
AN INDIAN PERSPECTIVE TOWARDS PARALLEL IMPORTS AND TRADEMARK INFRINGEMENT

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ABSTRACT

Globalization cannot be perpetuated without expanding international trade. The nations all around the world would be constrained to the commodities and services produced within their own national boundaries if the international trade does not expand. The intellectual property rights and the international trade share a stiff correlation as a result of which the dilemma of parallel imports has originated from international trade. Today, the world's markets have been inundated with parallel imports goods which has generated consternation among the general public and brand owners. Such goods may cause turmoil in the importing country, particularly for the entrepreneurs selling the identical goods obtained through alternative distribution methods and are potentially more priced. Therefore, in order to combat such an undesirable competition, the Indian Legal system has independent legislations for each type of intellectual property right i.e., The Trademarks Act, 1999 and The Patents Act, 1970, addressing the issues pertaining to parallel imports in the country. The doctrine of exhaustion regulates the legitimacy of parallel imports, whereby the trademark holder's exclusive rights to import the goods is exhausted when it first reaches the market lawfully and is purchased by the consumers. The TRIPS negotiations were one such formalized arena on an international stratum wherein the issue of trademark exhaustion had been addressed, only to conclude with no conclusion, and leaving it up for the State's domestic legislation to either permit or prohibit third-party importation of the trademarked goods. This conceptual paper attempts to examines the major issues that have been addressed in India in reference to parallel imports and trademarks. Furthermore, the paper aims to analyze how the Doctrine of Exhaustion operates as a constraint on the exclusive rights granted to the patentee as a result of his invention. Lastly, the paper aims to focus on the gaps pertaining to the law of parallel imports.

INTRODUCTION

The escalating cross-border trade carries with itself a complex novel concern with respect to the trademarked goods, as well as an uncertainty among the purchasers of those goods. The notion of trademarks, which serve as a vital bearer of goodwill for the makers of the goods in question had been established in the nineteenth century, as a directive to avoid any ambiguity about the specific good or product. In this era of burgeoning cross-border and worldwide trade and the movement of commodities, the protection of intellectual property rights, especially the rights of Trademark proprietor have been becoming more crucial and significant. In India, prior to any legislation enactment, the common law had been the prevailing notion on this subject. India, like many other countries had mirrored the UK law to a large extent since the enactment of the statute namely, The Trademarks Act, 1999. The entire legislation, including the trademark law has been structured to assist the consumers, and to restrict the right of the proprietor over the trademark goods, so that the consumers can sell the goods on frequent basis. Furthermore, the law pertaining to the Intellectual Property Rights evolves toe to toe with the economic progress, as a consequence of which the doctrine of exhaustion had been established. It was previously manoeuvred under the guise of the doctrine of implied contractual consent. This doctrine states that when the proprietor, or any other person who has been authorised on the behalf of the proprietor, or someone who has been delegated the trademark by the proprietor, sells his trademarked goods in bulk and volume to another person or enterprise, it will be postulated that the person buying those goods will be dealing further in those goods, which also includes re-sale. A lot of efforts and conferences had occurred pertaining to this doctrine, but a significant milestone in the field of Intellectual Property at an international level was the TRIPS Agreement which had been undertaken by the developed countries. The issue pertaining to exhaustion had been discussed extensively during the TRIPS negotiation, but the governments didn't even come close to settling on a single set of exhaustion rules for the new WTO. Nevertheless, they concluded that each WTO member would be free to establish its own exhaustion policy and norms, and Article 6 of the TRIPS would be employed to tackle the issue of exhaustion. As a consequence of which, numerous governments around the world have implemented exhaustion principles. The Indian government has modified its intellectual property rights to fulfil the TRIPS substantive minimum standards, as obligated by the agreement. Parallel Imports is, at its root, a corollary of the Doctrine of Exhaustion and it

functions in the same sense.¹The term ‘parallel importation’ refers to genuine goods that have been legally purchased from the rights holder and then sold at cheaper prices through unauthorized trade routes either in the same market or at a different market. Parallel Importation being a trading practice is governed both under the Intellectual Property Law and the Competition Law. Parallel Importation has a substantial impact on the rights of the traders under the trademark law, as the trademarks assist the traders to establish a goodwill in the market and safeguard their commercial reputation. As a result of which a dispute arises when parallel importation leads to misrepresentation of the origins, quality, or reputation of the trademarked goods.²

