PARALLEL IMPORTS AND TRADEMARK INFRINGEMENT: AN INDIAN OUTLOOK

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Abstract

The burgeoning cross-border trade brings with it complex novelty concern with respect to the trademarked goods and further leading to bewilderment among the consumers of those goods. Trademark of the goods since its inception, is being employed as an indicator of the origin of the goods and has also helped the trademark owners or proprietors to protect their goods and develop a brand image in turn. The increase in the global trade lately and price disparity of the same goods in different States, made economic, trade and IP organisations consider and re-define the extent of rights enjoyed by the trademark proprietor with respect to the goods re-sold by the third party, once legitimately procured by the proprietor himself. One such formal platform on an international echelon was TRIPS negotiations where the exhaustion of trademark rights were extensively discussed and debated only to end with no consensus leading to keeping it open for the States' domestic legislations to adopt either to allow imports of trademarked goods by a third party or to follow the contrary. India in its domestic legislation despite of not providing the principle of exhaustion explicitly have inherently and intrinsically endowed with the same. The interpreters of law, the judiciary of India,

bestowed with the chore of social engineering has been precarious in construing the system of exhaustion followed by the Indian law, the latest ruling being in favour of International Exhaustion allowing imports by the third party known as Parallel Imports, only to be challenged in the Apex Court. The principle of trademark exhaustion raises considerable political economic issues and it is in constant evolution and improvement.

I. INTRODUCTION

The term "*Commercial Cannibalism*" was coined by Herbert Spencer for piracy which goes hand in hand with the growth of commerce and is directly proportional to the same. Trade mark law, in turn, was a concept developed in 19th Century as a consumer protection directive so as to avoid any confusion with respect to the origin of a particular good or product. Trademarks serve in particular as an indicator of source and as an important bearer of "goodwill" for the producers of the products concerned. Trademarks can be maintained for an unlimited period of time unlike most other IP rights.[1] In India before any statutory enactment, common law was the guiding principle on the subject. Even after the enactment of statue till its latest one in 1999 i.e. "The Trade Marks Act", India has to a great extent followed UK law, like in many other cases. In this era of rapid growing cross-border and global trade and movement of goods, the protection of IP rights including the rights of Trade Mark proprietor becomes more significant and important. A trade mark owner or proprietor can protect his right to a certain extent but may not use the

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[1]Exhaustion of Trademark Rights, Working Document From The Commission Services, INTERNAL MARKET COUNCIL, http://ec.europa.eu/internal_market/indprop/docs/tm/exhaust_en.pdf.

Trade Marks right to prevent the sale of goods. Since the whole legislation and trademark law aims for the benefit of the consumer, the benefit of restricting the rights of the proprietor over of sold trademark goods is that consumers can re-sell the goods on day-to-day basis. Exhaustion refers to one of the limits of intellectual property rights. Once a product protected by an IP right has been marketed either by an enterprise or by others with the proprietor's consent, the IP rights of commercial exploitation over this given product can no longer be exercised by the proprietor or such enterprise, as they are exhausted. Sometimes this limitation is also called the first sale doctrine, as the rights of commercial exploitation for a given product end with the product's first sale. Unless otherwise specified by law, subsequent acts of resale, rental, lending or other forms of commercial use by third parties can no longer be controlled or opposed by the proprietor or their licensed enterprise. There is a fairly broad consensus that this applies at least within the context of the domestic market.[2] This austerely means that the owner of the trademarked goods exhausts his rights over those goods one he sells or puts those goods in a particular market place, generally defined in geographical terms and this doctrine is more often known as "doctrine of exhaustion of rights". More formally, Exhaustion of rights doctrine is the principle that once the owner of an intellectual property has placed a product covered by that right into the marketplace, the right to control how the product is resold within that internal market is lost.[3] From a legal standpoint, the definition of an exhaustion regime depends upon the recognition of this principle by national trademark laws and upon the determination of the geographical area over which the principle is to apply.[4] As the determining factor where the proprietor loses his rights over the trademarked goods is- the market in geographical terms, the extent in terms of area or market to which this doctrine of exhaustion shall be applied on a given trademark owner gives rise to three precise

[2]*International Exhaustion and Parallel Importation*, WIPO, http://www.wipo.int/sme/en/ip_business/export/international_exhaustion.htm.
[3]BRAYAN A. GARNER, BLACK'S LAW DICTIONARY 636 (8th ed., West Publishing 2004).
[4]S. K. Verma, *Exhaustion of Intellectual Property Rights and Free Trade—Article 6 of the TRIPS Agreement,* 29 IIC 534, 539 (1998) [hereinafter Verma].

pigeonhole to this doctrine, namely- National Exhaustion, Regional Exhaustion and Global or International Exhaustion, while taking only national approach, traditionally, it has been characterized by two approaches: National exhaustion and International Exhaustion.[5]

