

# **The Use of Trademark Law to Prevent the Parallel Importation of Goods**

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## **I: INTRODUCTION**

On 14 May 1998 the Government passed, under urgency, the Copyright (Removal of Prohibition on Parallel Importing) Amendment Act 1998. This move was heralded as a lifting of the ban on parallel importation of goods.<sup>1</sup> The Government was not, however, thorough in the changes that it made. The only amendment was of the Copyright Act 1994, and other potential avenues of regulation remained. Until May 1998, copyright law was the easiest means for a copyright owner to prevent parallel importing. In repealing the Copyright Act 1994, the focus for protection against parallel importing has changed, in particular toward the possibility of using trademark law as an alternative to copyright in this area.

The focus of this paper is to determine the effectiveness of using trademark law to prevent the unauthorised importation of parallel goods. First, the various relevant areas of law shall be outlined. Second, the claim that parallel importing of goods infringes trademark law shall be evaluated. The reasons why trade mark law may not be applicable will then be discussed. This article will conclude that trade mark law is not the appropriate means to prevent the importation of parallel goods.

## **II: LEGAL FRAMEWORK**

### **1. Previous Copyright Regulation**

Historically, the prohibition on parallel importing was provided for by ss 10 and 18 of the Copyright Act 1962. Copyright was infringed by any person who, without

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<sup>1</sup> Parallel importation is the act of importing goods which have been obtained from a foreign source into the country without the consent of the authorised importer. This trade is *parallel* to the official distribution network. Consequently, there is great opposition to the practice from the legitimate importer who has sunk considerable effort and capital into securing an exclusive arrangement which, by its nature, was to be used as the principal reward for investment.

the licence of the copyright owner, imported goods into New Zealand with the knowledge that the making of the articles constituted infringement of copyright, or would have constituted infringement had the articles been made in the place into which they were imported. Infringement also occurred when selling or exhibiting in trade any imported articles without the consent of the copyright holder. This was qualified, however, by the fact that no breach would arise if the importation was for private and domestic use. This prohibition was then strengthened by the Copyright Act 1994 as New Zealand, in response to increasing international pressure, harmonised its intellectual property laws with the rest of the western world.<sup>2</sup> Secondary infringement, or infringing by parallel importing, was dealt with by s 35 of the Copyright Act 1994. Section 35 states:

Importing infringing copy - Copyright in a work is infringed by a person who, other than pursuant to a copyright licence, imports into New Zealand, otherwise than for that person's private and domestic use, an object that is, and that the person knows or has reason to believe is, an infringing copy of the work.

An "infringing copy" is defined in s 12(3) as an object that, when imported into New Zealand, would have infringed copyright had the object been made in New Zealand; or the production of the object constituted a breach of copyright.<sup>3</sup> The difference between the 1962 and 1994 legislation is the element of knowledge. Under the 1994 provisions importers only needed "reason to believe" the goods were infringing copies to breach the provision, whereas in the 1962 Act actual knowledge was required.

## **2. Copyright (Removal of Prohibition on Parallel Importing) Amendment Act 1998**

The significant change brought about by the Copyright (Removal of Prohibition on Parallel Importing) Amendment Act 1998 is the new definition of "infringing copy" in s 12 of the principal Act. Previous restrictions under copyright law have been removed, clearing the way for parallel importers. Section 35 remains unaltered but a new subsection is inserted into s 12. Subsection (5A) reads:

An object that a person imports or proposes to import into New Zealand is not an infringing copy under subsection (3) (b) if-

- a) It was made by or with the consent of the owner of the copyright, or other equivalent intellectual property right, in the work in question in the country in which the object was made; or

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<sup>2</sup> Primarily due to the General Agreement on Tariffs and Trade ("GATT"). Under the GATT TRIPS (Trade Related Aspects of Intellectual Property Rights) Agreement all GATT countries had to implement certain kinds of intellectual property protection.

<sup>3</sup> Copyright Act 1994, ss 12(3)(a) and 12(3)(b).

- b) Where no person owned the copyright, or other equivalent intellectual property right, in the work in question in the country in which the object was made, any of the following applies:
  - (i) The copyright protection (or other equivalent intellectual property right protection) formerly afforded to the work in question in that country has expired:
  - (ii) The person otherwise entitled to be the owner of the copyright (or other equivalent intellectual property right) in the work in question in that country has failed to take some step legally available to them to secure the copyright (or other equivalent intellectual property right) in the work in that country:
  - (iii) The object is a copy in 3 dimensions of an artistic work that has been industrially applied in that country in the manner specified in section 75 (4):
  - (iv) The object was made in that country by or with the consent of the owner of the copyright in the work in New Zealand.

Consequently, the parallel importing of copyright articles will not constitute an “infringing copy” and thus will not breach the Copyright Act 1994.

Counterfeit goods, however, still fall within the ambit of the definition of “infringing copies”. Penalties for importing such articles have been considerably tightened. Offenders will now be criminally liable for fines of up to \$150,000 or imprisonment for a term not exceeding three months.<sup>4</sup> The Government has freed up trade, but in so doing, has increased penalties to discourage would-be offenders.

Initially, the enactment of the Bill and its consequences received considerable media attention. Most of the coverage implied that parallel importing would now be *prima facie* permitted. The amendment of the Copyright Act 1994 created an expectation of significant changes in the availability and pricing of imported goods. However, this change may not be as dramatic as originally perceived. Despite the issue not yet having been tested in the New Zealand courts, the previous position in relation to other intellectual property law remains unchanged. The only reform is of the Copyright Act 1994. It is incorrect to say the government, in making these amendments, removed all prohibitions on parallel importing. Until the Budget, the Copyright Act 1994 was simply the easiest way to prevent the importation of products for which a distributor had an exclusive licence. The primary focus has been forced to shift to alternative legal remedies. This shift is not as straightforward as one would think. The ease with which the Copyright Act 1994 had prevented parallel imports prior to May 1998 has meant that such alternatives remain largely untested in this country.

This article will go on to examine trademark law as a possible alternative to prevent parallel importing.

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<sup>4</sup> Copyright (Removal of Prohibition on Parallel Importing) Amendment Act 1998, s 6.

### 3. Trademark Law

A trademark is a mark or device applied to a trader's goods and services to distinguish them from those of another. By virtue of this application the trader acquires a limited exclusive right to use the mark in relation to those goods and services and restrain others from doing the same. In practice, this exclusivity is provided for on registration of the mark. The main function of trademarks is to protect a proprietor's goodwill from imitators.<sup>5</sup> Trademarks indicate the origin or trade source of particular goods or services.<sup>6</sup> They can also be used to signify that goods are of a certain kind or quality.<sup>7</sup>

The primary source of statutory trademark protection in New Zealand is the Trade Marks Act 1953. A trademark is defined in s 2 as:

[E]xcept in relation to a certification trademark, any sign or combination of signs, capable of being represented graphically and capable of distinguishing the goods or services of one person from those of another person, and means, in relation to a certification trademark, a sign registered or deemed to have been registered on an application under s 47 of this Act.

