India: Legality of parallel imports vis-à-vis Trade Marks Law

The term “parallel imports” strikes a chord of discord amongst brand owners and the general public today. In fact, the moniker “grey market goods” is also very misleading, as the term in itself implies that the goods are somehow “illegal” or “not original”, when it is not so, as it is only the distribution channels and the source that differs.

Definition

Parallel importation can be defined as the importation of goods outside the distribution channels contractually negotiated by the manufacturer. In more simplistic and practical terms:

- Mr. A is an importer in India.
- A hypothetical product, say a book, is available for sale in India for INR 2,000, but the same is available for sale in Bangladesh for INR 1,200.
- Mr. A legally imports the said book from Bangladesh and sells it at a profit margin in India.

The above example illustrates the basic concept of parallel importation. However, the concept in itself is far from simple from a legal point of view. In order to look at the term “parallel importation” from a legal point of view, it is imperative to be familiar with the concept of Intellectual Property Exhaustion of Rights

Principle of Exhaustion

Exhaustion herein refers to a "limit" to intellectual property vis-a-vis sale of an item. This limitation is often referred to as the First Sale Doctrine. This limitation is predicated on the theory that the owner of a good "A" (the name/logo for which is trademarked) loses control over the future sale of the good, whether by further sale, rental, etc., the brand owner "exhausts" its exclusive right to sell the said good "A".

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1 http://www.wipo.int/sme/en/ip_business/export/international_exhaustion.htm
However, the above is only a general idea about the principle/doctrine as there are different types of exhaustion –

i. **International Exhaustion**

Under this doctrine, the brand owner exhausts its rights when the product is legally sold (under the brand holder’s consent) in *any part of the world*. Therefore, this theory basically envisages the world as one market, without any territoriality.

ii. **National Exhaustion**

As opposed to the above-mentioned international theory, this theory limits the “market” to the national/domestic market. Therefore, under this doctrine, once the product is legally sold in the domestic market, the brand owner exhausts its rights and cannot claim any further profit arising out of the said product. However, in this regard, based on the country and its laws, the brand owner may be able to prevent "unauthorised" import of its original goods into the country.

iii. **Regional Exhaustion**

This doctrine basically differs from the above two on the basis of the “market”. In fact, this is akin to national exhaustion, however the market herein refers to a specified region/or a group of countries, rather than a single country. Such a “group” need not explicitly be bound by a specific geography. A group of countries such as the Commonwealth may also adopt such a doctrine. The most prominent example of the doctrine of regional exhaustion is the European Union, wherein exhaustion covers the European market.

**The relationship between Exhaustion and Parallel Imports**

The legality of parallel imports is largely governed by the doctrine of exhaustion being followed by different countries. For example, a brand owner has more leeway/freedom in a country following the principle of national exhaustion, as compared to international exhaustion, as the rights of the brand owner are exhausted "internationally", therefore theoretically the brand owner would not be able to oppose the import of its products into other jurisdictions.

**Trade Marks Act, 1999, on Exhaustion**
Section 30 (3) - Where the goods bearing a registered trade mark are lawfully acquired by a person, the sale of the goods in the market or otherwise dealing in those goods by that person or by a person claiming under or through him is not infringement of a trade by reason only of-

(a) the registered trade mark having been assigned by the registered proprietor to some other person, after the acquisition of those goods, or

(b) the goods having been put on the market under the registered trade mark by the proprietor or with his consent.

Section 30 (4) - Sub-section (3) shall not apply where there exists legitimate reasons for the proprietor to oppose further dealing in the goods in particular, where the condition of the goods, has been changed or impaired after they have been put on the market

The question in Section 30 is whether the word market refers to National Market or International Market. You would also note from the above that the provisions are unclear about what principle of exhaustion India adheres to vis-à-vis trademarks. However, it is evident that parallel imports are prima facie permissible as per Section 30 (3) (b) of the Act.

Trade Marks Act, 1999, on such Infringement

Section 29(1) - A registered trade mark is infringed by a person who, not being a registered proprietor or a person using by way of permitted use, uses in the course of trade, a mark which is identical with, or deceptively similar to, the trade mark in relation to goods or services in respect of which the trade mark is registered and in such manner as to render the use of the mark likely to be taken as being used as a trade mark.

Section 29(6) - For the purposes of this section, a person uses a registered mark, if, in particular, he –

(a) affixes it to goods or the packaging thereof,

(b) offers or exposes goods for sale, puts them on the market, or stocks them for those purposes

(c) under the registered trade mark, or offers or supplies services under the registered trade mark.
(d) imports or exports goods under the mark, or

(d) uses the registered trade mark on business papers or in advertising.

