty, nature or quality of the goods save that the reputation acquired by them is attributable to, and claimed by the proprietor of the mark.⁷⁵ The Trade Mark Register itself says nothing about the quality of the goods. The Register contains details such as the mark itself and the goods and services it is to be applied to, the details of the proprietor and any conditions that are attached to registration. Neither do the eligibility sections provide any conditions as to quality of the goods.⁷⁶ Eligibility of a mark for registration focuses on the distinctiveness of the mark. Section 2 of the Act provides that a trade mark means any

⁷¹ Warwick Rothnie "Gray Privateers Sink into Black Market: Parallel Imports and Trade Marks" IPJ 1 (1990) 72, 84.

⁷² Warwick Rothnie above n 71, 85.

⁷³ Warwick Rothnie above n 22, 637.

⁷⁴ This is consistent with the Trade Mark Directive which confirms that "the protection afforded by the trade mark is in particular to guarantee the trade mark as an indicator of origin".

⁷⁵ *Zino Davidoff SA v A & G Imports* above n 1, 638.

⁷⁶ Section 14 and section 15 are the eligibility provisions of the Trade Marks Act 1953.

signs or combinations of signs *capable of distinguishing* the goods or services of the applicant. What Laddie J has to say about quality of the goods appears true in terms the Register of trade marks. Any reputation a proprietor has established for quality, that proprietor has established separately from the registration certificate.

Scholes provides that a most important part of a trade marks function is to guarantee in the eyes of the customer the uniform quality and composition of the goods.⁷⁷ Landes and Posner⁷⁸ also agree that a trade mark represents quality and that trade mark protection encourages expenditures on quality, which in turn benefits consumers.⁷⁹

[A] trade mark conveys information that allows the consumer to say to himself, I need not investigate the attributes of the brand I am about to purchase because the trade mark is a shorthand way of telling me that the attributes are the same as that of the brand I enjoyed earlier.

C.D.G Pickering calls this the “self-enforcing” feature of trade marks:⁸⁰

[A] trade mark derives its economic as well as capital value from the fact it denotes consistent quality; the mark will lose its value if variations in quality render the mark deceptive, because consumers will not be able to relate the trade mark product to past experience...If consumers found that the product did not correspond to the expectations engendered by the original trade mark, because of another's use of the mark confused them or caused them to lose confidence in the original brand, the legitimate user's investment in such matters as service, quality of materials used and brand advertising would be undermined. Protection is therefore justified because otherwise “free riding [would] eventually destroy the information capital embodied in a trade mark, and the prospect of free riding [could] therefore eliminate the incentive to develop a valuable trade mark in the first place”⁸¹ In addition to enhancing consumer purchasing decisions...a second economic benefit of legally protecting trade marks becomes apparent; it creates incentives to invest resources in developing strong brands based on the assurance of consistent and desirable quality.

⁷⁷ Kirsten Scholes above n 21, 575.

⁷⁸ W.M. Landes and R.A. Posner “Trade Mark Law: An Economic Perspective” *The Journal of Law and Economics* October (1987) 265, 270 cited in Kirsten Scholes above n 21, 575.

⁷⁹ W.M. Landes and R.A. Posner above n 78, 269 cited in C.D.G Pickering above n 14, 88.

⁸⁰ C.D.G Pickering above n 14, 88 - 89.

⁸¹ W.M. Landes and R.A. Posner above n 78, 270.

A good summary of the function of trade marks is said to be that of the Advocate-General in *S.A. CNL SUCAL NV v HAG GF AG*:⁸²

[T]rade marks reward the manufacturer who consistently produces high quality goods and they thus stimulate economic progress. Without trade mark protection there would be little incentive for manufacturers to develop new products or to maintain the quality of existing ones. Trade marks are able to achieve that effect because they act as a guarantee, to the consumer, that all goods bearing a particular mark have been produced by, or under the control of, the same manufacturer and are therefore likely to be of similar quality. The guarantee of quality offered by a trade mark is not of course absolute, for the manufacturer is at liberty to vary the quality; however, he does so at his own risk and he – not his competitors – will suffer the consequences if he allows the quality to decline.

It appears then that there is some scope for a trader to develop a reputation for quality and to use this as part of the claim in trade mark infringement actions. It is unclear exactly what “quality” means in relation to goods. In *Colgate* the quality of the goods related to the inferior composition and therapeutic benefit of the parallel imported toothpaste. Quality could mean the excellence of the goods. Quality could also mean the character of the goods.⁸³ The quality of parallel imports, particularly high fashion⁸⁴ and luxury goods could pertain to their excellence but also to the character of the goods. High fashion goods only have a limited life cycle as fashions change. Thus the character of the goods changes as the goods become less fashionable and out of date. As parallel imports are often remainders of goods and old stock,⁸⁵ they may have a different character to authorised imports that are much newer to the market. Laddie J illustrates the importance of trade marks on application to high fashion goods in *Davidoff*: If an importer were

⁸² *S.A. CNL SUCAL NV v HAG GF AG* [1990] 3 CMLR 571, 583 according to Laddie J in *Wagamama Ltd v City Centre Restaurants PLC* [1995] FSR 713, 729

⁸³ The Oxford English Dictionary provides many definitions of “quality”, two that seemed relevant here are “excellence of disposition; good natural gifts” and “an attribute, property, special feature or characteristic” see J.A. Simpson and E.S.C. Weiner eds *The Oxford English Dictionary* (2 ed Clarendon Press, London, 1998) 973-975.

⁸⁴ The Writer does not intend the word “fashion” to relate only to apparel but a broader meaning of any goods that are currently the accepted style at any time.

⁸⁵ Parallel importers often seek large quantities of remainders and unsold stock that is going at relatively cheap prices compared to the domestic prices. While the goods are not “dumped” according to the legal

forced to sell high margin fashion goods with no trade mark at all, this would often make the goods virtually unsaleable.⁸⁶

The plaintiff in *Davidoff* relies on the claim that the parallel imports seriously detract from the image which the trade mark owner has succeeded in creating around his trade mark. The plaintiff relies on the case of *Parfums Christian Dior SA v Evora BV*⁸⁷ where the rights of a proprietor of a trade mark in high cost cosmetics and perfumery were concerned. In that case Advocate-General Jacobs found that damage done to the reputation of a trade mark could, in principle, be a legitimate reason for a proprietor to oppose further commercialisation of parallel imported goods.⁸⁸ The advertising of those goods would have to seriously damage the reputation of the trade mark. The Judge, in finding that the damage done to the reputation of a trade mark by the advertising of parallel imports relies on a wide interpretation of the function of trade marks. He states that trade marks may, by virtue of their origin function, be valuable assets, encompassing the goodwill attached to an undertaking (or one of its particular products).⁸⁹

But the origin theory, understood more broadly, recognises that marks deserve protection because they symbolise qualities associated by consumers with certain goods or services and guarantee that the goods or services measure up to expectations.... It is apparent that that aspect of trade marks (sometimes referred to as the "quality or guarantee function") can be regarded as part of the origin function.

definition of goods dumping, the manufacturer or distributor may wish to quickly offload the goods so as to move into the newest version of the products.