For the purposes of these two definitions, a sign includes "a device, brand, heading, label, ticket, name, signature, word, letter, numeral, colour or any combination thereof".<sup>8</sup>

Rights will only accrue under the Trademarks Act 1953 if a trademark is registered. Registration is divided into two categories - Part A and Part B. Part A trademarks must meet a higher standard of distinctiveness than Part B marks and in doing so obtain a marginally better protection. The level of distinctiveness necessary for registration under Part A is "adapted ... to distinguish".<sup>9</sup> A trademark is able to be registered under Part B if it is "capable of distinguishing" the goods or services of the proprietor of those of other traders.<sup>10</sup> The registered proprietor of a trademark attains the exclusive right to use the mark in relation to its respective goods or services.<sup>11</sup>

Section 16 prevents the registration of a trademark if to do so is likely to deceive or cause confusion.<sup>12</sup> Actual deception or confusion is unnecessary. It is sufficient if a substantial number of people were "caused to wonder" whether there is a connection

<sup>5</sup> The functions of trademark will be discussed in depth later, however in this instance, it can be accepted that this is the predominant purpose of trademark protection.

<sup>7</sup> *Re Powell's Trademark* [1893] 2 Ch 388, 403-4, per Bowen LJ.

<sup>7</sup> *Andrew v Kuehnrich* (1913) 30 RPC 677, 695.

<sup>8</sup> Trademarks Act 1953, s 2.

<sup>9</sup> Trademarks Act 1953, s 14(2).

<sup>10</sup> Trademarks Act 1953, s 15.

<sup>11</sup> Trademarks Act 1953, s 8(1). This section and its provisions relate to Part A only, but in accordance with s 9(1), all registered owners of Part B are deemed to have the same rights as if they were registered under Part A. The difference is that a Part B defendant can claim the use of the plaintiff's mark if it can be shown the use is not likely to deceive or cause confusion.

<sup>12</sup> Trademarks Act 1953, s 16(1).

in the course of the trademark applied for and the proprietor of the conflicting mark.<sup>13</sup> Section 16 can apply to new applications and also acts as a basis for rectification of the register for the removal of a mark that has already been registered.<sup>14</sup>

Products that are imported into New Zealand for resale purposes are distinguished from rival products by their particular brand name or logo. These are more than likely to be the subject of a trademark. In order to qualify as “grey market goods”, the trademark must have been registered in New Zealand, under the procedure set out in the Trade Marks Act 1953.

#### 4. Infringement of Trademark Law

The right given by a valid registration is the right to exclude others from the use of the trademark. Thus, literally speaking, registration protects the proprietor’s trademark from infringement. Actions deemed to infringe this exclusive right are defined in s 8(1)(A) as follows:

Without limiting subsection 1 of this section, the right conferred by that subsection shall be deemed to be infringed by any person who, not being the proprietor of the trademark or a registered user of it using by way of the permitted use, uses in the course of trade-

- (a) A sign identical with it in relation to any goods or services in respect of which the trademark is registered; or
- (b) A sign identical with it in relation to any goods or services that are similar to any goods or services in respect of which the trademark is registered; if such use would be likely to deceive or cause confusion; or
- (c) A sign similar to it in relation to any goods or services that are identical or similar to any goods or services in respect of which the trademark is registered, if such use would be likely to deceive or cause confusion; - and in such manner as to render the use of the sign likely to be taken -
- (d) As being use as a trademark; or
- (e) In a case in which the use is use upon goods or in physical relation to goods or in an advertising circular or other advertisement issued to the public relating to goods, as importing a reference to some person having the right either as proprietor or as registered user to use the trademark or to goods with which such a person is connected in the course of trade; or
- (f) In a case in which the use is in relation to services or in an advertising circular or other advertisement issued to the public relating to services, as importing a reference to some person having the right either as proprietor or as registered user to use the trademark or to services with which such a person is connected in the course of trade.

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<sup>13</sup> *Pioneer Hi-Bred Corn Company v Hy-Line Chicks Pty Ltd* [1978] 2 NZLR 50, 62, per Richardson J.

<sup>14</sup> See Trademarks Act 1953, s 41 – General power to rectify entries in the register.

Infringement occurs when someone uses a mark that is contrary to the proprietor or registered user's interest in that same mark or one that is almost identical. In other words only when there has been "use" by someone other than the owner or registered user will there be infringement of s 8(1)(A).

The term "uses" is not defined anywhere in the Trademarks Act 1953, but the Black's Law Dictionary defines "use" as to utilise, convert to one's service, or to employ.<sup>15</sup> Infringement will be deemed to occur when somebody utilises or puts into action a sign that is taken from the trademark of somebody else, contrary to their interests as the proprietor or registered user of that particular mark. Use must also be "in the course of trade".<sup>16</sup> That is, there must be a trade in the goods for which the mark is registered for this to be considered infringement.<sup>17</sup> Therefore anyone using trademark for their own personal domestic use will not be liable under the Act. The inclusion of "in relation to" implies that "use" is wider than mere use of the mark to use in the physical sense or other relation to such goods or services.<sup>18</sup> It is also imperative that use occurs in the trademark sense. In other words, trademark cannot be infringed when it is being referred to in such a way that it is not associated with the mark or will not be interpreted as directly or indirectly alluding to the actual mark.<sup>19</sup>

Thus, in order for parallel importation to be established as trademark infringement for the purposes of s 8(1)(A) of the Trademarks Act 1953, it must be deemed a "use, in the trademark sense, in the course of trade".

### III: IS PARALLEL IMPORTING A "USE" FOR THE PURPOSES OF THE TRADEMARKS ACT 1953 ?

Registration of a trademark under the Trademarks Act 1953 gives the registered proprietor the right to exclusive use of the trademark.<sup>20</sup> This right would appear to give the proprietor the power to prevent parallel imports from entering the New Zealand domestic market. A person infringes a registered trademark when he or she uses, in the course of trade, the same or similar mark in relation to the goods for which the trademark has been registered.<sup>21</sup> The importation and sale of goods bearing a registered

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<sup>15</sup> Black, Black's Law Dictionary (6<sup>th</sup> ed, 1990) 1541.

<sup>16</sup> Trademarks Act 1953, s 8 (1)(A).

<sup>17</sup> *Ravok v National Trade Press* (1955) 72 RPC 110. Publishers of a directory listed trademarks in the name of a firm other than the plaintiffs, who were the registered proprietors. The court held that there had been no infringement as the defendants had not used the mark in the course of trade in the goods for which it was registered.

<sup>18</sup> Trademarks Act 1953, ss 2(2)(a) and 2(2)(b). For example, advertising.