CHAPTER I: PARALLEL IMPORTS VIS-À-VIS TRADEMARKS ACT

The notable upsurge in the global trade, as well as price disparities between states for the same good has prompted trade, economic, and intellectual property organizations to reconsider and re-define the scope of rights which are being enjoyed by the trademark proprietor with respect to the goods re-sold by the third parties, once they have been lawfully procured by the proprietor himself. One such platform assessing and redefining the rights of the trademark owners is the Trademarks Act, 1999 which despite of not specifically providing for the doctrine of exhaustion, has organically and intrinsically bestowed with it. The Act which came into effect in the year 2003 has incorporated the recommendations made by the Raghavan Committee Report on Trademarks Law. The Act had been enacted to regulate the use of registered trademarks rather than to regulate the sale and purchase of commodities.³ Though the word ‘parallel imports’ has not been specifically used in the Act, Section 29 and Section 30 of the Act tacitly convey the terminology that forbids the practice of parallel imports.

An infringement action is premised on the obfuscation of a statutory right, in light of which Section 29 of the Act lays down the various acts that constitute trademark infringement and gives the proprietor the right to file a suit against any major competitor if the trademark has been utilized for the same or related goods for which the mark had been registered. Section 30 of the Act states that if the goods bearing a registered trademark have been lawfully acquired, subsequent sales or other dealings in those goods either by the purchaser himself or by a person claiming to depict him will not be considered as infringement if the goods have been placed on

¹Shamnad Basheer and Mrinalini Kochupalli, ‘Exhausting’ Patent Rights in India: Parallel Imports and TRIPS Compliance, *Journal of Intellectual Property Rights*, Volume 13, September 2008, (niscair.res.in).

² Parallel import issues under Indian trademark law - Lexology.

³ Samsung Electronics Company Ltd. and Anr. v. Mr. G. Choudhary and Anr., (2006) 33 PTC 425 (De1).

the market under that mark by the proprietor or with his consent. Furthermore, the proprietor may have a cause of action for trademark infringement against an importer if the genuine goods have been fundamentally altered without the proprietor's approval after they had been placed on the market.

One of the first cases to address the issue of exhaustion of rights in the context of parallel importation was *Bose Corporation v. S Mehta*⁴, wherein the plaintiff's company had provided a warranty on their music system. The warranty was only valid if the defendants could produce a proof of purchase from an authorized dealer (Bose), but they had been importing music systems and providing a limited warranty that was not enforceable in India. The Hon'ble Court had imposed an interim injunction prohibiting the retailer defendants from illegally selling the Bose Corporation digital audio music systems in India, without the authorization of Bose Corporation.

Another case that delved at the issue of parallel imports is *General Electric v. Atlamas Khan*⁵, wherein General Electric had filed a claim against an unauthorized merchant of a General Electric dehumidifier for trademark infringement. In this case, the Hon'ble Court had not only granted an interim injunction but had also designated a court commissioner to confiscate all of the defendant's General Electric dehumidifiers.

While interpreting Section 30 of the Act in *Xerox Corporation v. Puneet Singh*⁶, the Hon'ble Court laid down that the import of secondhand Xerox machines with adequate paperwork will not be constituted as trademark infringement, as long as the machine has not been changed or impaired. Therefore, it was for the first time since the enactment of the Trademarks Act, 1999, the doctrine of exhaustion had been established as international exhaustion.

In *Cisco Technologies v. Shrikanth*⁷, the Hon'ble Court while acknowledging the contentions raised by the plaintiffs that CISCO products such as routers and switches are vital in nature, therefore it is essential to ensure that the counterfeit sales or sales by false representation do not eventuate, granted an ex-parte injunction in favor of the plaintiffs, and barred the defendants from importing computer hardware bearing CISCO trademark. Further, the Hon'ble

⁴ Bose Corporation v. S Mehta, CS (OS) No. 337 of 2006.

⁵ General Electric v. Atlamas Khan, CS (OS) No. 1283/2006.