⁸⁶ *Zino Davidoff SA v A & G Imports* above n 1, 644 per Laddie J.

⁸⁷ *Parfums Christian Dior SA v Evora BV* [1997] ECR I-6103, [1998] RPC 166.

⁸⁸ *Parfums Christian Dior SA v Evora BV* above n 87, 182 per Advocate-General Jacobs. This is based on the rights given in Article 7(2) of the Trade Marks Directive and based on the authority of the case *Bristol-Myers Squibb v Paranova* [1996] ECR I-3457, [1997] FSR 102. There has to be a risk of significant damage to the trade mark and that risk must be properly substantiated – see Jacobs at 182. A trade mark owner only has to show risk of significant damage to his or her reputation and does not need to show that the public believe the retailer to be connected to or authorised by him or her – see Jacobs at 179. Jacobs does not canvas in any detail what constitutes significant damage to reputation because he says this is a matter for a national court within the EEA to decide. See the cases *Bristol-Myers Squibb* and *Pharmacia & Upjohn* below under "Pharmaceutical cases" at page 26 for discussion of damage to reputation and trade mark rights in relation to pharmaceutical cases.

⁸⁹ *Parfums Christian Dior* above n 87, 179 per Advocate-General Jacobs.

The Judge seems to be saying that to imply that the function of a trade mark to denote quality is not a secondary function of a trade mark but is merely part of the origin function of a trade mark. Furthermore he argues that trade marks have other functions, such as communication, investment or advertising function, and those functions are merely derivatives of the origin function.⁹⁰ He states that there would be little purpose in advertising a mark if it were not for the function of that mark as an indicator of origin, distinguishing the trade mark owner's goods from those of his competitors.⁹¹ Advocate General Jacobs upholds that a trader is entitled to maintain the exclusive character he or she has created around a luxury good. He finds that this exclusive character is the reason why people buy the goods and consumers are entitled to be assured this exclusive image will not be damaged by becoming an everyday product through downgrade advertising.⁹²

Following *Parfums Christian Dior* a trade mark owner can rely on the origin function of trade marks to prevent parallel importation of goods where those goods are luxury items and the advertising of them by the parallel importer seriously damages the reputation of those goods.

The plaintiff in *Davidoff* relies on the effect of *Parfums Christian Dior* in preventing parallel importing, and claims that to give a cheap and tatty image to luxury goods would be to damage their prestige and that to cheap to some extent equals tatty. If high priced luxury products are sold at knock-down prices that undermines the very nature or prestige of the product.⁹³ While Laddie J accepts these arguments to some extent, and some sympathy can be felt for the manufacturer, Laddie J states these concerns have little to do with the proper subject matter of trade mark rights. However, if the parallel imported goods can be found to be of different quality to the authorised goods on the basis of their fashionability, a trade mark owner may be able to rely on *Colgate* in that goods that are of different quality bearing the trade mark, infringe that trade mark. If quality can in some circumstances be attributed to the characteristics that the goods possess and

⁹⁰ *Parfums Christian Dior* above n 87, 180 per Advocate-General Jacobs.

⁹¹ *Parfums Christian Dior* above n 87, 180 - 181.

⁹² *Parfums Christian Dior* above n 87, 181 - 182.

⁹³ *Zino Davidoff* above n 1, 650 per Laddie J.

therefore fashionability, then the courts would be required to enquire into whether the imported goods are less fashionable than the authorised goods to determine if the goods are of lesser quality. This does not appear to be an entirely suitable test for judges to undertake in order to establish if parallel imported goods infringe a trade mark, and is entirely subjective. Presumably though, expert evidence as to fashionability would be required to be produced by the trade mark owner.

4 *Pharmaceutical cases*

It is common to parallel import pharmaceuticals within the EEA. This is because the different price regimes due to varying rules and laws relating to pharmaceuticals operate in the different Member States. The ECJ issued two recent judgments that change the approach of the ECJ towards parallel importing of pharmaceuticals. Both cases contain statements that poor quality repackaging by a parallel importer can damage the trade mark's reputation and can amount to a legitimate reason to oppose further commercialisation of the trade mark.

The leading case for 20 years on parallel importing of pharmaceutical products was *Centrafarm BV v American Home Products*.⁹⁴ In that case the ECJ found that rebranding as well as repackaging of pharmaceuticals are acts of trade mark infringement which must be tolerated by the trade mark owner in order to allow free movement of goods between Member States. This was a subjective test based on whether the trade mark owner uses different trade marks in different Member States with the *intent* of bringing about artificial partitioning of markets. Thus, by applying different trade marks in various Member States, the trade mark owner ensures the goods cannot be sold in different markets.

⁹⁴ *Centrafarm BV v American Home Products* [1978] ECR 1823.

The cases of *Bristol-Myers Squibb v Paranova*⁹⁵ and *Pharmacia & Upjohn v Paranova*⁹⁶ are now the leading cases in regards to parallel importing of pharmaceuticals. The case of *Bristol-Myers Squibb* concerned the repackaging of pharmaceuticals by the parallel importer. *Pharmacia & Upjohn* involved the rebranding of pharmaceuticals. The ECJ found in both cases that the trade mark owner can oppose further commercialisation of his or her products unless by doing so would contribute to artificial partitioning of markets. The repackaging must be *necessary* in order to place the goods on the market of the importer. Whether it is necessary to repackage or rebrand the goods is an objective matter for the national courts to decide. The ECJ thus does away with the subjective test set out in *American Home Products*. The main difference between the two judgments⁹⁷ is that in *Bristol-Myers v Squibb* Advocate-General Jacobs found that there may be different solutions needed when a parallel importer changes a trade mark as opposed to changing packaging,⁹⁸ and in *Pharmacia & Upjohn* he found that there is no objective difference between re-affixing a trade mark after repackaging and replacing the original trade mark.⁹⁹ Advocate-General Jacobs stated both uses of the trade mark represent use of a trade mark which does not belong to the parallel importer.¹⁰⁰

In both judgments the Court stressed the essential function of the trade mark, which is to guarantee the identity of the product's origin. The guarantee of origin means the consumer can be certain the trade marked product has not been subject to interference by a third person as to affect the original condition of the goods.