<sup>19</sup> *Mothercare UK Ltd v Penguin Books Ltd* (1987) 9 IPR 527. The use of the plaintiff's trade mark "Mothercare" was not infringed in the defendant's book title "Mother Care/Other Care" as it was not used in the trademark sense and not likely to be interpreted as referring to the plaintiff or its goods.

<sup>20</sup> Section 8(1).

<sup>21</sup> *Supra* note 16.

trademark by someone other than the registered proprietor or a person authorised by him or her, is inconsistent with the owner's right to exclusive use of that trademark. Parallel importing will thus in most circumstances, prima facie constitute an unauthorised use of a registered trademark.<sup>22</sup> The question, however, is who can enforce this right of exclusive use. To answer this, an examination of the positions of two parties under the Act is necessary: first, the overseas owner or domestic registered user of a trademark and second, the local distributor.<sup>23</sup> The effectiveness of assigning a trademark as a method of protecting against parallel importers will then be considered, as will the application of the law to second-hand goods.<sup>24</sup>

## 1. Overseas owner or domestic registered user of a trademark

Although parallel importing of goods prima facie supports an action for trademark infringement, liability may be avoided if a parallel importer can come within s 8(3)(a) of the Trade Marks Act 1953:

The right to the use of the trademark given by registration as aforesaid shall not be deemed to be infringed by the use of any such mark as aforesaid by any person -

- (a) In relation to goods connected in the course of trade with the proprietor or a registered user of the trademark if, as to those goods or a bulk of which they form part, the proprietor or the registered user conforming to the permitted use has applied the trademark and has not subsequently removed or obliterated it, or has at any time expressly or impliedly consented to the use of the trademark

If the goods are used in connection with the course of trade of the proprietor or registered user, infringement will not occur where the proprietor or registered user has applied the mark to the goods, or consented to use of the mark.

### (a) *Issue of Consent*

An overseas owner of a New Zealand trademark that has itself applied the trademark to the goods or has consented to a manufacturer or licensee applying the mark to the goods, cannot then use its registered trademark to prevent parallel importation. The leading case on this point is *Revlon Inc v Crisps and Lee Ltd.*<sup>25</sup> Revlon Inc is the American holding company of the Revlon group of international

<sup>22</sup> Numerous authors have essentially taken this proposition for granted. See Scholes, "Parallel Importing" *Canterbury Law Review* 6 (1997) 564; Turner, "Trademarks and the Parallel Importation of Goods" (1991) 16 *University of Queensland Law Journal* 175; and Crew, "The Law Relating to Parallel Importing", a discussion paper in *Intellectual Property Law in New Zealand and Australia* (1985) 3-29.

<sup>23</sup> The scenario raised by Scholes, *ibid.*

<sup>24</sup> *Ibid.*

<sup>25</sup> [1980] FSR 85.

companies that is engaged in manufacturing and marketing cosmetics and toiletries. The United Kingdom registered proprietor of the “Revlon FLEX” trademark was its Swiss subsidiary, Revlon Suisse. The defendant sourced cheap supplies of Revlon FLEX shampoo in the United States and imported these into England. The Revlon companies then alleged the defendants had infringed their registered trademark. The Court of Appeal was unanimous in finding that the Revlon products were able to be imported into the United Kingdom market without infringing s 4(1) of the Trademarks Act 1938. This decision was based upon s 4(3)(a) of that Act.<sup>26</sup>

In the view of the majority (per Buckley and Bridge LJJ), the Revlon FLEX trademark had become the house mark of the whole group of Revlon companies and therefore each company was deemed to have consented to the use of the trademark by every other company in the group. This consent in itself implied that the American-made product be marked, and subsequently be made available for export to the United Kingdom. Lord Justice Templeman, on the other hand, believed the registered proprietor had applied the mark to the product by virtue of its relationship with its parent. Given that Revlon Suisse was a wholly owned subsidiary of Revlon Inc, he lifted the multi-national corporate veil, so regarding the act of one as the act of the other.

In Brown LJ’s view the apparent result of the *Revlon* case was that the courts would not permit the use of United Kingdom registered trademarks to prevent the importation of goods bearing a particular trademark where these goods were originally marketed by a branch or subsidiary of which the United Kingdom registered proprietor or registered user was part. This was not achieved by finding the use of the imported goods as being use by the proprietor or registered user, but rather, finding the use as having been *consented* to by the registered proprietor.<sup>27</sup>

It followed, therefore, that a parallel importer could be restrained where there was an absence of consent by the proprietor or registered user and the trademark had been applied by an independent licensee.<sup>28</sup> The important factor in the *Revlon* case regarding consent was the lack of any express agreement prohibiting the export of their product.

In *Castrol Ltd v Automotive Oil Supplies Ltd*,<sup>29</sup> *Revlon* was distinguished on the grounds of a lack of consent. Castrol Ltd was the registered proprietor of the “Castrol GTX” trademark in both the United Kingdom and Canada. The company successfully blocked the importation of Castrol GTX oil made under licence in Canada by a rival trader because of an express term in the licence agreement which ensured that the rights only applied to use of the marks in Canada. The express lack of consent on the part of the registered proprietor prevented the defendants from invoking s 4(3)(a).

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<sup>26</sup> These sections are the respective equivalents of New Zealand’s ss 8(1) and 8(3)(a) of Trademarks Act 1953.

<sup>27</sup> Blanco, White & Jacob, *Kerly’s Law of Trademarks and Trade Names* (12<sup>th</sup> ed, 1986) 279, cited in Brown *infra* note 28.

<sup>28</sup> Brown, “Parallel Importing: A New Zealand Perspective” [1989] 8 EIPR 274, 277.

<sup>29</sup> [1983] RPC 315.



Automotive Oil Supplies Ltd were also unable to rely on s 4(3)(a) in that they claimed the mark had already been affixed to the oil by the proprietor or its registered user.<sup>30</sup> The mark in question was not the English mark but the Canadian one.<sup>31</sup>

(b) *Territorial Principle*

The next case relevant to the application of s 8(3)(a) is the decision in *Colgate-Palmolive Ltd v Markwell Finance Ltd*.<sup>32</sup> The plaintiff was the US parent of an international group of companies which manufactured “Colgate” toothpaste. Colgate US was the registered proprietor of the trademark and Colgate UK was the registered user. Under a licence agreement with Colgate US a Brazilian subsidiary, Limitada was permitted to use the trademark in Brazil. This agreement also allowed Limitada to export to specified countries in South America and Africa. The defendants procured supplies of the Brazilian toothpaste for importation and sale in the English market, by representing that the goods were intended for export to one of the approved countries, namely Nigeria.

The Court of Appeal held in favour of the plaintiff, finding on the facts there had never been an application of the relevant United Kingdom trademark to the Brazilian goods since the Colgate mark applied to the goods in Brazil was neither used nor contemplated to be used in the United Kingdom. The only application made was that of the Brazilian trademark, even though this was the same as the United Kingdom one.<sup>33</sup> As stated by Lloyd LJ, “[t]he present reality is that each country grants trademark protection within its own territorial limits”.<sup>34</sup>

His Lordship also described the trademark system as being “perhaps under-developed”. This is possibly due to the territorial nature of trademarks.<sup>35</sup> Ladas states this principle:<sup>36</sup>

It really means that, in principle, the protection of a trademark in a certain country depends exclusively on the law of that country, and that the effects of a trademark ownership by use or registration in a country do not reach beyond the borders of that country.

