PARALLEL IMPORTING AND INTELLECTUAL PROPERTY RIGHTS: NOT ALL IS BLACK AND WHITE; A PEEK INTO THE GREY MARKET

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ABSTRACT

Parallel Importing is a major menace in the arena of intellectual property laws. Various legislatures around the globe are addressing this matter and trying to find a solution to the same. The problem that arises in the matters regarding Parallel Importing is that the goods themselves are bonafide, i.e., the goods in context are not counterfeited or improper in any manner. It is their channel of procurement that is being questioned.

This article analyses what Parallel Importing is and further studies the legal provisions and doctrines that surround the same. The Indian Jurisprudence regarding Parallel Importing is elaborated upon and the position of the Judiciary is established with the help of two important judgments in the subject.

Innovation is the mantra of modern life and safeguarding innovation has been a priority of lawmakers globally. Each new technology and development bring with itself newer challenges which need to be timely rectified. If not, they would pose difficult legal challenges and usurp the rightful profits due to the innovators, creators, patent holders and all stake holders recognized under the ambit of the law. Thus, Intellectual Property laws are a developing arena in the legal landscape and frequently moulds itself to combat the challenges faced and threats posed to stake holders.

Parallel Importing is observed to be one of the challenges faced in the domain of intellectual property laws. Primarily, it is the regulation of unlawful procurement of bonafide goods (non-counterfeit) by entities/ individuals who do not hold legal rights to do the same. It constitutes what is known as a "Grey Market", as the goods sold are genuine – unlike in the "Black Market" – but the channel of importing these goods or procuring them is not recognized by law. Hence, it may be seen as a tricky situation where aspects of intellectual property laws and competition law converge.

Parallel Imports is a term used to describe a situation where articles made and sold in one country (the country of manufacture), are imported into another country (the country of importation), without the consent of the owner or licensee of the intellectual property rights in the country of importation.[1] These goods are later sold in the country of importation at prices lower than their Sale Price fixed by those authorized to sell these goods. Thus, the consumers are able to avail genuine and identical products at a cheaper price and it drives the competitors out of the market, even though the competitors are the ones having the License and Legal Rights allowing them exclusive rights to the sale of the specific product.

The phenomenon of parallel imports is fundamentally distinct from the general notion of piracy. The parallel importer is not, as such, a pirate of intellectual property. Piracy takes place where the articles are manufactured in direct infringement of the intellectual property rights in the country of manufacture. In the case of parallel imports, the imported articles, will in general be non-infringing in the country of manufacture.[2]

[1] George Wei, *Parallel Imports And Intellectual Property Rights In Singapore*, 2 SAcLJ 286 (1990).
[2] Ibid.

One of the first and foremost concerns that have arose is the differences in Intellectual Property laws from one nation to another. Intellectual Property is subject to the municipal laws of each nation due to which the extent of protection offered to License Holders vary. Also, whether these municipal laws can successfully repel such illegal imports and protect the domestic market is another question that poses a concern.

Globally, the problem of parallel importing is intricately related to the Doctrine of Exhaustion. This doctrine states that like how once the owner of a particular good makes a sale of the good exhausts his rights over the sold good, similar exhaustion occur with regard to trademarked goods and the attached rights of the same. This implies that once the owner sells the goods to a particular person/ entity, his rights over further transactions of the goods do not exist. This is why the doctrine is rightly known as the doctrine of first sale. As parallel importing of a good involves multiple transactions, it is not possible to regulate the same unless there are specific and targeted legislations for the same.

Furthermore, the provision enshrined under Article 6 of the Agreement on Trade Related Aspects of Intellectual Property Rights (popularly referred to as TRIPS Agreement) adds to the woes of the stake holders. Article 6 explicitly states that "nothing within this Agreement shall be used to address the issue of the exhaustion of intellectual property rights". Therefore, it is clearly stated that regulations regarding the exhaustion of IP rights fall within the domain of the municipal laws of each state. Hence, it is clearly observed that each nation has either allow or curb the menace of parallel importing within its own legal framework.

When Article 6 of the TRIPS Agreement and Doctrine of Exhaustion is read together, it forms a legal protection to the menace of parallel importing and furthers the need for targeted legislations for the same.

With regard to the Indian laws on curbing parallel importing, the phenomenon is linked to the Principle of Exhaustion under the Trademarks Act of 1999. Two primary issues have been highlighted with regard to this context, the first of which is whether parallel importing may be considered as a violation of Section 29 of the Trademarks Act, 1999. The second moot question is whether India recognizes the principle of International Exhaustion of rights under Section 30 of the Trademarks Act, 1999.