Any repackaging by a parallel importer must not affect the original condition of the goods, otherwise the essential function of the trade mark as a guarantee of origin is not safeguarded.¹⁰¹ The parallel importer may remove for example, blister packs, flasks and inhalers from their packaging, as long as the condition of the goods is not harmed. Both

⁹⁵ *Bristol-Myers Squibb v Paranova* [1996] ECR I-3457.

⁹⁶ *Pharmacia & Upjohn v Paranova* [1999] ECR C-379-97.

⁹⁷ See Karen Dyekjaer-Hansen and Christian Karhula Lauridsen "Rebranding of Parallel Imported Pharmaceuticals: The *Pharmacia & Upjohn* Case" in *Trademark World* 123 (2000) 16 for a further discussion of the differences between the two cases.

⁹⁸ *Bristol-Myers Squibb v Paranova* above n 95, para 84 per Advocate-General Jacobs.

⁹⁹ *Pharmacia & Upjohn v Paranova* above n 96, para 37 per Advocate-General Jacobs.

¹⁰⁰ *Pharmacia & Upjohn* above n 96, para 38 per Advocate-General Jacobs.

Courts go on to say that defective, poor quality or untidy packaging by the parallel importer could damage the trade mark's reputation,¹⁰² and presumably is a reason to oppose further commercialisation of the mark. Unfortunately for these purposes the Court does not go further as to elaborate on what a trade mark owner can rely on as their reputation and what kind of repackaging causes damage to reputation.

The reputation for pharmaceutical products is different to the reputation associated with luxury goods. Reputation in pharmaceuticals most likely relates to their medicinal and therapeutic benefit, and their safety, rather than their luxurious image as the goods concerned in the cases *Parfums Christian Dior* and *Davidoff*. Where the court in the pharmaceutical cases places an emphasis, albeit a brief one, on the reputation of the goods being part of trade mark rights, the court no doubt has entirely different reasons for doing so than in relation to most branded goods infringement cases. Consumers may not purchase pharmaceuticals that have been packaged in a shoddy manner, for fear of similarly shoddy manufacturing of the pharmaceuticals, leading to safety concerns.

It stands that a manufacturer of pharmaceuticals and trade mark owner may oppose the parallel importing of pharmaceuticals that have been repackaged in a defective, poor quality or untidy manner which damages the reputation of the trade mark and its owner. A trade mark owner and retailer of other types of goods may not be able to use these arguments in relation to their goods. This is because arguments based on the principles in the pharmaceutical cases, may not have any spill over to other kinds of goods given the particular safety concerns relating to pharmaceuticals.

There are specific provisions in statute law in New Zealand for the labelling of pharmaceuticals, namely section 24 of the Medicines Act 1981.¹⁰³ The effect of this section means a parallel importer of pharmaceuticals into New Zealand who repackages

¹⁰¹ *Bristol-Myers Squibb and others v Paranova* above n 95, para 43 per Advocate-General Jacobs.

¹⁰² *Bristol-Myers Squibb and others v Paranova* above n 95, para 49 per Advocate-General Jacobs; and *Pharmacia & Upjohn v Paranova* above n 96, para 17 per Advocate-General Jacobs.

¹⁰³ This section acquired a new subsection when the Copyright (Removal of Prohibition on Parallel Importing) Amendment Act 1998 came into force, namely subsection (7). Subsection (7) introduced high penalties for any person who commits an act under subsection (6).

the goods has to give notice to the Director-General and must also describe any changes to the safety and efficacy of the pharmaceutical. The Director-General then has the power to direct to the appropriate Minister that the medicine ought not without his or her consent be labelled in the terms set out in the notice.¹⁰⁴ This is consistent with the case law from the European Union, that a pharmaceutical may be relabelled and repackaged so long as the original condition of the goods is not harmed. It is consistent because section 24 of the Medicines Act 1981 appears to also focus on the safety and efficacy of the pharmaceutical inside the packaging.

5 *Summary of the function of trade marks*

Despite the above discussion of quality, the main question in trade mark infringement actions remains: whether a trader has used the proprietor's mark in the course of trade? Questions as to the quality of the goods may be considered to be secondary, if not irrelevant to that.

There is obvious confusion and debate as to the true function of trade marks. Following a strict and traditional interpretation, a trade mark indicates the origin of the goods and this function says nothing as to the quality of the mark. According to *Colgate*, trade marks have a secondary function indicating the quality of the goods. There is further authority that the origin function can be widely interpreted to include indications as to the quality of the goods, among other things.¹⁰⁵

It is a matter of opinion whether brand owners are entitled to maintain their luxurious brand image. It is a question of the function of trade marks whether trade mark owners are entitled to maintain their luxurious brand image by using their trade mark to prevent parallel importing.

¹⁰⁴ Subsection (5).

¹⁰⁵ See *Parfums Christian Dior* above n 87, 180 - 181. However, this case must be read in light of *Davidoff* above n 1 which says that the concerns as to the reputation of the mark are not the proper subject matter of trade mark rights, see *Laddie J* at 650.

D Consent

Trade mark infringement cannot be claimed where a trader consented to the use of the mark. The leading decision on consent as a defence to trade mark infringement is *Revlon Inc v Cripps and Lee Ltd.*¹⁰⁶ The defendant sourced cheap supplies of "Revlon Flex" shampoo in the United States and imported them into England. Revlon Inc did not own the relevant trade marks nor did it carry out business in England. It did so through its subsidiaries and had assigned the United Kingdom trade mark to the subsidiary Revlon Suisse. All Revlon products were marketed under the endorsement "Revlon, New York, Paris, London". There was found to be no misrepresentation as to quality, character or class of the goods. The shampoos were specifically anti-dandruff shampoos and not shampoos of lesser quality. Consumers would not be confused between them and the authorised imported products as the court found consumers usually read products and therefore confusion would be avoided.

The majority of the court found consent of Revlon Inc in applying the trade marks to the goods to import the goods. The court stressed the role of trade marks in indicating the source of the goods. Templeman LJ and Buckley LJ came to the same conclusion as the majority but differed in the way they came to that conclusion.