Simply stated, the owner’s rights in one jurisdiction should have no bearing on those rights in another. The parallel importer in *Colgate-Palmolive* had conceded that to avoid liability, it must rely on s 4(3)(a) of the United Kingdom Act. Taking a territorial approach, it was essential in their Lordships’ view that the mark had been applied for the purpose of use in the United Kingdom. Physical application of the mark was required, and therefore the Brazilian company could not claim it had acted

<sup>30</sup> Ibid 324.

<sup>31</sup> Ibid.

<sup>32</sup> [1989] RPC 497 (CA).

<sup>33</sup> Ibid 525, per Slade LJ.

<sup>34</sup> Ibid 535, per Lloyd LJ.

<sup>35</sup> Ibid.

<sup>36</sup> Ladas, *Patents, Trade Marks, and Related Rights: National and International Protection* (1975) 1340.

as its parent's agent in applying that mark.<sup>37</sup>

As to the plaintiffs' claim of consent, this was not to be implied from the absence of any restriction on export or from the release of the goods into the global market in circumstances where it was highly likely that they may end up for sale in the United Kingdom.<sup>38</sup> As a general rule, Limitada had been forbidden to export goods to a country in which there was a Colgate-Palmolive subsidiary. This prohibition was "fundamentally inconsistent" with consent by Colgate US under s 4(3)(a).<sup>39</sup> The registered proprietor could not be regarded as having given its consent to use the mark when such use would amount to a misrepresentation of quality.

In applying the approach taken in *Colgate-Palmolive* to New Zealand, use of the New Zealand registered trademark would only relate to goods intended for the New Zealand market. Thus for every possible action of infringement, one would have to ascertain whether the registered proprietor had intended that the goods reach New Zealand or had either expressly or impliedly consented to their importation here. This consequence is the result of the application of the territorial principle, and thus one academic regards the arguments in favour of such an approach as being "misconceived".<sup>40</sup> The registered proprietor's intention as to where the goods are to be marketed is relevant to the issue of consent, but it should not be relevant where the registered proprietor's own goods do not infringe.<sup>41</sup>

Following the Colgate case was *Winthrop Products Inc v Sun Ocean (M) Sdn Bhd*,<sup>42</sup> a decision by the High Court of Malaysia that appears to directly contradict its counterpart. In that case the learned judge Mr Justice Viscount George interpreted Templeman LJ's judgment as being the ratio of the *Revlon* case. The plaintiffs were an international group of companies which manufactured and distributed pharmaceuticals including Panadol. Winthrop Products sought to restrain the defendants from importing into Malaysia supplies of the drug obtained from the British domestic market. No territorial restrictions had been placed on the product in respect of its re-sale. This obliged the Court to follow the dicta in *Revlon*, holding that the plaintiffs had impliedly consented to use of the trademark in the United Kingdom and as a consequence the defendants had acquired the right to sell the products anywhere in the world. Accordingly they were within the second limb of the Malaysia equivalent of s 8(3)(a) Trademarks Act 1953. His Honour concluded:<sup>43</sup>

I will with respect and gratefully echo (*a fortiori*) Templeman LJ and say that where a parent company (or a group of companies) chooses to manufacture and sell wholly or partly through subsidiary companies in different parts of the world products which bear

<sup>37</sup> Supra note 32 at 523, per Slade LJ.

<sup>38</sup> Ibid 525, per Slade LJ.

<sup>39</sup> Ibid 534, per Lloyd LJ.

<sup>40</sup> Shanahan, *Australian Law of Trademarks and Passing Off* (2<sup>nd</sup> ed, 1990) 519. See his discussion of the Australian context.

<sup>41</sup> This is the principle established by the famous earlier decision of Clauson J in *Champagne Heidsieck Et Cie Monopole Societe Anonyme v Buxton* [1930] 1 Ch 330. See infra note 114 and accompanying text.

<sup>42</sup> [1988] 14 FSR 430.

<sup>43</sup> Ibid 437.

the same trademark, neither the parent nor any member of the group nor any subsidiary can complain in Malaysia if those products are sold and resold under that trade mark .... The legal ownership of the trademark Panadol enables the proprietor to protect in Malaysia the reputation and goodwill of the owner and of the group of which the owner is a member, by ensuring that no goods are sold with the mark unless they are produced and labelled by a Sterling Company. The legal ownership of the mark does not go further and enable the owner or registered user to ensure that products manufactured elsewhere (eg in the UK or in the USA) are not sold within the territory of Malaysia.

Proprietorship of trademark or the rights as a registered user only affords the right to prevent deception as to the origin of the marked goods but does not give the right to control dealings in the goods. In *Revlon*, Templeman LJ succinctly summarised the reason for granting the injunction:<sup>44</sup>

The reason that none of the plaintiffs can complain in the present case is that by section 4(3)(a) of the Trademarks Act 1938 there is no infringement where the trademark is applied by the proprietor. The object of the section is to prevent the owner of the trademark claiming infringement in respect of a product which he has produced and to which he has attached the trademark. In the circumstances of the Revlon group, and applying the approach of Cross LJ in *GE Trademark* [1970] RPC 339, 395, user by the parent, Revlon Inc, may fairly be considered as user by the proprietor, the subsidiary Revlon Suisse itself. In more homely language, section 4(3)(a) cannot be evaded by substituting the monkey for the organ-grinder.

Consequently, in the circumstances, Revlon Inc was in no better position than *Champagne Heidsieck*.<sup>45</sup> Revlon Suisse had been specifically set up as a holding company for the group's trademarks in order to benefit from incorporation in Switzerland.<sup>46</sup> However, in light of this arrangement, neither the parent nor subsidiary could complain in the United Kingdom if those products were used, sold or re-sold under that mark.<sup>47</sup> It is on this basis that Lord Viscount George made his finding in *Winthrop*.

### (c) *Inferior Quality*

*Colgate-Palmolive* is authority for the proposition that a registered proprietor or user may be able to prevent parallel imports when they are of inferior quality.<sup>48</sup>

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<sup>44</sup> Supra note 25 at 116.

<sup>45</sup> *Champagne Heidsieck*, supra note 41. In this case the plaintiffs, Heidsieck, were unable to prevent importation into the United Kingdom goods bearing its trademark. See infra note 114 and accompanying text.

<sup>46</sup> Ibid. The benefits included the accumulation of royalties and income in a strong currency, without the fear of undue publicity or the risk of confiscation.

<sup>47</sup> Ibid 115.