⁶ Xerox Corporation v. Puneet Singh, CS (OS) No. 2258/2006.

⁷ Cisco Technologies v. Shrikanth, 2006 (31) PTC 538.

Court laid down that it is the responsibility of all the governmental authorities to ensure that the laws are not being violated by anyone.

The most noteworthy judgement which came under this matter is *Samsung Electronics Company Ltd. & Anr. v. Kapil Wadhwa & Ors.*⁸, wherein the Hon'ble Court was faced with two fundamental concerns relating to the doctrine of exhaustion and trademark infringement. The first issue addressed in this landmark judgement was whether the selling of imported, genuine products in India without the approval of the rightsholder constitutes violation under Section 29(1) and Section 29(6) of the Act. The Hon'ble Court after perusing through the arguments of both the parties answered in affirmative, stating that any importer who is not a registered proprietor or permissive right holder, even if he has been importing genuine goods will be liable for infringement under the provisions of the Trademarks Act, 1999. The second issue which arose in this case was whether or not Section 30(3) of the Act recognizes either national exhaustion or international exhaustion. In regard to the second issue, the Hon'ble Court laid down that Section 30(3) does not embrace the notion of international exhaustion, and the Section will only be applicable within the market where the mark's registration extends.

This judgement of the Single Bench had been appealed by Samsung⁹, wherein the Division Bench of the Hon'ble High Court of Delhi laid down that curbing parallel imports will negate Indian consumers access to original products at marketable prices, and that the provisions laid down under Trademarks Act, 1999 are not designed to regulate the sale and purchase of goods, but rather to protect the owners of the trademark and their proprietary rights against the misuse of the trademark. The Hon'ble Court further laid down that because the term 'market' employed in Section 30(3) and Section 30(4) of the Act refers to an international market rather than an Indian market, and since the doctrine of international exhaustion is not recognized under the Trademarks Act, Samsung will not be able to prevent parallel imports of its products in India. In addition, the Court held in this landmark judgement that Section 30(3) is not a proviso of Section 29, and the principle of international exhaustion which allows parallel imports has been enshrined under Section 30(3) of the Act, which states that if a proprietor has reasonable grounds to oppose such import, including material alteration, then such an import will be deemed as illegal. The Hon'ble Court further directed that the appellants would have to clearly disclose in their showrooms that the goods they are selling have been imported from

⁸ Samsung Electronics Company Ltd. & Anr. v. Kapil Wadhwa & Ors, CS (OS) No. 1155/2011.

⁹ Kapil Wadhwa & Ors. v. Samsung Electronics Co. Ltd., 2013 (53) PTC 112 (Del) (DB).

another country, and Samsung will not be offering any warranty or after-sale services on the goods. The decision of the Division Bench of the Hon'ble High Court of Delhi is being reviewed by the Supreme Court which will resolve the issue on the doctrine of exhaustion, and since then Trademarks Act, 1999 has been following the notion of international exhaustion.

The Hon'ble Court in *Phillip Morris Products S.A. v Sameer*¹⁰ laid down that once the products have been purchased in conformity with the law of sales, whether in India or outside India, the sale of those products in India will not constitute as infringement of the registered trademark in India. Therefore, if the imports which are being dealt come within the purview of Section 30(3) of the Act, the importer of the grey market products reflecting later purchases would not be liable for infringement under Section 29 of the Act.

In *Western Digital Technologies Inc. v. Mr. Ashish Kumar & Anr.*¹¹, the defendants had been accused of utilizing illegitimate means to import the genuine goods of plaintiff. The plaintiff had trademark registrations in India, which they had also registered with the Customs Authorities under the Intellectual Property Rights Enforcement Rules, 2007 to prohibit the entry of counterfeit goods carrying their trademarks. However, the parties had agreed to an amicable resolution of their respective dispute relying upon the landmark judgement of *Kapil Wadhwa & Ors. v. Samsung Electronics Co. Ltd.*¹², wherein the defendants had agreed to permanently place and attach a label on the imported products to demonstrate that the goods have been imported and are not encased by an authorized warranty of the plaintiff.