A. Doctrine of National Exhaustion

The concept of National Exhaustion does not allow the IP owner to control the commercial exploitation of goods put on the domestic market by the IP owner or with his consent. However, the IP owner (or his authorized licensee) could still oppose the importation of original goods marketed abroad based on the right of importation.[6] Under National Exhaustion, once the trademarked products are placed on the market by the owner, or with his consent, the owner's rights are considered exhausted only in the domestic territory. The owner will still be free to oppose the importation of genuine goods bearing his trademark that have been put on the market outside the domestic territory.[7] For illustration: if goods bearing a trademark which is registered in the land of Strombolia are put on sale in Strombolia by the trademark owner or with his consent, the trademark owner cannot use his trademark rights in order to prevent subsequent sale of those particular goods in Strombolia. But if goods are put on sale in the neighbouring state of Vesuvia, the trademark owner can sue anyone who imports them into Strombolia and subsequently sells them for trademark infringement.[8]

B. Doctrine of International Exhaustion

Under International Exhaustion, if a trademark owner, or someone with his consent, places the trademarked goods on the market in any of the national jurisdictions where the trademark owner enjoys protection, the owner's rights are exhausted in other national jurisdictions where he

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[5]Herman Cohen Jehoram, *International Exhaustion versus Importation Right: A Murky Area of Intellectual Property Law*, 4 GRUR INT'L 280 (1996).
[6]*Supra* note 2.
[7]Verma, *supra* note 4, at 539.
[8]JEREMY PHILIPS, THE TRADEMARK LAW-A PRACTICAL ANATOMY 274 (Oxford University Press 2003) [hereinafter Philips].

enjoys similar rights and consequently, the trademark owner will not be free to prevent international importation of genuine products bearing his trademark. Where a country applies the concept of International Exhaustion, the IP rights are exhausted once the product has been sold by the IP owner or with his consent in any part of the world.[9] In its simplest terms, International Exhaustion means that, if goods bearing a trademark are put on sale in a specific country by the trademark owner or with his consent, the trademark owner cannot stop subsequent sales of that product in that country or in any other country. The policy of global (international) exhaustion followed, practiced and envisaged under the laws of the United States, Canada and Switzerland.[10]

C. Doctrine of Regional Exhaustion

In the case of regional exhaustion, the first sale of the IP protected product by the IP owner or with his consent exhausts any IP rights over these given products not only domestically, but within the whole region, and parallel imports within the region can no longer be opposed based on the IP right. The appropriate example of the region following this principle is European Union (EU), where there is a constant tussle and resentment to this principle and many scholars want this principle to be extended to International regime. India, being member of many regional organisations including SAARC, does not follow this principle of exhaustion because none of the blocs do not feel any need of regional exhaustion being built in their respective domestic regime.

II. DOCTRINE: HISTORY AND EVOLUTION

The history of the doctrine of exhaustion can be traced out to be appeared as a creature judicial practice in the courts of Germany. Since IP laws go hand in hand with economic development, with the development of international trade this doctrine was started to be used gradually all across

[9] *Supra* note 2.
[10] Philips, *supra* note 8, at 275.

the world with the hike in the global trade. Earlier it was manoeuvred under the prescript of "doctrine of implied contractual consent". This principle entailed that when the proprietor or any other person authorised on behalf of the proprietor or someone who has been assigned the trademark by the proprietor sells his trademarked goods to another person or and enterprise in bulk and volume, it shall be presumed that the person buying such goods will be dealing further in those goods including re-sale of the same. But, this doctrine soon became obsolete owing to its limitations as the fundamental principles of a contract restricted its operation. For illustration or instance, even after an existence of an implied contract between the proprietor of the trademarked goods and the person buying in bulk, a similar contract could not be contemplated and implied between the buyer in bulk and the further buyer who buys it from such person due to the privity of contract which is a common law principle also applicable in Indian jurisprudence. Other limitation is on the principle that a term can only be implied only if it is obligatory to its performance. Apart from all the aforementioned limitations, in reality, insinuation of this implied contractual consent would more likely be considered as false and contrived. In view of this, a more favorable principle which evolved was the doctrine of exhaustion which is independent of all contractual impediments which were there in the theory of implied contractual consent.

Although a lot of effort and conferences occurred, a major breakthrough in the field of IP at an international forum was the TRIPS agreement initiated by developed countries under US. During the TRIPS negotiations, there was fairly extensive discussion of the exhaustion issue, but governments did not come close to agreeing upon a single set of exhaustion rules for the new WTO. They instead agreed that each WTO Member would be entitled to adopt its own exhaustion policy and rules and Article 6 of the TRIPS was included to address the exhaustion of intellectual property rights. As a result, many jurisdictions around the world adopted one or the other principles of exhaustion. Pursuant to its obligations under the TRIPS Agreement, the Indian government has amended its intellectual property laws to meet the substantive minimum standards of the agreement.

