Trade marks without borders – parallel importation into Australia

Different international markets have different price tolerances and other characteristics, and trade mark owners therefore commonly divide the world into territories to maximise return on brand investment. Where branded goods are sold at different price points in different countries, there is an obvious incentive to import products from lower-priced jurisdictions to higher-priced markets. Parallel importation concerns the vexed question of the extent to which a trade mark owner should be able to control the flow of goods once they have been genuinely marked at their source. Recent cases suggest that Australian trade mark owners may now be able to prevent parallel importation of their branded products in some cases and this may make parallel importation a risky business.

The parallel importation debate involves the competing doctrines of exhaustion (ie. where a trade mark owner’s rights to control marked goods expires once they are genuinely marked, regardless of where that occurs and who does the marking) and territoriality (ie where a trade mark owner retains control over the international movement of branded goods and the right to prevent sales into different territories).

Section 123 of the Trade Marks Act 1995 provides as follows:

"...a person who uses a registered trade mark in relation to goods that are similar to goods in respect of which the trade mark is registered does not infringe the trade mark if the trade mark has been applied to, or in relation to, the goods by, or with the consent of, the registered owner of the trade mark."

While the provision does not actually refer to parallel importation at all, it was commonly believed that the intention of the section was to embody the doctrine of exhaustion. It was indeed a common although not universal view that a mere importation of goods (without other promotional use of the mark) did not actually amount to use of a mark as a trade mark by the importer so as to infringe a trade mark registration under section 120 of the Trade Marks Act, largely in reliance on the earlier case of Champagne Hiedsieck et Cie v Buston and a range of cases concerning use of trade marks by authorised intermediaries including Estex Clothing Manufacturers Pty Ltd v Ellis and Goldstein Ltd; see R & A Bailey & Co Ltd v Boccaccio Pty Ltd. Instead, the use of the mark during the course of trade was regarded as being ongoing use of the mark by the proprietor of the mark.

Subsequently, the High Court held in E&J Gallo Winery v Lion Nathan Australia Pty Ltd that the sale of unauthorised products bearing a mark did involve a use of that mark in Australia for the purposes of defeating a section 92 non-use removal application, even though the trade mark owner sold the goods in question to a German retailer and did not in fact intend for them to be sold in Australia at all. That is, the suggestion was that both the importer and the trade mark owner used the mark during a parallel importation scenario. Section 123 was itself advanced as authority for this proposition by the High Court.

If an importer also uses the trade mark during a bare importation and offer for sale scenario, it follows that importation will infringe a registered trade mark unless the alleged infringer can satisfy the requirements of section 123 above, ie. that the owner has consented to the application of the mark. Earlier cases such as Revlon Inc v Cripps & Lee had inferred such consent from a corporate group relationship between companies using a trade mark throughout the world, under which each was deemed to consent to each other’s application of the mark in other territories. However, the court in Brother Industries, Ltd v Dynamic Supplies Pty Ltd expressly refused to follow the Revlon approach, stating that “Brother Japan’s consent for the purposes of s 123 of the Act is not to be implied from the fact that another member of the Brother corporate group may have, contrary to my finding, given its consent.”

It appears clear from Brother and now Paul’s Retail Pty Ltd v Sporte Leisure Pty Ltd (Sporte Leisure), Lonsdale Australia Pty Ltd v Paul’s Retail Pty Ltd (Lonsdale) and Facton Ltd v Toast Sales Group Pty LL
In Sporte Leisure, Paul’s purchased goods from an intermediary in Pakistan who had obtained them from the authorised Indian licensee. However, the Indian licensee’s licence from the trade mark owner only permitted manufacture of goods under the mark for the Indian market. The manufacturer had manufactured the relevant goods for sale direct to Pakistan. Because the evidence showed that the Indian manufacturer knew that the goods would be sold outside India (in Pakistan), its manufacture of the goods was in breach of the licence and could not be said to have been with the consent of the trade mark owner. The importation of the goods therefore amounted to trade mark infringement.

The Lonsdale case also concerned a territorially limited licence. The terms of license allowed manufacture of branded goods in China, but limited sales of those goods to Europe. The goods were sold outside Europe. Once again, this licence breach meant that the trade mark owner could not be said to have consented to the application of the trade mark (for sale outside Europe).

In the Toast case, Toast had acquired some of the affected goods from a Greek reseller who was contractually obliged not to sub-distribute goods other than with the approval of the trade mark owner. Those terms did not however affect the original application of the trade mark, which Facton admitted was with the consent of the trade mark owner. Because the initial application was with the consent of the owner, Toast had a defence under section 123 even though the subsequent sale of the goods to Toast was in breach of contract.

In short, where an initial sale is outside the scope of the relevant trade mark licence, the goods are infringing and parallel importation of these goods will also be infringing. Where the initial sale is within the terms of the licence, subsequent dealings outside the territory are not generally actionable, regardless of whether those dealings breach other contractual arrangements other than in relation to the application of a mark. Where a manufacturer is licensed to apply a trade mark without a territorial limitation, then section 123 will of course excuse subsequent dealings in the relevant goods.

The cases above have created serious uncertainty for parallel importers. Investigating original licences may be impossible, since the terms of such licences are usually confidential as between the licensor and the licensee and because a parallel importer generally has no special insight into the intention of a manufacturer of goods at the time a trade mark is applied, particularly if it is buying the goods some steps removed from that point in the chain of production. The further a parallel importer operates from the original source of the goods, the harder it will be as an evidentiary matter to demonstrate the relevant consent has been provided, not least because a parallel importer may not be in a position to determine the source of the goods or their intended market of distribution at all. Because the main benefit in parallel importation lies in undercutting local prices, the additional administrative time spent in seeking to clear goods for sale (which may well be futile) may deter parallel import activity in Australia.

Footnotes
1. (1930) 1 Ch 330 ; (1929) 47 RPC 28
2. (1967) 116 CLR 254
3. (1986) 4 NSWLR 701
5. (1980) FSR 85
7. (2012) 202 FCR 286
8. (2012) FCA 584

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