<sup>48</sup> United States courts have taken a similar approach and will restrain parallel imported products where the goods differ physically from those made locally by the American trademark owner. See the cases of *Lever Brothers Co v United States of America* 877 F 2d 101 (DC Cir 1989) and *Original Appalachian Artworks, Inc v Granada Electronics Inc* 816 F 2d 68 (2<sup>nd</sup> Cir 1987).

Operating constraints arising from economic conditions in Brazil meant the toothpaste was manufactured from cheaper materials and therefore was of lower quality than the United Kingdom equivalent.

In his judgment, Slade LJ referred to *Aristoc v Rysta*<sup>49</sup> which recognised that in addition to being a badge of origin, the function of trademark is to give consumers an assurance that the product is of the quality which they have come to expect from goods bearing that particular trademark.<sup>50</sup> The importation and subsequent sale to consumers in this case was a misrepresentation that the toothpaste was of the same quality as the ordinary Colgate toothpaste available in the United Kingdom. Accordingly, this constituted an infringement of the registered trademark.

#### (d) *Position in New Zealand*

Section 8(3)(a) of the Trademarks Act 1953 has been cited, albeit very briefly, in the New Zealand decision of *Tamiya Plastic Model Co v The Toy Warehouse Ltd.*<sup>51</sup> The defence was discussed in an interlocutory context allowing the parallel importation of model racing cars. An application for an interim injunction was declined on a number of grounds including the plaintiffs' failure to establish a case of trademark infringement. The defendants had submitted that there was no infringement of trademark where the marks had been lawfully applied by the proprietor of the marks. Justice Wylie concluded that the use was "in relation to goods connected with the proprietor of the trademark" within s 8(3)(a) and therefore no breach of s 8(1) had occurred.

Due to the brevity of Wylie J's analysis of trademark infringement, no mention was made of the issue of consent. It is suggested that the current New Zealand position is that a proprietor of a New Zealand registered trademark may be able to restrain parallel importation where there is an absence of consent to the use of the mark and where the mark was applied by an independent licensee or by someone other than the proprietor of the mark.<sup>52</sup> In particular, where the product differs in quality from that customarily sold in New Zealand by the authorised dealer, an importer may be thwarted as there is no implied consent to use the trademark.

## 2. The position of local distributor

Presently, where a registered proprietor has applied the domestic trademark, or either expressly or impliedly consented to its use, he or she will be unable to prevent parallel imports coming into New Zealand. It is now necessary to examine the status of local distributors and whether they are able to use trademark law to prevent parallel imports.

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<sup>49</sup> [1945] AC 68, 96.

<sup>50</sup> Supra note 32 at 527, per Slade LJ.

<sup>51</sup> (1987) 2 TCLR 45. See discussion of Wylie J at 53.

<sup>52</sup> Supra note 28.

It is regarded as common commercial practice for the New Zealand agent of an overseas manufacturer to be appointed registered user of a trademark as part of the distribution agreement.<sup>53</sup> Additionally, in most cases exclusive distribution agreements have clauses guaranteeing the distributor the right to prevent the overseas manufacturer from supplying others' goods bound for the same market. Therefore a local distributor would presumably have a remedy in contract law for any attempt by the overseas registered proprietor to supply a third party who was intending to import into New Zealand.

No favourable claim for trademark infringement can be maintained if it is based on a traditional interpretation of s 8(1)(A) of the Trademarks Act 1953. This provision exempts use by the registered proprietor.<sup>54</sup> The registered user has no *locus standi* to sue for infringement. The Trademarks Amendment Act 1994, however, may well affect this approach. Section 2(3) now provides that references in the Act to use of a trademark by the registered proprietor shall be construed as including uses by a person other than the proprietor if such use is authorised by and subject to the control of the proprietor. This may warrant interpreting s 8(1) as entitling the registered user to sue for infringement as if it were the proprietor of the mark. Section 37(2) lends weight to this approach, which requires use of a mark by the registered user to be perceived as use by the proprietor.

The difficulty with such an interpretation is that it allows the registered user to sue for infringement. Depending on the nature of the relationship between the proprietor and the parallel importer, the importer may also be exempt from application of s 8(1) as they may be using the mark in an authorised manner, subject to the control of the proprietor. Section 2(3) is not as strict as s 37(2) in that s 37(2) requires "permitted use", and therefore provided the importer has the proprietor's blessing, it can import in direct competition to the distributor without fear of reprisals.

#### (a) Australian approach

Australian case law is helpful in shedding some light on this issue. Here, a registered user may only prevent parallel imports in circumstances where the proprietor had grounds to prevent them.<sup>55</sup>

In *Delphic* the registered proprietor of "Diana" olive oil, a Greek company, agreed to supply the defendants in breach of their exclusive user agreement with Delphic. While McGarvie J held that the defendants had procured a breach of contract between Delphic and the Greek company, he refused to find in favour of the plaintiffs regarding trademark infringement. His Honour reasoned that the right of exclusive use of the trademark in relation to goods did not operate to enable the registered proprietor to prevent Australian sales of genuine goods marked with its trademark.<sup>56</sup> Moreover,

<sup>53</sup> Scholes, "Parallel Importing" (1997) 6 Canterbury Law Review 564, 576.

<sup>54</sup> *Ibid* 1576.

<sup>55</sup> *Delphic Wholesalers Pty Ltd v Elco Food Co Pty Ltd* (1987) 8 IPR 545.

<sup>56</sup> *Ibid* 555. For this proposition, McGarvie J relied on *R & A Bailey & Co Ltd v Boccaccio Pty Ltd* (1986) 6 IPR 279.

the registered proprietor had consented to the importation and sale by the defendants.

Whenever a registered proprietor is unable to prevent parallel importation of goods bearing its trademark, a registered user will also be unable to do so. Accordingly, a local distributor may have difficulty maintaining an action for trademark infringement. Nevertheless, the possibility remains that where there is no consent by the overseas supplier, a registered user may be able to sue. In this scenario, the third party is in fact using the mark illegally and contrary to the registered proprietor's interest. The proprietor is entitled to sue, and so this must indicate that the registered user can also bring an action for infringement.

### *(b) Canadian approach*

Canadian jurisprudence would tend to agree with this approach. Justice Estey in *Consumers Distributing Co Ltd v Seiko Time Canada* recognised the possibility that appointment as registered user would be sufficient to maintain a claim for infringement under the Trademarks Act of Canada.<sup>57</sup> The registered user was also successful at first instance in obtaining an interlocutory injunction to prevent the parallel importation of video games.<sup>58</sup> Section 50(3) of the Canadian Trademarks Act provides that the permitted use of a trademark has the same effect for all purposes of the Act as use by the owner.<sup>59</sup> Thus a registered user should be protected as well as the trademark owner.