III. PARALLEL IMPORTS: MEANING AND EXHAUSTION PRINCIPLE

A brand is wide term; it may be narrowly defined as a mark that an owner uses to differentiate its product in the market and makes it easy for the product to be spotted and remembered by the consumer. While on a broader scale a brand may also include all the components that make up a business enterprise. Brand owners often resort to licensing their goods for sale in foreign markets. This licensing brings two fold benefits for both the owner and the licensee. Often the owners benefit from the reach of their products in a foreign market owing to the expertise of licensee. The licensee usually gains from the exclusive rights to trade such products in the said market or region. Since, The Indian Trademarks Act, 1999 protects the rights of a registered as well as a non-registered trademark owner, using the term brand is more appropriate. Parallel imports are premised on one simple fact, price disparity. Products are often priced differently in different markets; this is due to important factors like tax regimes, promotional and marketing costs, royalties and legal protection etc. Due to this price differential, products from other economies, where they cost less are imported to markets where they are sold at a higher price or are not sold at all. These imported goods are then sold in the market often for lesser prices but in cases where the products are restricted or hard to find, at higher prices than usual.

These goods, though legally imported are sold through unauthorized and unintended channels. Such sale gives rise to a term called the ‘Gray market’. Such sales let consumers take advantage of price differentials and induce a price reducing effect due to parallel competition, but at the same time the trade mark owners are restricted from controlling the quality and distribution process of the product. This inability of the owner results from the principle of exhaustion, which makes this sale of goods in gray market a re-sale. The owner has already exhausted his rights in respect to that product and has been rewarded after the ‘first sale’ took place. The rationale behind this is the fact that the owner must not be repeatedly allowed to control the products’ subsequent use, resale,

distribution or pricing. The only distinction between gray and regular goods is the distribution channel through which they travel to reach the consumer. Gray channel operators acquire and resell branded goods without the sanction of the trademark owner. Regular goods travel through intermediaries designated by the trademark owner as the authorized purveyors of the product. Gray channels acquire merchandise from Members of the authorized channel, including even the manufacturer… The term gray is applied only because the diversion is against the professed policies of the brand owner.[11]

The principle of Parallel Imports in its core is a corollary to the Doctrine of Exhaustion and is operated in the same sense. Conceptually, Parallel Import of any trademarked good is legal and within the ambit of law if the Domestic regime of law is of International Exhaustion and the same shall be considered to be illegal if the IP law of the country, specifically Trademarks Law, follows the Doctrine of National Exhaustion. Regional Exhaustion can be best understood vis-à-vis Parallel Imports in terms of EU regime. From an EU perspective, parallel trade (sometimes referred to as the "**gray market**") consists of trade in genuine trade mark protected products, which have been firstly commercialized (by the trade mark holder) outside the EU/EEA, and which are subsequently imported into the EU/EEA area.[12]

IV. THE Indian Exhaustion Regime: From National to International

The Trade Marks Act, 1999, came into operation only in the year 2003. The Act embodied the recommendations made by the Raghavan Committee Report on Trademarks Law and explicitly didn't lay down the concept of exhaustion in it. But, the same can be implicitly read into the terminology provided to Section 30(3) of the Act, which has been the

[11]Louis P. Bucklin, *Modelling the international gray market for public policy decisions,* 10 INTL. J. RESEARCH IN MKTG. 387, 388 (1993).
[12]*Supra* note 1.

bone of dispute within the judiciary as to which principle of exhaustion does India follow. Since the principle of exhaustion entailed in the Indian Trademarks Act, 1999 is ambiguous; the major stress has been on interpreting the market laid down in the provision itself, in geographical terms so as to determine the regime of exhaustion in Indian law. The Indian Judiciary has been, since inception of the Trademarks Act, on two sides with conflicting opinions and ruling with respect to the principle of exhaustion in India, with an inclination towards providing the market a broader meaning in view of the recent ruling on this matter.

"*30. Limits on effect of registered trade mark-*[13]

(1)....

> *(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----*
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> *(a) the registered trade mark having been assigned by the registered proprietor to some other person, after the acquisition of those goods: or*
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> *(b) the goods having been put on the market under the registered trade mark by the proprietor or with his consent*."
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> "*The issue of exhaustion was not expressly addressed in the 1958 Act, but the New Act statutorily introduces this concept. Section 30 of the New Act provides that where the goods bearing a registered trade mark are lawfully acquired, the further sale or other dealings in such goods by the purchaser or by a person claiming to represent him is not considered an infringement if the goods have been put on the market under such mark by the proprietor or*

[13]Trade Marks Act 1999, §30.