Templeman LJ found that Suisse itself had applied the mark. He found that the object of section 4(3)(a) of the Trade Marks Act 1938 (equivalent to section (8)(3)(a) of the New Zealand Act) was 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 mark. (An act of one arm of a corporate group was an act by the other as all elements of the corporate group were one and the same.) Templeman LJ disapproved of Revlon Inc trying to manipulate the territoriality of trade marks to their advantage. This is equivalent to some of the arguments against international price discrimination expressed above under parallel

¹⁰⁶ *Revlon Inc v Cripps and Lee Ltd* above n 68.

importation that, distributors segregate markets to their advantage in order to keep prices high.

Buckley LJ found the function of the trade mark was to show that the goods originate from the Revlon group and not necessarily from any particular part of that group. Buckley LJ found that the trade mark had become the house mark of the whole group of the Revlon companies:¹⁰⁷

The mark has become in effect a 'house mark of the whole group'. It has at all material times been intended for use, and has been used to indicate that the goods to which it is applied are goods which originate from the Revlon Group, but not from any particular part of that Group. The exploitation of the mark and of the goods to which it relates is a world wide exercise in which all the component companies of the Group who deal in these particular products are engaged in the course of trade.

Revlon therefore extends the concept of source to cope with the international corporate group.¹⁰⁸ *Revlon* represents a shift away from the strict territorial approach to trade marks which has long held sway. The court recognised that the goods had been put onto the international market and Revlon was attempting to use their claimed intellectual property rights to artificially partition markets to their advantage. Recognising that the Flex trade mark is international is in line with the doctrine of exhaustion which holds that once goods are put onto the international market the intellectual property rights associated with them are all used up.¹⁰⁹

The owner of those rights then has nothing left to deploy against further exploitation of the goods. So, once the rights holder has put protected products on the market or has consented to such marketing, he (sic) loses all rights to object to further exploitation. This effect is indefeasible.

The significance of the doctrine of exhaustion of rights, is that although a trade mark is only valid in the jurisdiction it has registration, judges recognise that trade is international

¹⁰⁷ *Revlon* above n 68, 106 per Buckley LJ.

¹⁰⁸ Warwick Rothnie above n 71, 72.

¹⁰⁹ *Zino Davidoff* above n 1, 636 per Laddie J.

and the origin of the goods remains the same no matter where the goods end up.¹¹⁰ Smithers J set out the law in this respect in *Atari Inc v Fairstar Electronics Pty Ltd*:¹¹¹

Once a manufacturer puts a trade mark on his (sic) goods and sends them into the course of trade on the billowing ocean of trade, wherever people bona fide deal with those goods under that name and by reference to that trade mark, not telling any lies or misleading anyone in any way at all, they are simply not infringing the trade mark. They are not "using" the mark in the relevant sense.

This quote is relevant to the finding in *Revlon* as once the trade marked Revlon goods were put onto the "billowing ocean of trade" consumers were not being deceived as to the origin of the goods. The goods were still the products of Revlon Inc, and the origin of the goods was clear.

The policy behind imposing exhaustion of intellectual property rights in law is that traders may attempt to partition markets to their own advantage and may use their trade marks to this effect. However, trade marks are, and remain, territorial despite the global nature of trade. Following a territorial approach to trade marks would simplify the way trade mark law treats parallel imports and would acknowledge the true nature of the law if not reflecting the factual situation that trade is international.¹¹² Rothnie poses the only issue need be whether a parallel importer was using the trade mark to incorrectly indicate a connection in the course of trade, and if so then the mark would be infringed.¹¹³ This would focus on protecting consumers by avoiding confusion or deception as to the source of the goods. There is some value in simplifying this area of the law. This would avoid the complicated discussions as in *Colgate* and *Transport Tyre Sales Pty Ltd v Montana Tyres Rims and Tubes Pty Ltd* as to which mark was applied in which jurisdiction.

¹¹⁰ D.R. Shanahan *Australian Law of Trade Marks and Passing Off* (2ed The Law Book Company Limited, Sydney, 1990) 511.

¹¹¹ *Atari Inc v Fairstar Electronics Pty Ltd* (1982) 50 ALR 274, 277 (FC) per Smithers J.

¹¹² Warwick Rothnie above n 71, 100 states that the best solution is to adopt a territorial approach to trade mark infringement cases.

E Local Distributor as Assignee

A foreign manufacturer may assign the trade mark rights to a local distributor in order to prevent parallel imports. The leading case in this area of law is *Fender v Bevk & Sullivan*.¹¹⁴ Fender guitars were manufactured in the United States and imported into Australia by Fender Australia. Fender Australia undertook its own advertising and promotion of the Fender products in Australia. The business also included a repair and maintenance service and undertook extensive quality control at Fender Australia's own expense. Sullivan and Bevk began importing new and second hand Fender products into Australia, and Fender Australia commenced trade mark infringement proceedings.

Burchett J found that Fender Australia had built up substantial goodwill independent of the United States manufacturers of Fender products. He found that consumers were likely to understand the trade marks as indicating products acquired from the American producer and distributed by Fender Australia. The marks were seen as badges of commercial origin in Australia, *as well as* of an anterior source overseas. Burchett J strongly affirms the territorial principle as seen in *Colgate*, that trade marks have distinct and separate rights in each jurisdiction they have registration.

The only New Zealand case on this issue is *South Pacific Tyres NZ Ltd v David Craw Cars*.¹¹⁵ This case involved a New Zealand manufacturer who had been assigned the trade mark under a licence agreement. Japanese made tyres bearing the trade mark were imported into New Zealand by the defendant with the addition of "Made in Japan" on the imported tyres. The court did not find consent to use the mark or application of the trade mark under section 8(3)(a) as the tyres were manufactured in Japan with no connection to the New Zealand manufacturer. The relevant point was found to be whether the goods carry the plaintiff's trade marks in New Zealand and not where the tyres are made.¹¹⁶ Subsequently, the words "Made in Japan" on the imported tyres was not sufficient to

¹¹³ Warwick Rothnie above n 70, 100.

¹¹⁴ *Fender Australia Pty Ltd v Bevk & Sullivan* (1989) 15 IPR 257.

¹¹⁵ *South Pacific Tyres v David Craw Cars* [1992] 24 IPR 99 (HC).