### *(c) Application to New Zealand*

How the issue will be resolved in New Zealand is uncertain. If New Zealand judges are persuaded by their Canadian counterparts, a wide interpretation of ss 2(3) and 37(2) would permit a local distributor invoking trademark law to bar parallel imports. However if the courts are inclined to follow *Delphic*, only where a registered proprietor can and is willing to stop "grey market" goods, will a registered user be able to stop them. Furthermore, in a situation where a parallel importer can claim that it is importing the product under the authorisation and control of the proprietor, despite this not being a "permitted use" for the purposes of the Trademarks Act 1953, the authorised distributor will indeed be helpless to act.

## **3. The position of an assignee of a trademark**

The situation in which a trademark has been assigned to the local distributor is by no means any clearer. The traditional approach regarding the validity of assignment

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<sup>57</sup> (1984) 10 DLR (4th) 161,184.

<sup>58</sup> *Mattel Canada Inc v GTS Acquisitions Ltd and Nintendo of America Inc* noted in [1989] 11 EIPR D-193.

<sup>59</sup> This section is similar to s 37(2) of Trademarks Act 1953.

to a local distributor as a means to deter parallel importers was expressed in the late nineteenth century case of *Apollinaris Company v Snook*.<sup>60</sup> Snook had imported from the Continent bottles of spring water from one of Apollinaris' spa waters over which it had been granted exclusive rights. At first instance Kelich J held that so long as the trademark remained on the register the proprietor was able to restrain others from using it. If the mark was not properly registered, the defendant had the right to bring proceedings for rectification.<sup>61</sup> Snook appealed the ruling but before this was heard another distributor challenged the validity of "Apollinaris" trademark registrations.<sup>62</sup> Disapproving of Apollinaris' aggressive attempts in using trademark law to monopolise the market for bottled water, the Court of Appeal firmly rejected the notion that an importer could register the trademark of a foreign producer. In obiter, it was stated that this was true even where the producer consented to the registration or if the importer had an exclusive contract for that product's distribution.<sup>63</sup> Registration of the mark was not allowed where one was only an importer and accordingly Apollinaris' trademarks were cancelled. As a result of this ruling, Apollinaris did not defend the appeal by Snook.

Thirty years on, assignment of trademark to a distributor in a bid to curb parallel importers of certain pharmaceuticals was once again fruitless. In *Lacteosote Ltd v Alberman*,<sup>64</sup> the relevant trademark was registered on the basis that the registering person was the domestic distributor under an agreement with the manufacturer. This connection was deemed insufficient to confer the usual rights afforded by registration. The assignment was ineffectual and hence the distributor's action for infringement was dismissed.

The key factor in these cases however is that assignment has been prompted by one single motivating factor: a desire to block parallel imports. The more recent decision of *Fender Australia Pty Ltd v Bevk* seems to suggest, however, that if other circumstances surround the assignment, a local distributor who has been assigned trademark of a particular product in its bid to control the dispersion of overseas branded product may have a remedy under trademark law.<sup>65</sup>

Fender Musical Instruments Corporation is a leading manufacturer of guitars in the United States. Fender Australia Pty Ltd had been the sole agent in Australia for these guitars since 1978. This arrangement was formalised in 1987, by way of an exclusive distribution agreement in which the Australian registered trademarks were assigned to Fender Australia. The Australian company had over those nine years established a network of over two hundred stores stocking the imported guitars and

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<sup>60</sup> (1890) 7 RPC 474.

<sup>61</sup> Note the discussion pertaining to the *Judas* and *Montana* cases. In *Snook* the court held that in the absence of a motion to rectify a trademark, it will be assumed the marks have been rightly registered and the company in question is able to register the mark as they did. This seems to suggest that in order to defeat claims of infringement on the basis of invalid registration, one must actually be pursuing such a suit against the person who registered the trademark.

<sup>62</sup> *In Re Apollinaris Company's Trademarks* [1891] 2 Ch 186 (CA).

<sup>63</sup> *Ibid* 226, per Fry LJ.

<sup>64</sup> (1927) 44 RPC 211.

<sup>65</sup> (1989) 15 IPR 257.

related products. It engaged in extensive promotional activities and provided warranty and repair facilities in respect of its products. The respondents, Sullivan and Bevk, purchased Fender guitars in the United States and imported them for sale into Australia. The guitar shipment comprised both new and used stock. Fender Australia sought to restrain the respondents' sale of Fender guitars under their rights as the registered proprietor of the trademarks. Justice Burchett held that Fender Australia were entitled to rely on their trademark rights to bar parallel importation of new Fender products. Underlying this finding was the fact that Fender Australia had built up considerable goodwill as the exclusive distributor of Fender guitars.<sup>66</sup> This is consistent with the purpose of the statute. The registered proprietor's trademark rights should be protected, allowing them to enjoy their goodwill once they have distinguished their goods in trade.<sup>67</sup> As authority for this proposition, Burchett J cited the cases of *A Bourjois & Co v Katzel*<sup>68</sup> and *Breck's Sporting Goods Co Ltd v Magder*,<sup>69</sup> decisions which his Honour said, "state the law as it is in Australia".<sup>70</sup>

In *Bourjois*, the plaintiff had purchased the United States business and goodwill of a French cosmetics company. They imported face powder in bulk and packaged it with their own labels. The defendants meanwhile imported the powder in its original packaging and sold it on the American market. Critics argue the only point of similarity on the facts between this decision and *Fender* is that both assignees had established their own goodwill in their respective countries and became identified there with the supply of the product under its trade name.<sup>71</sup>

The facts of *Fender* were substantially closer to those in the second case cited by Burchett J in support of his decision, *Breck's Sporting Goods*.<sup>72</sup> The plaintiff was registered by assignment as the proprietor of a trademark, MEPPS, for fishing tackle imported from France. Justice Gibson, at first instance, said that although the lures were manufactured in France, the Canadian trademark MEPPS distinguished the lures sold in Canada by the plaintiff company from the lures of others.<sup>73</sup> Accordingly, the court held that the defendant's actions of importing and selling French-made lures, was in violation of the plaintiff's Canadian trademark. Fender Australia did not affix its trademark to the guitars imported by the respondents. Instead, the United States manufacturer had affixed their trademark to these parallel imports. This was not a mark covered by the (Australian) Trademarks Act 1955, rather a United States mark covered by United States law.<sup>74</sup>

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<sup>66</sup> Ibid 261, Burchett J, when discussing the case of overseas made product sold worldwide, his Honour mentioned the possibility of "...an Australian goodwill, associated with a trademark registered in Australia which is distinct from the goodwill in respect of the product overseas".

<sup>67</sup> Ibid 270.

<sup>68</sup> 260 US 689 (1923).

<sup>69</sup> (1971) 1 CPR (2d) 177.

<sup>70</sup> Supra note 65 at 271.

<sup>71</sup> Turner, "Trademarks and the Parallel Importation of Goods" (1991) 16 University of Queensland Journal 175, 185.

<sup>72</sup> (1971) 1 CPR (2d) 177.

<sup>73</sup> Ibid.

<sup>74</sup> Supra note 65 at 271.