Therefore, from the preceding landmark judgements, it can be inferred that India's trademark law permits parallel imports by embracing the concept of international exhaustion of the proprietor's rights. However, it is imperative to accentuate that if the goods which are being imported are not counterfeit in nature, the proprietor's rights will remain unaffected. The cases of parallel imports are on the upswing, and in order to protect the interests and the rights of the brand owners, the government has undertaken a number of actions to ensure that the counterfeit goods are not being imported by the Customs.

CHAPTER II: PATENT MONOPOLY AND DOCTRINE OF EXHAUSTION

Patent rights, like the other intellectual property rights are comprised of a regional nature,

¹⁰ Phillip Morris Products S.A. v Sameer, 2014 (58) PTC 317 (Del).

¹¹ Western Digital Technologies Inc. v. Mr. Ashish Kumar & Anr., 2016 (Del) 1155.

¹² Kapil Wadhwa & Ors. v. Samsung Electronics Co. Ltd., 2013 (53) PTC 112 (Del) (DB).

which signifies that each patent grants its owner the exclusive right of exploiting the invention within the boundaries of a country or countries where the patent has been granted. A patent is conferred when the invention comprises the three essential features namely-: novelty, non-obviousness and capable of industrial application.¹³ Since the grant of the patent gives its owner an exclusive right to exploit and regulate the use of the patented matter, the owner has the right to prevent the third parties who have not been duly authorized by him from creating, offering for sale, selling or importing the product which is the subject matter of the invention. These eccentric features of a patent, which grant the patentee an exclusive right over their product have constructed the patent into a commercial currency, thereby, enabling it to include as a component of larger commercial transaction at the national and international levels.¹⁴

Patents have long been deemed as form of property, thereby granting the patentee an exclusive right and the liberty to construct, sell and utilize the invention. Whereas, on the other side of the coin, the Doctrine of Exhaustion, also identified as the first sale doctrine, maneuvers to exhaust the exclusive rights of sale and utilize the patented products that have been marketed with the patentee's authorization. A patent monopoly is one which is accorded to the patentee as a reward for his inventiveness and intellectual efforts. However, when the patentee, after obtaining compensation, voluntarily unveils a patented good into the market without imposing any restrictions, the patentee loses the right to exempt other from utilizing or reselling that good, because the patentee has 'exhausted' his rights over the good. This doctrine has been premised on the notion that the patentee has already been recognized and appreciated through the first sale of the product, and he should not be enabled to profit from it again by limiting its resale, dissemination, and use.¹⁵ Thereby, the Doctrine of Exhaustion acts as a limit on the exclusive rights which have been granted to the patentee by virtue of his invention.

Though, the Indian Patent Regime acknowledges the premise of international exhaustion, but prior to the amendment made in the year 2002 in the Patents Act, there had been an absence of the express provisions tackling the quondam of exhaustion. As a consequence of which, it was the Doha Declaration and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), that had elevated into the issue of parallel imports as well as the issue of international exhaustion. TRIPS had been enacted in the year 1994 with the objective of

¹³ V.K Ahuja, *Law Relating to Intellectual Property Rights*, Page no.488,Third Edition.

¹⁴ Vijay Kumar Himanshu, *Patent Monopoly and Doctrine of Exhaustion: Limits on Exclusive Right*, *Journal of Intellectual Property Rights*, Volume 16, November 2011, Microsoft Word - jipr-676.doc (niscair.res.in).

¹⁵ *Supra* note 1.

advancing efficacious and adequate coverage of the intellectual property rights and to ensure that the measures used to impose intellectual property rights do not act as stumbling blocks to the legitimate trade.¹⁶ With respect to patent monopoly and doctrine of exhaustion Article 28 of the TRIPS Agreement read with Article 6 of the TRIPS Agreements, enables each member of WTO to ascertain its own regime on exhaustion, subject to the principles of national treatment, which denotes that the nationals of other parties must be treated no less favorably than rendered to the parties own national, and the principle of most favored nation, which asserts that any leverage granted to the nationals of another country must be extended instantly and irrevocably to the nationals of all the other parties.