¹¹⁶ *South Pacific Tyres v David Craw Cars* above n 115, 104 per Fraser J.

distinguish the New Zealand tyres from the Japanese made tyres and Fraser J felt consumers *may* be led to believe there was a connection with the proprietor in the course of trade.¹¹⁷ The imported tyres were found to infringe the New Zealand trade mark. The case can be seen as authority for the proposition that a New Zealand manufacturer and trade mark owner may be able to prevent importation of foreign made goods bearing the same trade mark, even where those goods are genuine goods.¹¹⁸

The Full Court in *Transport Tyre Sales Pty Ltd v Montana Tyres Rims & Tubes Pty Ltd*¹¹⁹ rejected the doctrine of territoriality of trade mark protection and asserted that Ohtsu had exhausted their intellectual property rights by putting the tyres onto the international market and could not complain of further exploitation of their rights. Transport Tyres was unable to prevent the parallel importation of Ohtsu tyres.¹²⁰ This is a striking difference to the finding in *South Pacific Tyres v David Craw Cars* where although where the goods were made was found to be irrelevant, the court did not find that because the goods were sold internationally the trade mark rights associated with the tyres were exhausted.

The impact of *Montana* may be to limit the effect of *Fender* in preventing parallel importing. By asserting the exhaustion of intellectual property rights in *Montana* the court reduces the ability of an authorised distributor, to whom a mark is assigned by an overseas owner, to complain of the existence of genuine goods in the domestic market.

Mark Davison in his submission to the Australian Intellectual Property and Competition Review Committee illustrates his concerns about the precedent following *Fender*.¹²¹ He provides that *Fender* allows an overseas owner of a trade mark to assign the mark to a

¹¹⁷ *South Pacific Tyres v David Craw Cars* above n 115, 105 per Fraser J. Curiously, Fraser J did not require any evidence of actual confusion. He "inferred" there may be confusion in the market place. However, the case was only an application for interlocutory injunction and was only determining whether there was a case to be heard and perhaps did not require actual evidence of confusion in order to find there was a case to be heard.

¹¹⁸ Edward Glennie "The Use of Trade Mark Law to Prevent the Parallel Importation of Goods" 8 Auck U LR(1999) 1091, 1110; Kirsten Scholes above n 21, 580.

¹¹⁹ *Transport Tyre Sales Pty Ltd v Montana Tyres Rims & Tubes Pty Ltd* above n 60.

¹²⁰ See James Dwyer and David Yates "The Montana Case on Appeal - Dealing with "Parallel Importers"" AIPJ 10 (1999) 111 for further discussion of the case.

¹²¹ "Interim Report" Australian Intellectual Property and Competition Review Committee, April 2000, 23 - 24.

local distributor in order to prevent the parallel importation of trade marked goods. It was his view that the policy position taken on the issue of parallel importing, whatever that may be, should not be capable of being altered by "artificial arrangements". He advocated an amendment to the law making it clear that such arrangements as assigning a mark in order to prevent parallel imports should not be allowed.

If the policy of allowing parallel importing is to allow free flow of goods between borders thereby obtaining economic efficiency, then assigning a mark in order to prevent the imports entering the domestic market is not in line with that policy. Assigning the mark incurs transactional costs which are inefficient. It also defeats the purpose of free trade. However, there is some merit in allowing a trade mark owner to prevent the importation of goods in the set of facts outlined in *Fender* if the goods do indicate two sources of the goods. This is congruous with the traditional function of a trade mark indicating source, just that a trade mark can indicate two different sources. The difficulty remains with *Fender* that the Judge uses concepts more relevant to passing off in the case, such as goodwill and reputation.¹²²

F ***Second Hand Goods***

Burchett J in *Fender v Bev & Sullivan* found that the importation of the second hand guitars did not infringe Fender Australia's trade marks. There was a definite distinction made between the new guitars and the second hand guitars. Burchett J found that the trade marks on the second hand goods did not indicate a connection between the seller and the trade mark owner. The trade marks also did not indicate any trade connection between the trade mark owner and the second hand goods.¹²³ Once goods are bought for consumption they are no longer in the course of trade. For infringement to occur there must be use of the mark in a trade mark sense in the course of trade, so if the second hand goods are not in the course of trade, no infringement can occur. Burchett J focuses very

¹²² See below under *Second Hand Goods* for a discussion of how Burchett J in *Fender* uses concepts more appropriate for passing off in reaching his decision.

much on goodwill, not usually the subject of trade mark infringement. This view has been subject to much criticism. It is Rothnie's submission that business goodwill is irrelevant in an infringement action. The real issue, according to Rothnie, is whether the defendant is using the trade mark as a trade mark inconsistently with the proprietor's exclusive rights.¹²⁴

Burchett J allows the theoretical arguments for and against parallel importing to form part of the subject matter of trade mark infringement. This emphasis on matters traditionally the subject matter of passing off can be seen in the Judge's reliance placed on the fact Fender Australia had its own repair service and had undertaken significant promotional activity at Fender Australia's own expense, as considerations in finding for trade mark infringement. These concerns can be seen as theoretical arguments against parallel importing, namely anti free-rider sentiments. *Fender* is the only trade mark infringement case to consider theoretical arguments against parallel importing. *Fender* therefore provides useful ammunition for a trade mark owner to use theoretical arguments against parallel importing in preventing those imports entering the domestic market. If the courts follow *Fender* and find that goodwill is part of trade mark infringement, it will be easier for trade mark owners to use arguments against parallel importing in order to establish trade mark infringement.

Fraser J in *David Craw Cars* contrary to *Fender*, found that the fact the tyres were second hand made no difference to the question of infringement.¹²⁵ Fraser J found there was nothing in the Trade Marks Act referring to new or second hand goods, and that the Act must apply to both new and second hand goods.¹²⁶ The question to be decided was whether there was use of the trade mark in the course of trade.¹²⁷

¹²³ *Fender v Sullivan & Bevk* above n 114, 265 per Burchett J.

¹²⁴ Warwick Rothnie above n 71 89.

¹²⁵ The same view is expressed by Salmon J in *Composite Developments (NZ) Ltd v Kebab Capital Ltd* [1996] 7 TCLR 186.

¹²⁶ *South Pacific Tyres v David Craw Cars* above n 115, 104 per Fraser J.

¹²⁷ These cases are not necessarily said to be good precedent and *Fender* is still useful authority despite the criticism it has been given. Fraser J in *David Craw Cars* and Salmon J in *Composite Developments* was said to have a sympathetic/empathetic view of the plaintiff's case. To find that the Act applied to new and not to second hand goods Fraser J said at 104: "obviously that would have a devastating effect on the plaintiff's business." See Edward Glennie above n 118, 1111 and Kirsten Scholes above n 21, 581.