What is not mentioned by Burchett J is that the decision of Gibson J in *Breck's* was unanimously overturned on appeal by the Federal Court of Appeal<sup>75</sup> and this was upheld by the Supreme Court of Canada.<sup>76</sup> In *Fender*, the validity of the assignment and its effect on the validity of the registration was not at issue in the proceedings before the court. The reversal in *Breck's*, however, ultimately hinged on the invalidity of the registration of the assignment. This turned on the construction of the particular provisions of the Canadian Trademarks Act 1952-53.<sup>77</sup>

Despite Burchett J's "very dubious" omission,<sup>78</sup> *Fender* seems to stand for the proposition that a local distributor, having been assigned trademarks for a particular product, and who as an independent entity has built up goodwill apart from that of the actual overseas manufacturer, is able to prevent the parallel importing of that product.

At issue is the exact nature of the goodwill which the distributor must prove so as to be able to prevent rival traders from importing the same product. On this point, Hill Watson LJ in *John Haig & Company Ltd v Forth Blending & Company Ltd* provided some insight:<sup>79</sup>

Goodwill being invisible is represented by visible symbols such as trade names, trademarks, get up and other accompaniments associated with the goods of a particular trader. Every article which is sold by such a trade name, or bears such a trademark, get-up or accompaniment has behind it an element of the particular trader's goodwill and reputation, and a rival or second trader by adopting that trade name, trademark, get-up or accompaniment, or a substantial part of it, with the result that the public are misled into thinking that the goods of the second trader are the goods of the first trader, commits an actionable wrong and appropriates to himself part of the goodwill of the first trader.

Therefore, a trademark can be regarded as an indicator of business goodwill. The difficulty for the local distributor is that in most cases, the goodwill associated with the trademark will be that of the manufacturer. A distributor who is the proprietor of the mark by virtue of assignment must have sufficient goodwill associated with its mark in its own right before the mark will be associated with them and not the overseas producer. In *Fender*, the goodwill protected by the trademark was clearly that of the domestic distributor, but this goodwill took nearly ten years to generate.<sup>80</sup>

Having established the requisite goodwill, the assignee must show this goodwill is damaged in some way by the presence of parallel imports. If the item is identical, it is difficult to understand how the goodwill that the trademark protects can be harmed. Thus it would seem that only in exceptional circumstances would the distributor be able to prove the necessary level of goodwill, and that it was harmed. In light of both the validity of assignment not being at issue and the nature of the goodwill required,

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<sup>75</sup> *Magder v Breck's Sporting Goods Co Ltd* [1973] FC 360.

<sup>76</sup> *Breck's Sporting Goods Co Ltd v Magder* [1976] 1 SCR 527.

<sup>77</sup> *Supra* note 71 at 186.

<sup>78</sup> *Ibid.*

<sup>79</sup> (1953) 70 RPC 259.

<sup>80</sup> *Supra* note 71 at 259.

a trademark owner should rely on the decision in *Fender* only with great caution.<sup>81</sup>

The recent Australian case of *Montana Tyres Rims & Tubes Pty Ltd v Transport Tyre Sales Pty Ltd* casts considerable doubt on the ability of a local distributor who has been assigned a trademark to act against parallel importers under trademark law.<sup>82</sup> The Ohtsu Tire and Rubber Co Ltd of Japan manufactures Ohtsu and Falken tyres which are sold all over the world. The respondent had distributed Ohtsu's products exclusively in Australia since incorporation in 1973. Concerned by the influx of unauthorised parallel imports from Singapore, the respondent sought legal advice. He was advised by his solicitors that if Transport Tyres Sales Pty Ltd (TTS) were to become registered owner of Ohtsu's trademarks in Australia, he would be able to take trademark infringement proceedings against an unapproved importer. On a later trip to Japan, a deed of assignment was signed by Ohtsu purporting to transfer to TTS all its rights in the trademarks and the goodwill of the business in respect of those registered marks. Once assignment was recorded, TTS issued letters of demand to those parties illegally importing Ohtsu and Falken tyres, one of whom was Montana. Initially, Montana accepted TTS' demands but refused to relinquish its rights in relation to goods acquired before assignment of the trademarks took place. TTS rejected this proposal, and tension escalated between the two companies, until eventually Montana commenced proceedings under s 129 of the (Australian) Trademarks Act 1995 for unjustified threats. TTS then counterclaimed for infringement of trademarks and breach of ss 52 and 53 of the Trade Practices Act 1974.<sup>83</sup>

In the course of his judgment Wilcox J discussed the necessity for the trademark owner to have the capacity to control the use of a mark as an incident of ownership. Before and after assignment, the tyres were manufactured by Ohtsu Japan, who had made no effort publicly to disassociate itself from the marks. TTS had not advertised the transfer, so as far as the public were concerned the situation remained the same as it was prior to the assignment. TTS was not responsible for the design, manufacture or quality of the tyres they imported and distributed in Australia. Therefore his Honour found that there was no such nexus between the marks and TTS which would make the marks registrable by TTS. It followed that use of the Ohtsu and Falken trademarks by TTS was likely to deceive or cause confusion. Consequently, TTS's letters of demand were groundless. The threat of legal action was unjustified and therefore in breach of s 129, and Montana was entitled to pursue its claim for damages. An order cancelling the assignment of trademarks to TTS was also granted.

Pursuant to s 16(1) of the TMA, marks that are likely to cause confusion or deceive, will be removed from the register. The judgment of Wilcox J is based on the idea that where a trademark acts as an indicator of certain qualities of goods, the separation of the mark from the business which controls those qualities may culminate in the mark being misleading and therefore liable to be removed from the register.

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<sup>81</sup> Ryan & Symons, "Controlling Parallel Imports in Australia" (1997) *Managing Intellectual Property* 33.

<sup>82</sup> [1998] 708 FCA.

<sup>83</sup> These sections are similar to provisions in the New Zealand Fair Trading Act 1986 covering misleading and deceptive conduct in the course of trade.

This had been interpreted as being inconsistent with the badge of origin function of trademarks.<sup>84</sup> Nevertheless, the decision imposes substantial limits on the ability of trademark owners to assign their marks to protect against parallel imports.

Canadian case law tends to agree with this finding. In *Wilkinson Sword (Canada) v Juda*,<sup>85</sup> failure to inform the public of the change in ownership of the trademarks and production responsibilities rendered the marks non-distinctive and liable to cause deception. Consequently, an order was made for their removal from the register.