> *with his consent....A cause of action for trademark infringement may be available to the proprietor against an importer where the genuine goods have been materially altered without the proprietor's consent after they were put on the market. The burden of proving such consent is on the importer. A cause of action on the grounds of passing off is available if the trademark proprietor can show that the importer is passing off the goods in a misleading or improper way causing confusion in the minds of the public."*

The issue of parallel imports remained uncertain as the principle of exhaustion was not defined or formulated by the Hon'ble Delhi High Court in the aforementioned judgment. Till the judgment in the matter of *Xerox Corporation v. Puneet Suri*,[14] wherein the Hon'ble Delhi High Court interpreted this provision in favour of the principle International Exhaustion. The bone of dispute in the case was that the defendants being a third party imported second-hand copiers into India and the Plaintiff contended that the defendant's act of importing and selling second hand Xerox machines constituted trademark infringement as the trademark 'Xerox' was owned by the Plaintiff, to which the defense taken by the Defendants was that their acts were protected under Section 30(3) of the Trademarks Act, which follows the principle of International Exhaustion. The Court held that the "*import of [used] Xerox machines that have proper documentation*" is not trademark infringement provided that "*there is no change or impairment in the machine*."[15] Justice Sanjay K. Kaul of the Hon'ble Delhi High Court agreed with the defendants, holding that the "*import of [second hand] Xerox machines that have proper documentation*" is permissible under the Trademarks Act, provided that "*there is no change or impairment in the machine*."[16]

[14]Xerox Corporation v. Puneet Suri, CS (OS) No. 2285/2006 dated 20th February 2007.
[15]Shamnad Basheer, S. Khettry, D Nandy & Mitra, *Exhausting Copyrights and Promoting Access to Education: An Empirical Take*, 69 JIPR 17 (2012).
[16]Shamnad Basheer, *Exhausting' Patent Rights in India: Parallel Imports and TRIPs Compliance,* 13 JIPR 486-497 (2008).

Hence, for the first time after the introduction of the Trademarks Act, the principle of exhaustion was settled to be the International Exhaustion and consequently the parallel imports were legalized owing to this ruling of the judiciary only till the next notable ruling of the Hon'ble Madras High Court in the case *Wipro Cyprus Private Limited v. Zeetel Electronics*[17] where the Court refused to read Section 30(3) in isolation and read it with Section 29 of the Act which lays down that import of the goods bearing trademark by a third party is an unauthorized use of trademark and therefore a trademark infringement. The Court laid down that a harmonious construction has to be applied between Section 29 which provides for trademark infringement in cases of import of trademarked goods and Section 30(3) which provides for circumstances where the proprietor exhausts its rights on the trademark. The court laid down that Section 30 provides for the exceptions to Section 29 and shall be construed in the same manner as the construction of Section 30 in isolation devoid of its harmonious meaning shall render the provision otiose. Applying the aforementioned principle The Hon'ble Madras High Court held that the assignee of the trademark i.e. the Plaintiff had an exclusive right of use of the same as the Defendants violated Section 29(6)(c) of the Act as the imports of trademarked goods without permission of the proprietor amounts to infringement of trademark. The judgment once again, made the position vis-à-vis the exhaustion regime followed by India uncertain and ambiguous as it settled the case without even touching the aspect of exhaustion envisaged under the Trademarks Act, 1999.

The most important and latest ruling came in the matter of *Samsung Electronics Company Limited & Anr. v. Kapil Wadhwa & Ors*.[18]. Out of the three major issues which came up before the Hon'ble Delhi High Court, two pertained to the doctrine of exhaustion and trademark infringement, namely, Does sale of imported, genuine products without consent of the right holder in India, constitute infringement under Section

[17]Wipro Cyprus Private Limited v. Zeetel Electronics, (2010) 44 PTC 307 (Mad).
[18]Samsung Electronics Company Limited & Anr. v. Kapil Wadhwa & Ors., C.S. (OS). No.1155/2011 dated 17th February 2012.

29(1) read with 29(6) and does Section 30(3) recognise National Exhaustion or International Exhaustion. The first question was answered in affirmative and J. Manmohan Singh in single bench judgment held that any importer who is not a registered proprietor or permissive right holder, even if importing genuine products, is culpable of infringement. Moving further, the second question was answered with India following National Exhaustion principle. J. Manmohan Singh laid down that the only "market" for the purpose of Section 30(3) is deemed to be the Indian market. The Court unequivocally held that Section 30(3) does not recognize any concept of International Exhaustion, and the Section operates only within the market where the registration of the mark extends. This judgment of Single Bench was appealed by the Defendants before the Division Bench in the matter of *Kapil Wadhwa & Ors. v. Samsung Electronics Company Limited & Anr.*[19] And again the question of the exhaustion regime was put up before the Division Bench which included J. Pradeep Nandrajog. The Bench reversed the single bench judgment to recognize that the Indian Trademarks Act follow the principle of International Exhaustion and held that the term 'market' used in Section 29 and 30 of the Act, five times in frequency, in all aspect refer to global market and shall be construed in the same manner only to uphold the principle of International Exhaustion. The Court referred to the similar provisions of other seven jurisdictions, literal interpretation, intent of the legislature, Copyright Amendment Bill 2010 and other reasons to lay down that Section 30(3) is not a proviso of Section 29 and the principle of International Exhaustion allowing parallel imports is embodied under Section 30(3), qualified only by Section 30(4), which says that if the proprietor has legitimate reasons to oppose such import including material alteration then such import shall be rendered illegal and the same has been dealt later under a separate rubric of this paper.