G Registered User

In the *Diana Oil* case¹²⁸ a Greek company was the Australian owner of the trade mark for *Diana* olive oil. The Greek company appointed as exclusive distributor for Australia Delphic whom was the registered user for the trade mark. A company called Elco obtained supplies from the Greek company.¹²⁹ In this case the registered proprietor could not have complained of trade mark infringement as they had consented to the use of the trade mark by supplying stocks to Elco. If the registered proprietor could not complain of infringement then neither could the registered user. However, if the trade mark had been assigned to Delphic, or the Greek company had not consented to Elco's sale of the oil, then Delphic may have been able to use the trade mark to prevent the parallel importation of the oil.

H Recent Developments in the European Union

The European Union has specific statements in their trade mark law as to the circumstances when a proprietor may oppose parallel importing. These are of course assisted by the interpretation of those laws by case law, and Articles 30 and 36 of the Treaty of Rome which aims to reconcile the respective rights of the proprietor of the trade mark and of the parallel importer.¹³⁰

Article 7 of the Trade Mark Directive 89/104 provides:

¹²⁸ *Diana Oil* (1987) IPR 545.

¹²⁹ This broke the Greek company's agreement with Delphic and Delphic would have had a case for breach of contract.

¹³⁰ *Pharmacia & Upjohn* above n 96, para 29 per Advocate-General Jacobs.

(1) The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent.

2) [Exhaustion of rights] shall not apply where legitimate reasons for the proprietor to oppose further commercialisation of goods, especially where the condition of the goods is changed or impaired after they have been put on the market.

In *Silhouette International Schmied v Hartlauer Handelgesellschaft*¹³¹ Silhouette manufactured spectacles in Austria and contracted with a purchaser in Bulgaria for the sale of outdated models. The goods re-entered the Community by way of the parallel importer, Hartlauer. The ECJ found the trade mark owner could rely on its trade mark rights to oppose the imports. The Court stated that Article 7(1) of the Trade Mark Directive does not permit Member States to incorporate the principle of international exhaustion into their laws. Thus, following *Silhouette* it may be possible for a trade mark owner to successfully sue the parallel importer for infringement of the trade mark where the products are put on the market outside the Community even with the consent of the trade mark owner.¹³²

The case of *Zino Davidoff SA v A & G Imports*¹³³ severely limits the impact of *Silhouette*. Davidoff sued for trade mark infringement relying on *Silhouette*. Laddie J agreed with the judgment in *Silhouette* that no member state could impose international exhaustion.¹³⁴ The proprietor of goods placed on the market outside the EEA could use their trade mark to object to those goods being imported into the EEA.¹³⁵ However, Laddie J believed the

¹³¹ *Silhouette International Schmied v Hartlauer Handelgesellschaft* [1998] CMLR 953.

¹³² For a fuller discussion of this case see Llewelyn "Parallel Imports and Intellectual Property Law in the European Union: Recent Developments" AIPJ 10 (1999) 57.

¹³³ *Zino Davidoff* above n 1.

¹³⁴ The reason for this was said to be that it should not be open to member states to provide in their domestic law for exhaustion of intellectual property rights because some would provide for international exhaustion and some would provide for Community exhaustion and this would give rise to barriers to free trade and freedom to provide services: see Laddie J above n 1, 639.

¹³⁵ *Zino Davidoff* above n 1, 640 per Laddie J.

effect of *Silhouette* is to enable a trade mark owner to exclude the goods from the EEA whatever mark they carry in every circumstance. He believed:¹³⁶

This illustrates how *Silhouette* has bestowed on a trade mark owner a parasitic right to interfere with the distribution of goods which bears little or no relationship to the proper function of a trade mark right.

Davidoff clarifies the effect of Article 7(1) by stating that international exhaustion of rights cannot be asserted. However, if the trader has agreed expressly or otherwise to the entry of the goods to the EEA, or, had directly or otherwise, placed the goods in the hands of a third party, the trader could *not* then use the claimed trade mark rights to prevent parallel importation of goods.¹³⁷

“Legitimate reasons” in Article 7(2) to oppose further commercialisation of goods is where the physical and or mental condition of the goods is adversely modified.¹³⁸ This change to the goods must be substantial. Physical change to goods must be an adverse change to the original condition of the goods inside the packaging as set out in *Bristol-Myers Squibb* and *Pharmacia & Upjohn*.¹³⁹ A change to the mental condition of the goods occurs where changes to the packaging or methods of promotion detract from the image which the trade mark owner has succeeded in creating around his trade mark.¹⁴⁰ This was said not to include damage to the reputation by merely selling the goods more cheaply than the proprietor wishes.¹⁴¹

¹³⁶ *Zino Davidoff* above n 1, 644.

¹³⁷ *Zino Davidoff* above n 1, 645 per Laddie J.

¹³⁸ *Davidoff* above n 1, 651 per Laddie J.

¹³⁹ See *Bristol-Myers Squibb* above n 95 and *Pharmacia & Upjohn* above n 96 for the laws relating to relabelling and repackaging of pharmaceuticals affecting the condition of the goods. Also note that Laddie J in *Davidoff* above n 1, 648 was sceptical of the statements in *Bristol-Myers Squibb* and *Pharmacia & Upjohn* that untidy packaging can affect the reputation of the trade mark and a trade mark owner can object to parallel importing on that basis. Laddie J at 648 states “[I]t is surprising to learn that registered trade marks vest this additional power in the proprietor”. However, *Davidoff* was not a case concerning pharmaceuticals.

¹⁴⁰ *Davidoff* above n 1, 651 per Laddie J.

¹⁴¹ *Davidoff* above n 1, 651 per Laddie J. This is because this would allow the trade mark owner to artificially partition markets to their own commercial benefit and this is contrary to the Community goal of free movement of goods.

An important aspect to Article 7(2) is that the Directive uses the word "especially". This means that where the condition of the goods has been changed is not the only example where a proprietor has a legitimate reason to oppose exploitation of goods, but one of the reasons to oppose exploitation of the goods.¹⁴²

Article 7(1) of the Directive somewhat resembles section 8 of the Trade Marks Act, that a trade mark owner cannot object to further commercialisation of a mark if they have consented to use of the mark, or applied the mark to the goods. Trade mark law in New Zealand makes no mention of exhaustion of rights, nor does it outline the circumstances where a trade mark owner may oppose parallel importing.¹⁴³ New Zealand could benefit from a section such as Article 7(2) outlining that in certain circumstances, where legitimate reasons exist, a trade mark proprietor may oppose further exploitation of the goods. New Zealand is not a union of states such as the European Union obviously, but there would be no harm in clarifying the position of the law towards exhaustion of rights. The case law from the European Union would be useful in interpreting such a section. The case law may be helpful for what amounts to a "legitimate reason", namely what amounts to a substantial change to the physical or mental condition of the goods.