However, such questions of exhaustion and infringement, as well as your question about how to restrain such parallel importation, was largely answered by the Delhi High Court in the landmark case of Samsung Electronics Co. Ltd. & Anr. v. Kapil Wadhwa & Ors.

A. Samsung Electronics Co. Ltd. & Anr. v. Kapil Wadhwa & Ors.

i. Brief Facts: Samsung had sued Kapil Wadhwa (a former authorized dealer of Samsung products), for unauthorized import of genuine Samsung printers from a foreign market into India and subsequent sale thereof. The said printers as sold by Kapil Wadhwa were cheaper than the one sold by Samsung in India.

ii. Judgment of the Single Bench dated February 17, 2012: The Learned Justice Manmohan Singh in his judgment held that India adheres to National Exhaustion, therefore such importation by anyone who is not the right holder or is unauthorized to make such imports would be culpable of infringement.

iii. However, the order of the Single Bench was set aside by the Division Bench of the High Court.

Relevant issues before the Court and findings (By the Division Bench, which overruled the Single Bench’s decision):

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<th>Issue</th>
<th>Held vide Order dated October 03, 2012</th>
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<td>Whether India adheres to National Exhaustion or International Exhaustion?</td>
<td>International Exhaustion of Rights</td>
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<tr>
<td>Whether unauthorized parallel importation of genuine goods into India is permissible?</td>
<td>Yes. However, the sale of such printers is permissible under certain conditions – “the respondents shall prominently display in their showrooms that the product sold by them have been imported from abroad and that the respondents do not give any warranty qua the goods nor provide any after</td>
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sales service and that the warranty and after sales service is provided by the appellants personally”

| Is consent from the right holder required to import for the purpose of sale? | No. |

The above sums up the current law of the land. However, an appeal has been filed against the said order of the Division Bench with the Supreme Court of India, and the same is pending with the Court.

The above law as it stands is being adhered to with respect to parallel importation, as evident in the case of Western Digital Technologies Inc. vs Mr Ashish Kumar & Anr wherein the Plaintiff had obtained trade mark registrations along with registering the said trademarks with the Customs Authorities under the Intellectual Property Rights (Imported Goods) Enforcement Rules, 2007, under which the Plaintiffs are entitled to specifically prevent the import of infringing goods bearing the said trademarks. The Defendant was importing genuine goods from “unauthorized” channels. However, the parties agreed to amicably resolve the matter and the Defendant agreed to affix a label on the imported products to show that the goods have been imported and are not supported by an authorized warranty of the Plaintiff. The said suit was decreed on the following terms –

“(1) Label on products and packaging: A clear, un-removable and prominent label on both the packaging and product itself informing customers that the hard disk drives of Ambitious Marketing are:

   (i) Parallel imports from _____________country;
   (ii) Not supported by Western Digital warranty services or customer care;

(2) Invoices: All invoices issued by Ambitious Marketing as also by third parties who sell the products must also contain (i) to (ii) above;

(3) Marketing materials: Any advertising, marketing, offers for sale etc. for the WD parallel imported products - whether on a third party e-commerce site or in physical premises or in print matter must contain (i) to (ii) above;

(4) Warranty and After Sales services:

   (iii) After sales services provided by Ambitious Marketing to be prominently indicated in signage at physical stores(whether the stores are run by Ambitious Marketing or by any authorized
agent) as well as on online portals (whether by Ambitious Marketing or by any third party) where the goods are sold;

(iv) Terms of service must be drafted so that there are no differences in services and warranties between products offered by Western Digital and Ambitious Marketing;

(v) Terms to be printed on all invoices as also displayed in the online market places where the goods are sold by the defendants;

(vi) The warranty should at least run for the same duration as Western Digital’s warranty;”

The above case lends credence to the conclusion that even if a brand owner were to object to such parallel importation of genuine goods into India, the importer may continue to import and sell the said products in India by affixing the necessary labels on the goods.

CONCLUSION

In view of the above and as per the current Indian law on such matters, parallel importation is permissible if certain compliances are adhered to, as is inferable from the case of Western Digital Technologies Inc. vs Mr Ashish Kumar & Anr. However, a brand owner may certainly initiate action in case the goods being imported are not original or are of such a nature that it damages the goodwill and reputation of the trade mark.

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