The international exhaustion regime which is being followed in India has been generated on the basis of territorial restrictions, therefore encompassing the trade between the nations. Though the Patents Act has not specifically mentioned the term 'exhaustion' in their provisions, but it has been included under the Statement of Objects and Reasons which have been annexed to the Patents Bill, 1999, which was later amended into the Patents (Amendment) Act, 2002.¹⁷ Section 48 of the Act grants the patentee an exclusive right to restrict third parties from creating, using, selling or imported goods but this exclusivity is limited by Section 107A (b) of the Act. The Patents (Amendments) Act, 2002 provision pertaining to parallel imports and the doctrine of exhaustion was found to be too constricting in scope, as a result of which Section 107A(b) had been amended by the Patents (Amendment) Act, 2005 to ensure that there would be no infringement if the patented products are being imported by any person who has been duly authorized under the law to generate, disseminate or sell the patented product.

Nonetheless, it is vital to acknowledge that terms like 'parallel imports' and 'exhaustion' have not been expressly used under the Patents Act, but it is abundantly evident from the various parliamentary debates that have been undertaken prior to the passage of Patents (Amendments) Act, 2005 that Section 107A(b) had been enacted with the purpose of empowering parallel imports and to endorse the doctrine of international exhaustion. Furthermore, while TRIPS grants the member states a great deal of leeway in determining the scope and the extent of exhaustion, the court in situations of conflict wherein the terms laid down under the provision

¹⁶ V.K Ahuja, *Law Relating to Intellectual Property Rights*, Page no.751, Third Edition.

¹⁷ *Supra* note 14.

are ambiguous in nature, should interpret Section 107A(b) in a way that is in consonance with TRIPS.¹⁸

Therefore, the doctrine of exhaustion, which has been evolved in the light of commercial activities has constrained the grant of patent monopoly to create, utilize, sell, and import the patented products.

CHAPTER III: GAPS IN LAW PERTAINING TO PARALLEL IMPORTS.

Parallel Imports are without a doubt one of the most perplexing and intriguing phenomena, but the price differentials which have been generated by the currency fluctuations and tax inequities have raised significant political and economic concerns, in contrast to their evolution and progress. As a consequence of which parallel importation has been constituting an unsettling bargain between safeguarding the intellectual property rights and the liberalization of commerce in commodities and services espoused by organizations such as the World Trade Organization. Although the consumers benefit on the surface because they get the same product at a lower price, but there is a slight speculation that once the owner of an intellectual property right has placed the goods on the market, either himself or through authorizing any other person, there will not much he could do about the subsequent acts of commercial exploitation. Therefore, in such a way parallel importation has a detrimental effect on businesses research capabilities.

Despite the fact that the earlier Indian Merchandise Marks Act of 1958 did not specifically mention neither the term 'parallel imports' nor the doctrine of exhaustion, but still the courts did not anticipate parallel imports as infringing goods.¹⁹ Whereas, in contrast the courts in accordance with provisions laid down under the Trademarks Act, 1999 have granted injunctions to prevent parallel imports of trademarked goods. The authorization of parallel imports has commenced the process of modifying and transforming the nature of trademark law in India.²⁰ As a result, the Indian courts are encountered with a complicated situation in which they must ensure to strike a balance between divergent interests of trademark owners and consumers. Furthermore, another gap in law pertaining to parallel imports is that they also face the challenge of balancing both static and dynamic efficiency, and the only way to ensure this is to pay a reasonable reimbursement to the intellectual property owner in the market of

¹⁸ Supra note 14.

¹⁹ *Albert Bonnan vs. Imperial Tobacco Co., 94 Ind Cas 444.*

²⁰ *Samsung Electronics Company Ltd. & Anr. v. Kapil Wadhwa & Ors, CS (OS) No. 1155/2011.*

the initial admission of the product for Research and Development Activity. However, there has been no provision enacted in the law relating to parallel imports till date to fulfil this gap.

The Division Bench of the Hon'ble High Court of Delhi in *Kapil Wadhwa & Ors. v. Samsung Electronics Co. Ltd.*²¹, had plugged the gaps in the provisions laid down under the Trademarks Act, 1999 wherein the Court ruled that Section 30(3) of the Act does not grant the proprietor any monopoly right based on the notion that he can claim infringement if another person within the same market segment obtains the goods lawfully and sells them. The Division Bench further highlighted that the clause constraints the registered proprietor's ability to oversee commercial exploitation of the products which have been placed on the domestic market. The Court also pointed those parallel imports contribute to the evasion of the product surplus, since, if they are approved, parallel imports lead to the dissemination of authentic registered proprietor products at a lower price, thereby evading the process of accumulating a large quantity of the product surplus. As a result, the economic impact of authorising parallel imports has a deterring effect on the sales and distributions of the registered proprietor.