I Summary as to the Ability of Trade Mark Law to Prevent Parallel Importation of Goods

The parallel importation must be use in the course of trade of the trade mark of another. However, where the trade mark owner applied the mark him or herself to the goods, or, expressly or impliedly consented to the use of the mark, the owner will not be able to complain of the existence of the parallel imports. A local distributor who is a registered

¹⁴² See *Davidoff* above n 1, 647 per Laddie J and *Bristol-Myers Squibb* above n 95, para 39 per Advocate-General Jacobs.

¹⁴³ The New Zealand situation is of course not similar to the European Union as New Zealand is not a union of states. The question in the EEA is whether there is intra-community exhaustion or international exhaustion of intellectual property rights. However, even in countries where a union of states does not exist, exhaustion of rights is still a point for discussion. There is no harm in clarifying the actual position of the law as to exhaustion, even if New Zealand is not part of any union of states.

user will be unable to prevent parallel imports where the proprietor of the mark is unable or unwilling to do so. Where a trade mark is assigned a trader may be able to prevent parallel imports if he or she has established considerable goodwill surrounding the trade mark. Exceptions to this appear to be when there are significant differences to the quality of the goods. *Davidoff* provides scope to prevent parallel importation where there has been change to the physical or mental condition of the goods in the unique conditions of the EEA.

There is divergence of view as to whether there is international exhaustion of trade mark rights or whether the territorial nature of trade marks should prevail. *Colgate* and *Fender* in relation to new goods, reinforce the territorial nature of trade marks. Other cases acknowledge that trade is often universal and goods can indicate the same source no matter which country they are imported into.

There is also divergence as to the function of trade marks. There may be scope for some creative interpretation of the function of trade marks and the interpretations of what constitutes difference of quality in goods.

However, much of the case law remains untested in New Zealand, and whether a trade mark owner can claim that parallel imports infringe that trade mark is unclear. Many of the commentators appear hungry for a definitive statement of the law in this area.

Trade marks were never designed to deal with parallel importing. If a trader can use his or her trade mark to prevent parallel importing it may be due to a chance that when the Copyright (Removal of Prohibition on Parallel Importing) Amendment Act 1998 was drafted, the drafters did not put any thought to the Trade Mark Act 1953 and whether that Act could be used to prevent parallel importing. The law should be clarified as to whether a trader can or cannot use trade marks to prevent the parallel importation of goods. This could take the form of a section in the Trade Marks Act stating that an owner of a trade mark can or cannot take infringement proceedings against parallel importers. This section

could be similar to that of Article 7(2) of the Trade Marks Directive in the European Union.

In terms of competition policy, the amendment to the Copyright Act may be seen as acceptable because it reduces barriers to the free flow of goods between countries. But unless the Trade Marks Act is similarly amended the position of the law is unclear and there is doubt as to whether the goals of free trade outweigh intellectual property rights protection. This is an undesirable state for the law to be in.

J Should a Trade Mark Owner be able to Prevent Parallel Importation of Goods?

1 The intellectual property rights in trade marks

Any discussion of whether parallel importing should be allowed involves the weighing of free trade interests versus the protection of intellectual property rights. Such concerns are more likely to be appropriate for competition law as free trade policies are a subset of competition policy. As set out earlier, these concerns are difficult to balance.

It may be useful to analyse what protection trade marks deserve as intellectual property rights. Trade marks are said to represent valuable property rights.¹⁴⁴ Trade marks can be bought and sold as any asset for vast sums of money. Certain trade marks may come to represent the value in investing in goods and services. If other traders could use this investment in the mark for themselves, then there would be no incentive to invest in providing quality goods and services.¹⁴⁵ If traders are given incentives to invest, ie trade mark protection, then consumers benefit from having more high quality goods and services available.¹⁴⁶ The commercial value of trade mark cannot be denied. C.D.G

¹⁴⁴ Warwick Rothnie above n 22, 10.

¹⁴⁵ Warwick Rothnie above n 22, 10.

¹⁴⁶ See the quote from Pickering on page 24 above where he states that trade mark protection benefits consumers because it creates incentives to invest resources in providing quality goods. This is also

Pickering states there is "nothing wrong in treating a trade mark as an asset to be exploited by its owner".¹⁴⁷

While a trade mark may be a valuable asset, a trade mark does not necessarily represent innovation or creativity. Trade marks can be viewed slightly differently to other forms of intellectual property. Intellectual property rights are designed to protect ideas that represent creativity or innovation from exploitation by others. Cornish states intellectual property to be "a branch of the law which protects some of the finer manifestations of human achievement".¹⁴⁸ For example, a patent has to have some level of invention, and copyright is granted automatically on the completion of any creative or artistic material. Trade marks have to be distinctive in order to be registrable and that is not synonymous with creativity or innovation.

A trade mark does not have to be novel, inventive or even creative. Trade marks are often confused with or as brands. A trade mark is often applied to a novel invention. For example, a new type of car door may be designed, and a trade mark may be attached to that door in order to associate that design with a trader. The creativity or innovation is in the door itself, rather than the mark attached to it. It does not mean the trade mark is less worthy of protection, but that trade marks are labels in order to identify goods and services rather than examples of innovation.

Some trade marks are highly creative and much design and artistic work has gone into them. Other trade marks may be word marks that do not represent creativity although they can at the same time be distinctive in application to goods or services.

In relation to parallel importing, if the economic value of free trade is valued above the intellectual property rights in trade marks, the incentives to innovate may not necessarily

supported by the case of *S.A. CNL SUCAL NV v HAG GF AG* above n 82, 583 where the Advocate-General states that trade mark protection encourages manufacturers to develop new products or maintain the quality of existing ones.

¹⁴⁷ C.D.G Pickering above n 26, 58.

¹⁴⁸ W.R. Cornish *Intellectual Property* (3rd ed Sweet & Maxwell, London, 1996) 3.

be reduced as trade marks do not always represent ingenuity.¹⁴⁹ Thus, the predicted effect of parallel importing, that the incentives to innovate are reduced, may not be borne out in fact.