Although the Division Bench judgment is still pending in the Supreme Court which finally will settle the question of exhaustion, the status quo

[19]Kapil Wadhwa & Ors. v. Samsung Electronics Company Limited & Anr., (2012) 194 DLT 23 (DB) ["**Kapil Wadhwa & Ors**"].

on the same is that the Indian Trademarks Act, 1999 follows the principle of International Exhaustion.

V. INTERNATIONAL EXHAUSTION IN INDIA: RATIONALE

The Division Bench with all its judicial unassailability relied on all possible aspects of the principle entailed within Section 30(3) of the Indian Trademarks Act, 1999 and gave manifold rationale supporting the ruling of International Exhaustion.

A. Literal Interpretation of Section 30(3)

The principle of literal interpretation was approached to by the Division Bench as it is the cardinal rule of interpretation. The word "market" occurs five times in Section 29 and 30. Interpreting the word "any market" occurring in Section 30(2)(b) it can be concluded that the market is the global one and not a domestic one. The word "any" can be a pronoun and determiner or an adverb, but since it has been used with the word "market", which is a noun, "any" shall be a pronoun in this case and a determiner. Also, "*any market"* occurs as *"or in relation to goods exported to any market*". Hence, the word "*any market*" find a mention in the phrase *"in relation to goods exported to any market*", prima facie giving it the meaning of a global market. Therefore, it can easily be concluded that the Trademarks Act follows the principle of International Exhaustion. Section 29(6)(c) says that import of goods is a use of trademark for the purposes of the Section. However, Section 30(3) provides for an exception to Section 29 and states that when the goods are lawfully acquired by a third party, reselling or further dealing with respect to such good is not an infringement. Section 30(3) remains an exception even if the goods are imported after acquiring somewhere else outside India. This is because, the word "market" used in Section 30 shall be construed to be a global market and not a domestic market based on the literal interpretation, and hence, the proprietor, the authorized dealer

and the third party can be anywhere in the global market and not necessarily be situated in India i.e. the domestic market.

Apart from the aforementioned provisions, Section 30(2)(b), Section 29(6)(b), 30(3)(b) and 30(4) uses the word "the market". Notwithstanding 'the' being a definite article, is not used to specify a particular market but is used only to demarcate an economic area or space as distinguished from other spaces, whether public or private. Therefore, it cannot be concluded that merely because 'any market' in Section 30(2)(b) means the global market, it must logically be inferred that reference to 'the market' refers to the domestic market and to make it more clear, external aid of interpretation shall be applied.

B. Trade Mark Bill 1999: Object and Reasons

While introducing the Trade Mark Bill 1999, clause-30, which ultimately found itself as Section 30, was explained in the Statement of Objects and Reasons, inter-alia in the following words:-

> "*Sub-clauses (3) and (4) recognize the principle of 'exhaustion of rights' by preventing the trade mark owner from prohibiting on ground of trade mark rights, the marketing of goods in any geographical area, once the goods under the registered trade mark are lawfully acquired by a person. However, when the conditions of goods are changed or impaired after they have been put on market, the provision will not apply*."

The expression 'in any geographical area', in the Statement of Objects and Reasons to the Trade Mark Bill 1999 clearly envisage that the legislative intent was to recognize the principle of International Exhaustion of rights to control further sale of goods once they were put on the market by the registered proprietor of the trade mark. Hence, it is abundantly clear that the word "the market" used in context of the aforementioned Section(s) is global market following the principle of International Exhaustion.

C. Copyright Amendment Bill 2010: 227th Report

The 227th Report on Copyright Amendment Bill, 2010 supports the interpretation in favor of International Exhaustion. The report laid down that -

> "*Indian Law is quite liberal in permitting Parallel Imports of genuine goods bearing the registered trademarks provided such goods have not been materially altered after they have been put in the market….The general rule is that once trademarked goods are released anywhere in the market by or with the consent of the trademark proprietor, the proprietor cannot assert its trademark rights to prevent imports of such goods into India, provided that such goods are not materially altered.*"

Therefore, even the said report supports the fact that Indian law follows the principle of International Exhaustion and is more inclined towards the same, affirming the view taken on the basis of all aforementioned rationale.