Besides the gaps in the law pertaining to parallel imports, it also has a deleterious impact on the consumers, because the products generated in parallel imports are unaltered, and therefore there is no method for the consumers to discern between the grey market products and the same product which is reaching the consumer through accredited channels. This is deleterious to the consumer's interest and benefit because the consumer is also unable to receive the warranty and the after sales services which are associated with the product, which in turn damages the goodwill of the proprietor's brand equity.²² Furthermore, due to the change in the product's structure, taste and quality which occurs due to the change in the regional and climatic conditions, products that are peculiar to certain climatic conditions might have an undesirable experience for the consumers.

With regard to the doctrine of exhaustion, which is a correlation to the parallel imports²³, the Indian trademark law has undergone a profound transformation from National Exhaustion to International Exhaustion in recent years. The question of this profound transformation remains significant for both the brand owners and consumers, wherein the brand owners are striving for

²¹ Kapil Wadhwa & Ors. v. Samsung Electronics Co. Ltd., 2013 (53) PTC 112 (Del) (DB).

²² Parallel Imports And International Exhaustion - International Law - India (mondaq.com).

²³ Grey Market - LexForti.

the acceptance of national exhaustion, while the consumers are vying for international exhaustion since it appears to benefit them by diminishing the monopolistic pricing regimes.

Furthermore, with the upsurge of governmental policies attracting and enticing foreign investors, the doctrine of exhaustion has been acting as a stumbling block as the multinational corporations are dubious about the profits they will generate in a developing country like India, as the consumers will make decision depending upon the economic factors, thus resulting in a greater success of the grey market products and acting as a major impediment to the economy's development.

Though it has been asserted that the legislative gaps pertaining to parallel imports which impose limits upon them, enhance the authority of the Intellectual Property Holders over the distribution channels, enabling market fragmentation but such prohibitions run against the spirit of free trade, which has traditionally been a fundamental element of global and regional trade agreements.²⁴ As a result, the legislative gaps pertaining to parallel imports should be addressed ensuring that market democracy, rather than the entrepreneurial tyranny becomes the rule of the future.

CONCLUSION

The statutory enactments pertaining to the intellectual property rights, which are intended to serve a significant role in regulating distribution channels and segmenting markets, may appear to run contradictory to the principles of healthy competition at times. Parallel imports which persist to be at crossroads between a liberalized consumer-centric global economy and stifled innovation and revenue, constitutes of legal and economic repercussions, wherein it has become crucial to avoid consumer deceit and uncertainty about the source or the quality of products, as well as to safeguard the economic interest of the owners of the products. A pertinent issue about whether to allow parallel importation, which is essentially a decision amongst the trade monopolies and free trade has been entrusted to national discretion, thus resulting in a global turmoil. The Indian stance, while in favor of International Exhaustion in terms of the precedents is still being assessed by the Hon'ble Supreme Court of India. Though at first instance, International Exhaustion appears to be ideal approach in terms of consumer welfare as reasonably priced branded product imports in the Indian market may entice not only the traditional brand users, but also the consumers who would be unable to purchase these

²⁴ Parallel Import – Intellectual Property Rights – Astrea Legal Associates LLP.

goods under ordinary circumstances, thereby boosting the overarching sales of the goods. However, on the other side of the coin, the detrimental impacts of parallel imports such as the lack of warranties, lack of post-sale services, the regional climatic conditions, and the decline in the brand image should also be considered. Furthermore, with the advent of the internet market, parallel imports have also become more prevalent than before. Countries like India must enact concise legislations on the issue pertaining to parallel imports in order to ensure that a balance is struck between the two contradictory policy objectives wherein on one hand parallel imports benefit the consumers and encourage free trade and competition whereas on the other hand restriction of certain forms of competition is requisite to entice foreign direct and indirect investment.