The value of allowing parallel importing has not been borne out in fact either. The frustration an authorised distributor/trade mark owner may feel where parallel imports of lesser quality goods are imported, and the brand and/or trade mark is devalued is understandable viewing the trade mark as a valuable asset. It may not be possible to claim though that the creative or innovative value in a trade mark is worth protecting over and above a supposed benefit to consumers and the economy. A trade mark owner may claim though that the trade mark deserves protection because the public benefits from trade mark protection, which encourages manufacturers to provide quality goods and services. Furthermore, in light of the fact parallel importing has not been proved to benefit consumers individually, or as a whole, the trade mark remains a valuable asset that should not be devalued by goods of lesser quality or downgrade advertising entering in the domestic market.

Even if trade marks are only labels that can be applied to inventive or creative goods, parallel importing may be a disincentive to manufacturers. A manufacturer may not wish to take the risk that the mark is not adequately protected. The chance that the label a manufacturer applies to an invention could be used by someone other than the authorised distributor may be a disincentive enough to manufacturers to innovate, improve and create. Protecting the trade mark an innovative manufacturer applies to goods is just part of the intellectual property protection package, even if the trade mark itself is not innovative. A manufacturer should not be given any disincentives to innovate.

¹⁴⁹ The argument is not as clear cut as valuing free trade over intellectual property rights but the conflict between the two values is obvious. It certainly is the aim for the World Trade Organisation and the Trade Related aspects of Intellectual Property Agreement to co-exist but the difficulty with parallel importing policies is evident. This is highlighted by the fact no agreement could be made over parallel importing at the Uruguay Round of World Trade Organisation talks. While the international agreements are meant to be interpreted compatibly, parallel importing is a point of debate as it is not specifically catered for in either agreement.

Economic reasons are primarily given to justify parallel importing. Yet authorised distributors as trade mark owners make significant contributions to the economy as well as parallel importers. Perhaps that value should be recognised in allowing the trade mark and its associated reputation to prevent the parallel importation of the trade mark owners range of goods.

2 *The aim of trade mark law not served*

It is the Writer's view that the existence of parallel imports in the market cause confusion and therefore the aim of trade mark law to protect consumers is not served.¹⁵⁰ Consumers may wonder why branded goods are sold at stores that do not usually sell such goods. Consumers may also wonder why the parallel imported goods are comparatively cheaper. Consumers may believe there is something "wrong" with the parallel imported goods.¹⁵¹ Branded goods sold at discount stores bring down the reputation of the products and confuse the public. The public may be confused as to the identity and image of the brand, the quality of the products, and their availability at stores that do not usually sell expensive branded goods. Consumers may be confused by the existence of parallel imports, and parallel importing conflicts with the goals of trade mark law in protecting consumers.¹⁵²

IV CONCLUSION

A quick reading of section 8(3) of the Trade Marks Act may lead the reader to believe that trade marks can be used to prevent parallel imported goods bearing a trade mark entering the domestic market. The use of this section, or sections of similar effect, by

¹⁵⁰ See pages 14 and 15 for the view that the aim of trade mark law is to avoid confusion and thereby protect consumers.

¹⁵¹ Some of this confusion may be allayed by sufficient information to consumers from the sellers of the goods as to their source and quality.

¹⁵² See below under *G Recent Developments in the European Union* for what the writer suggests would be a more suitable and helpful statutory provision as to the position of the law towards parallel importing.

courts does not leave a clear picture as to whether a trade mark owner can or cannot prevent parallel importing.

Much of whether a trade mark owner can prevent parallel importing depends on the definition of the function of a trade mark the judge uses. The traditional view is that a trade mark indicates the source of the goods or services. This view is up for debate though. Some case law and commentary argue that trade marks indicate quality of the goods and services.

If a trade mark owner claims that trade marks indicate quality, he or she has a higher chance of preventing parallel imported goods entering the market. If the parallel imported goods are of lesser quality, and the judge accepts quality is a function, or part of the function, of trade marks the judge may be more willing to find the mark has been infringed. What constitutes quality of goods is not something that is defined by legislation or case law.

The law in relation to trade marks and parallel imports requires clarifying. New Zealand could benefit from legislation such as in the European Union that is clearer as to the circumstances when trade marks can be used to prevent parallel importing.

Even if a trade mark owner can establish infringement by the parallel imported goods, the question arises whether the trade mark owner should be able to use their trade mark rights to block the goods. In theory, trade marks are intellectual property rights and registration confers an exclusive legal right to use that mark in application to specified goods and services. Parallel importing theory aims to reduce barriers to trade and increase competitiveness so consumers can receive goods at the best prices. Trade marks can be seen as a barrier to trade and are not easily reconciled with parallel importing as trade marks can block parallel imported goods.

Effective intellectual property protection promotes the creation of innovation and there are positive flow-on effects for society. These benefits are increased investment and

incentives to businesses. The question is whether parallel importing endangers the protection of trade marks as intellectual property rights. And, if all else is satisfied, then should a trade mark owner be able to prevent parallel importing. Parallel importing can devalue intellectual property rights as the incentives to create and innovate are reduced where a trader can reap the benefits of another's efforts.

Trade marks do not necessarily represent innovation or creativity. Trade marks are labels which identify goods and services. Parallel importing may not devalue intellectual property rights to a great extent in relation to trade marks, because trade marks are not always creative or innovative.

Trade marks have undoubted commercial value for owners. Trade marks also serve to protect consumers. They do so by allowing consumers to distinguish different goods, and make informed choices about purchases. In this way, trade mark law reduces confusion to consumers. Parallel importing may confuse consumers. Different trade mark images may begin to be circulated in the market place, as well as radically different prices and availability of trade marked goods at stores that are not authorised distributors.

Overall the concerns are difficult to balance. This is reflected in the conflicting case law that exists. At best, the law reflects the difficulty of reconciling two policies that both claim to have consumers' interests at heart, but have very different methods of achieving that goal. Parallel importing as not proved itself so beneficial to consumers that it warrants the devaluing of trade mark rights. Trade marks serve a valid function in society of protecting consumers interests. Parallel importing mitigates that function by causing confusion.

Beckwith-Myers Squibb v Paranova [1996] ECR I-3457; [1996] FSR 215

Conter-John BV v American Home Products [1978] ECR 1823

Changzhou Heidrick et Cie Moscopola Societe Anonyme v Buxton [1981] 47 RPC 28

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