D. Section 30(4): Construction and Inference

Section 30(4) supports the interpretation in favour of International Exhaustion. With reference to Sub-Section 4 of Section 30 of the Trade Marks Act 1999 further dealing in the goods placed in the market under a trade mark can be opposed where legitimate reasons exist to oppose further dealing and in particular where the condition of the goods has been changed or impaired. With respect to physical condition being changed or impaired, even in the absence of a statutory provision, the registered proprietor of a trade mark would have the right to oppose further dealing in those goods inasmuch as they would be the same goods improperly so called, or to put it differently, if a physical condition of goods is changed, it would no longer be the same goods. But, Sub-Section 4 of Section 30 is not restricted to only when the conditions of the goods has been changed or impaired after they have been put on the market. The Section embraces all legitimate reasons to oppose further

dealings in the goods. Thus, changing condition or impairment is only a specie of the genus legitimate reasons, which genus embraces other species as well. This can only happen in case where goods have to be imported from a country of manufacture or a country where they are put on the market thereof, and then imported into India. Only then would there be a difference in the language of the literature provided with the product; difference in services and warranties in the country from where the goods are imported by the seller and the country of import i.e. the manufacturer's warranties not being available in the country of import; difference in quality control, pricing and presentation as also differences in advertising and promotional efforts. Hence it would be erroneous to say that 'market' used in relevant provisions is a domestic market and with the same rationale it shall be held that the market is a global market.[20]

E. Similar Provisions: Foreign Jurisprudence

Comparing the similar provisions of various jurisdictions around the world it can be concluded that India follows the principle of International Exhaustion. Brazil and Turkey, which have incorporated the Principle of National Exhaustion, have used the clear expressions: 'products placed on the internal market' and 'the product has been put on the market in Turkey' respectively. The European Union and United Kingdom have used the clear expression 'market in the community' and 'market in the European Economic Area' respectively to define the market as neither domestic nor international but expanded/confined to the entire European community. Similarly the legislation in Singapore and Hong Kong uses well defined expressions 'goods which have been put on the market, whether in Singapore or outside Singapore' and 'put on the market anywhere in the world'.

Therefore, the other jurisdictions have clearly defined the market clearly so as to follow either of the two principles. In India, the market has been used neutrally; hence, prima facie no meaning can be given in a rush. The only option is to see to the intent of the legislature by referring to the

[20]*Id.*

external aids of interpretation namely the Statement of Object and Reasons, which has already been laid down specifies the market to be a global market and hence uphold the doctrine of International Exhaustion.

F. Customs Department Circular: Implications

The circular of Customs Office, published by the Department of revenue, Ministry of Finance, Government of India declares parallel imports to be legal in India. The circular clears the decks for the free movement of parallel imported goods in India, stating that they are genuine goods that are allowed under the Trademarks Act, 1999 and laid down:

> *"....In this regard, the Department of Industrial Policy and Promotion which is nodal authority for all matters relating to (i) Trade Marks Act, 1999 (ii) Patents Act, 1970 and (iii) Designs Act, 2000 has, inter alia, stated that:*
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> *(i) Section 107A (b) of the Patents Act, 1970 provides that importation of patented products by any person from a person who is duly authorised under the law to produce and sell or distribute the product shall not be considered as an infringement of patent rights. Hence, in so far as Patents are concerned, Section 107A (b) provides for parallel imports.*
>
> *(ii) Section 30(3)(b) of the Trade Marks Act, 1999 provides that where the goods bearing a registered Trade Mark are lawfully acquired, further sale or other dealing in such goods by purchaser or by a person claiming to represent him is not considered an infringement by reason only of the goods having been put on the market under the registered Trade Mark by the proprietor or with his consent. However, such goods should not have been*

> *materially altered or impaired after they were put in the market.....*"[21]

The Customs Department sought clarification from the Department of Industrial Policy and Promotion ("**DIPP**") which comes under the ministry of commerce and is the office handling the issues relating to trademark and other IP laws and DIPP itself has interpreted the relevant Section i.e. Section 30(3) to follow the principle of International Exhaustion by laying down that parallel imports are allowed.

G. Uruguay Rounds: India's Position

It was acknowledged during the Uruguay Round debates of the TRIPS agreement that parallel importation was a concept which fitted perfectly within the goal of international free trade advocated by the General Agreement on Tariffs and Trade ("**GATT**") and that it should be comprehensively dealt in the treaty covering all aspects of IP rights.[22] Although an agreement could not be reached among the Member States over this contentious issue, Indian position was to permit parallel imports. This is also an indicator as to India's stand with regards to International Exhaustion. This confirms India's intent to follow the regime of International Exhaustion and confirms all the aforementioned observations with regards to the same.