Section 29 of the Act elaborates upon the various instances in which a trademark may be considered to be infringed. However, these conditions of infringement elaborated upon are not broad enough to bring the offence of parallel importing under its ambit directly. This is because of the precarious legal position of the goods under parallel importing. Considering the fact that these goods are genuine products, do bring them under trademark infringement will prove to be a hassle.

Section 30 of the Act elaborates upon the limits on the effect of a registered trademark and Sub-Sections (3) and (4) of Section 30 correlate to the doctrine of exhaustion. Subclause (3) prevents the owner of a trademark from prohibiting the sale of the trademarked goods due to reasons such as the transfer of ownership of trademark from one proprietor to another and enshrines the doctrine of first sale. However, it is followed by subclause (4) which states that the previous provision would not hold in case of legitimate legal grievances. Hence, subclause (4) may be relied upon to prevent parallel exporting.

At this juncture, it is important to analyze where the judiciary stands in such disputes. Unfortunate for entrepreneurs and traders holding Licenses and Authorizations, the Indian judicial precedents with regard to parallel importing are not very reassuring for the protection of the rights. In the 2012 judgment of Samsung Electronics Co. Ltd. v. Kapil Wadhwa & Ors.[3], the judiciary inadvertently laid precedent for protecting parallel imports under the legal ambit. In this dispute, Mr. Kapil Wadhwa was in the business of importing Samsung Printers and other devices from foreign nations and selling them in India. Samsung Electronics Co. Ltd. Was the authorized manufacturer for Samsung Electronic products in India, under the contract of Samsung Korea, as it was a subsidiary of the same. Mr. Kapil Wadhwa sold the goods at a price lesser than that offered by Samsung Electronics Co. Ltd. and thus, was losing customers to the competition. They sought legal recourse and took Mr. Kapil Wadhwa to court for parallel import of Samsung Electronic Goods and violating the rights of Samsung, Korea. However, the court applied the doctrine of exhaustion and stated that once the goods have been sold to Mr. Kapil Wadhwa, the rights Samsung Korea has over the products cease to exist and are exhausted. Thus, if it is imported to India and sold again, it is not a violation of rights or

[3] Samsung Electronics Co. Ltd. v. Kapil Wadhwa & Ors, FAO(OS) 93/2012

trademarks. The Court opined that unless the goods sold are fraudulent, there cannot be any infringement of trademark.

But in this dispute, it should also be observed that Samsung India was the authorized manufacturer. Samsung manufacturing products in India doesn't deny other players the right to import these products from other nations unless there are specific contracts or regulations for the same that have been entered into. Thus, the stand taken by the judiciary would not pose a threat to other entities with more legitimate claims.

The protective stand taken by the judiciary may be observed in the judgment of Warner Bros. Entertainment Inc. v. Santhosh V.G.[4]. In this dispute, the plaintiff is a popular production house holding Copyrights to multiple cinematograph films. One of the films owned by the Plaintiff had finished running its course in the theatres and was scheduled to be sold via DVDs/ cable and satellite agreements etc. They were not made immediately available in India and during that period, the respondent procured a copy of the same from abroad and brought it to India. He then rented it out to others through the Video Library he owned and operated. These DVDs were manufactured strictly for other geographic territories and the producers filed a suit against the respondent for his procurement and illegal renting/circulation of the film. Here, the court held that the doctrine of exhaustion cannot be applicable in matters of copyrights of cinematograph films. Thus, the parallel import and procurement of the goods for business purposes was deemed to be illegal on the part of the defendant.

Parallel importing was a common occurrence in the pharmaceutical industry where medicines and other patented/ trademarked goods are supplied through such alternative channels. However, considering the importance of Medicines and the moral ramifications of controlling their imports and exports, the Doha Declaration of 2001 on the TRIPS Agreement and Public Health, made it clear that Parallel Importing does not extend to Medicines. Therefore, Medicines may be procured through various channels without any hassles or illegalities.

In conclusion, it is once again highlighted that there is no specific legislation in place to target the increasing instances of parallel importing. Parallel importing is a grave menace as it violates the intellectual property rights legally held by innovators, creators, enterprises and

[4] Warner Bros. Entertainment Inc. v. Santhosh V.G., (2009) SCC Online Del 835

other stakeholders. Furthermore, it translates to heavy economic losses to these enterprises due to the availability of genuine goods at lower prices. This needs to be tackled urgently, especially considering the ongoing pandemic.

Even though the concept of cheaper access to quality products may seem enticing to consumers, its legal and economic ramifications extend over industries. Hence, legislators must take active steps to combat parallel importing and strengthen the existing intellectual property laws to foster confidence in entrepreneurs.