H. EU and Indian Law: Distinction

Indian Trademarks Law is not *pari materia* to that of EU directives as the words used in both the laws in the relevant provisions are different. Two of the major differences in both the provisions are that Article 7 of the EU uses "further commercialization" while Indian Law uses "further dealings" and EU's Article 7 again uses the phrase "goods especially where" while Indian Law uses "goods in particular, where". Hence there

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[21]Enforcement of Intellectual Property Rights on Imported Goods - Clarification on the Issue of Parallel Imports, F. No. 528/21039/08-Cus/ICD, CENTRAL BOARD OF EXCISE & CUSTOMS - DEPARTMENT OF REVENUE, http://www.cbec.gov.in/customs/cs-circulars/cs-circ12/circ13-2012-cs.htm.
[22]Florian Albert & Christopher Heath, *Parallel Imports and Trade Marks in Germany*, 28 INTL. REV. INDUS. PROP. & COPY. L. 32 (1997).

is a substantial difference between the provisions entailed in Indian law and that of EU directives and cannot be given the same meaning and Indian laws has to be interpreted in the manner aforementioned.

All of the above rationale indicates towards Indian Law following the principle of International Exhaustion inherently and implicitly although not clearly manifested in the Act itself.

VI. SECTION 30(4): RESTRICTIONS ON PARALLEL IMPORTS

The right to parallel import envisaged by the Division Bench judgment of the Hon'ble Delhi High Court under Section 30(3) is qualified and subject to an exception entailed under the provision Section 30(4) which subscribe that Sub-Section (3) shall not apply where there exists legitimate reasons for the proprietor to oppose further dealings in the goods in particular, where the condition of the goods, has been changed or impaired after they have been put on the market.[23] This principle has been followed and taken from the UK and EU law which already talked of the same provision. After the adoption of the Trademark Directive, while acknowledging that the matter poses a peculiarly provocative constraint on the free movement of goods, the ECJ held that repackaging and relabelling are two of the "legitimate reasons" trademark owners may invoke to prevent parallel trade within the EEA.[24] According to the ECJ, to trade non-genuine or repackaged products constitutes trademark infringement when it may lead to confusion on the part of the public or provoke unfair detriment to the trademark itself.[25] A few instances or acts which have been held to give a legitimate reason to the proprietor of the registered trademark to oppose the further dealings in the goods are and as was contend and relied upon by the Respondents-Plaintiffs in the Delhi

[23]Trade Marks Act 1999, §30(4).
[24]Ansgar Ohly, *Trade Marks and Parallel Importation – Recent Developments in European Law*, 30 I.I.C. 512 (1999).
[25]F. Loendersloot Internationale Expeditie v. George Ballantine & Son Ltd., (1997) ECR I-6227.

High Court case are[26] differences in language of the literature provided with the product[27], difference in services and warranties[28], difference in advertising and promotional efforts[29], differences in quality control, pricing and presentation[30], differences in packaging[31] etc. The Division Bench laid down that merely the fact that the physical features of the goods sold abroad are different from the features of the same goods sold in India is irrelevant as long as the goods placed in the International market are not impaired or condition changed.[32]

VII. INTERNATIONAL EXHAUSTION: CRITICAL ANALYSIS

Generally, without Indian prospect, the exhaustion doctrine shall be different for different industries and more so based on the benefits accrued by the consumers by following a certain principle of exhaustion. Illustratively, the principle adopted for medicines and pharmaceuticals should be different than that of cinematic field. Also, because US has adopted the principle of International Exhaustion principle, it is highly probable that the industrialists in the developing and emergent nations to craft gray markets. The developing nations have to be strategic towards the policy of the US with respect to imposition of treaty-based impediments on its partners in trade. The principle of International Exhaustion has manifold benefits and even backlashes.

A. Benefits: International Exhaustion Principle

The consumer ultimately is the beneficiary of an International Exhaustion regime. The prime benefit of unrestricted parallel imports is availability

[26]Kapil Wadhwa & Ors., *supra* note 20.
[27]SKF USA v. International Trade Commission & Ors., (2005) 423 F.3d 1037; PepsiCo Inc v. Reyes, (1999) 70F.Supp 2d 1057; Original Appalachian Artworks Inc. v. Granada Electronics Inc., (1987) 816 F.2d 68, 76.
[28]Fender Musical Instruments Corp. v. Unlimited Music Center Inc., (1995) 35 USPQ 2d 1053; Osawa & Co. v. B&H Photo., (1984) 589 F. Supp. 1163.
[29]Osawa & Co. v. B&H Photo., (1984) 589 F. Supp. 1163.
[30]Societe Des Produits Nestle v. Casa Helvetia, (1992) 982 F.2d 633.
[31]Ferrerro USA v. Ozak Trading, (1991) 753 F. Supp. 1240.
[32]Kapil Wadhwa & Ors., *supra* note 20.

of goods to consumers at the lowest price. Parallel imports allow the same goods to be present in the market at different costs, inducing a competition that results in consumer welfare. International Exhaustion and open parallel importation are consistent with the fundamental premise underlying liberalization of trade: that is, to encourage the efficient production of goods and services for the benefit of consumers.[33] The practice of parallel importing represents an uneasy balance between the protection of intellectual property rights such as trademark and patent rights and the liberalization of trade in goods and services promoted by organizations such as the World Trade Organization.[34]

Owners often artificially curate the product prices in different countries to maximize profits. Considering the purchasing power of an average consumer, same product is usually marketed in developed countries at higher prices and at lower prices in developing countries. This selective pricing approach often helps consumers in developing countries as products can be purchased at cheaper prices.

B. Backlashes: International Exhaustion Principle

Although there is a prima facie benefit to the consumers because of theoretical chance for them to get the same product at a cheaper price, not always that happens as principally the third party importing the goods does that for making profit, so there is a high probability that there might not be a detrimental difference between the prices of the parallel imported goods and those out in the market by the proprietor. This means that the practical aspect of the same benefit might not reach the consumer as it is not the consumer who gets the same good at a cheaper price but the third party who later on imports it to maximise profit.

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[33]Frederick M. Abbott, *Parallel Importation: Economic and social welfare dimensions,* INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT, https://www.iisd.org/pdf/2007/parallel_importation.pdf.

[34]Philip Kitchen, *The Impact of Gray Marketing and Parallel Importing on Brand Equity and Brand Value*, UNIVERSITY OF HULL, http://www2.hull.ac.uk/hubs/pdf/memorandum38.pdf.

a) *After Sale Services*

Since the products that are parallel imported are in an unaltered state, there is no way via which a consumer can differentiate between the gray market products and the same product reaching to the consumer through an authorized channel. This is detrimental to the interest and benefit of the consumers as the consumer does not receive the warranty if the warranty is regional in nature and also the after sale services attached to the product, which in turn damages the goodwill of the proprietor's brand value and image.

b) *Regional and Climatic Limitations*

Products which are specific to certain climatic conditions, specifically eatables and beauty products can have an adverse experience for a consumer because of the change in their composition, taste and quality owing to the change in the climatic conditions of the product. For illustration: If X being a brand of a tooth paste having manufacturing units at Brazil and UK, for the markets in the respective domestic territory and uses the locally procured limestone for the product having different qualities and compositions, UK one being higher. Later, if a third party imports the Brazilian version of the toothpaste into the market of the UK, the consumers buying such toothpaste will be dissatisfied owing to the inferior quality than before, believing it to be one they used to use earlier as the brand remains the same. This leads to loss to and of consumers for a particular brand, say X.

c) *Loss to authorized channels*

With the increase in the goods in the gray market there is a rapid decline in the profit margin of the authorised channels for goods distribution as the parties of parallel imports reap on the advertisement costs incurred by those channels and the proprietor. Since the cost of the grey marketed products are generally lower than that of those of the authorised distributors, the consumers prefer the former one leading to economic

loss to such channels which further results in unpleasant relations between the proprietor and the authorized channels.

VIII. CONCLUSION

Parallel imports continue to be on crossroad between a liberalized consumer centric global economy and hindered innovation and revenue due as a result. An international issue left at national discretion was always bound to create chaos on global scale. With the rise of the internet market, parallel imports have become more commonplace than they were ever before. Countries are required to make clear legislations on this issue so as to balance the impact of such imports on owners and consumers.

The Indian perspective, though in favor of International Exhaustion as far as precedents go, is still under Hon'ble Supreme Court of India's consideration. From National Exhaustion to International exhaustion, India's stance has changed through landmark judgments in recent past. The question remains important for owners and consumers alike. Brand owners are understandably vying for National Exhaustion to be accepted while International Exhaustion seems beneficial for consumers as it will increase competition, reduce monopolistic pricing regimes and allow for an open market on the lines of free global trade as envisioned by WTO and other Regional Trade Organizations.

Though on the outset, International Exhaustion seems to be the better option as far as consumer welfare goes, the negative effects of parallel imports mentioned hereinabove like, absence of warranties and post-sale services to legitimate products, dysfunctional or sub-par regional and climatic changes and loss of brand image should also be taken into consideration. With the rise of governmental and executive policies inviting and alluring foreign investors in the country, international exhaustion is an impediment and hindrance as the MNCs are skeptical about the profits they will make in a developing country as the consumers therein make their choices with economic aspect as a parameter resulting

in more success of gray market. But, since IP laws have always been for the benefit of the consumers, International Exhaustion provides a better pathway to achieve the same, more specifically in the Trademark Law, as the objective of bringing in the concept of the trademark protection was never to restrict the movement but to confine the source or origin of the goods.