In the absence of considerable goodwill and reputation, serious risks arise when using assignment as a means of preventing the parallel importation of trademarked goods. Not only will the trademark be susceptible to removal on the grounds of being deceptive, but the original assignment may be viewed as a sham and as such ineffective. Such an assignment usually obliges the distributor to reassign the trademark to the foreign manufacturer on the happening of a certain event which may cause the assignment to be seen as insignificant and unsubstantive.<sup>86</sup>

Where a trademark becomes representative of its foreign manufacturer, it will not be capable of distinguishing the distributor's goods. Registration in the name of the distributor may also be deceptive where there is no obvious connection between the trademark and the assignee. Another potential pitfall of assignment is that where the trademark has been applied by the overseas manufacturer who continues to use it, as the goods are sold in New Zealand, the registration may be removable on the basis of non-use of the trademark by the registered proprietor during the statutory five year period.<sup>87</sup>

The dictates of commercial reality make it unlikely that assignments can operate as a viable option for local distributors. Most large multi-nationals would be unwilling to assign their trademarks to a New Zealand distributor. The equity in such brands as Reebok or Microsoft have immense value to their respective companies. The New Zealand market is too small and insignificant to jeopardise such valuable trademarks which in most cases have taken years to establish.<sup>88</sup>

The only New Zealand case that is of relevance to the issue is *South Pacific Tyres NZ Ltd v David Craw Cars Ltd*.<sup>89</sup> In the words of Fraser J:<sup>90</sup>

Where the plaintiffs have a long-established right to trademarks pursuant to the statutory provisions, and there is a strong prima facie case of infringement by the defendants who

<sup>84</sup> Freehill, Hollingdale & Page, "Parallel Importing - The Latest Chapter" *In Time* (14 August 1998) 2.

<sup>85</sup> (1966) 51 CPR 55.

<sup>86</sup> For example, on termination of the distribution agreement.

<sup>87</sup> This problem may be overcome by the distributor (the registered proprietor) licensing the overseas manufacturer's use of the mark. However the licence agreement would have to be structured so that the distributor exercised a requisite degree of quality control over the goods sold in New Zealand, otherwise it too may become invalid.

<sup>88</sup> For example the possibility of the distributor being bought out by a rival company. This places the brand at risk from devaluation and defacement.

<sup>89</sup> (1989) 3 TCLR 155.

<sup>90</sup> *Ibid* 162.

intimate that they intend to continue importing and selling in the meantime unless restrained, the overall justice of the case is that the plaintiffs' rights ought to be protected.

*David Crow Cars* involved not a distributor as such, but a local manufacturer who had been assigned trademark under a licence arrangement to manufacture and sell Dunlop tyres in New Zealand. The manufacturer relied on trademark law to prevent imports of Japanese made Dunlop tyres. There was no connection between the plaintiffs and the proprietor or lawful user of the Japanese registered trademark. Section 8(3)(a) did not operate as a defence to the importer because trademark on the imported tyres had not been applied by the New Zealand registered proprietor. In *David Crow Cars* the judge did not consider the words "Made in Japan" on the imported tyres to be material in distinguishing the two trademarked goods.<sup>91</sup> The court was concerned not with where the tyres were made but whether they lawfully carried the plaintiff's trademarks in New Zealand.<sup>92</sup>

The position then would seem to be that if a trademark has been assigned to a New Zealand company for the purposes of manufacturing the trademarked product under licence, the manufacturer may be able to stop imports of the foreign-made goods bearing the same trademark, even if the overseas-made goods are genuine items.

It is interesting to note that *David Crow Cars* was not a case concerning parallel importing. There was no authorised importer, rather a local manufacturer who happened to own the New Zealand rights for an overseas trademark. This may mean the decision is distinguishable if it is used as authority in any future trademark infringement case concerning parallel importing.

#### 4. Second-hand Goods

There is nothing in the words of the statute referring to goods as either new or second-hand and I think it would be adding in words that are not there and would defeat the purpose of the Act to read it as applying only to new goods sold in the course of trade and not to second-hand goods so sold.<sup>93</sup>

Justice Fraser in *David Crow Cars* accepted the plaintiff's submission that tyres being second-hand made no difference. This is akin to the view endorsed by Salmon J in *Composite Developments (NZ) Ltd v Kebab Capital Ltd*,<sup>94</sup> a case concerning parallel importing covered by the Copyright Act 1994 prior to the 1998 Amendment.

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<sup>91</sup> Ibid 160.

<sup>92</sup> Ibid.

<sup>93</sup> Ibid.

<sup>94</sup> [1996] 7 TCLR 186.

However, these cases should be used as authority sparingly, as for both of them there was a sympathetic view of the respective plaintiffs' cases.<sup>95</sup>

Despite this precedent, it is submitted that the appropriate position in relation to second-hand goods should be that taken by the Australian courts. *Fender* is still useful authority for this proposition. Justice Burchett denied infringement by either of the respondents for the second-hand guitars on the grounds that a person who sells used goods by reference to a trademark on them does not do so to indicate any trade connection between them and the trademark owner, and nor does it indicate any trade connection between the trademark owner and the used goods.<sup>96</sup>

The judge, in making his finding, took into account the impact on commerce. A contrary outcome would be an "unwarranted expansion" of the Act and create "an undue restriction on the freedom of trade".<sup>97</sup> The market in used goods would clearly be suppressed if a decision was made where the sale of second hand goods constituted an infringing use of trademark.

The court concluded that once goods were bought for consumption they were no longer in the course of trade.<sup>98</sup> The exclusive right bestowed by registration of trademark was only intended to protect the goods whilst in circulation for the first time, therefore not extending beyond the point of retail sale.<sup>99</sup>

His Honour then considered the essential characteristic of trademark as an aspect of goodwill of a particular business. Trademark legislation was not intended to create new rights but only to regulate the use and protection of trademarks.<sup>100</sup> The protection of the business goodwill of the trademark proprietor was its fundamental objective. Accordingly the sale of second-hand goods does not affect the proprietor's goodwill as it is not deceptive and does not impinge on the goodwill to which the trademark is related.

Alternatively, the requisite connection in the course of trade between the marked product and its proprietor is broken by the use of the product by consumers. When the goods are later resold, "a new origin has been interposed and [they] have entered

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<sup>95</sup> Supra note 53 at 581. In *South Pacific* at 160, Fraser J's ultimate finding was motivated by the "devastating effect on the plaintiffs business" if protection under the Trademarks Act 1953 was not given. Similarly, Salmon J in *Composite Developments*, *ibid* 191, was influenced by the possibility that the plaintiff may have lost its distributor's licence had the defendants been able to continue selling second-hand "Rossignol" skis.

<sup>96</sup> Supra note 71 at 265.

<sup>97</sup> *Ibid*.

<sup>98</sup> *Ibid* 264.

<sup>99</sup> In *Fender* the infringing guitars were purchased in the United States from retail shops. On the facts, and using the authority Burchett J referred to, it could be argued that by purchasing even the new guitars at retail rather than at wholesale price, all the goods Bevk and Sullivan imported may be regarded as second-hand. In most cases buying at retail rates would be uneconomical for any parallel importer intent on making a profit. But it is worth considering the implications of this possibility, if retail prices were low enough to still make it economically viable to do so. One example that may seem plausible is buying trademarked goods at retail factory outlet stores which are extremely popular in the United States which offer discontinued or older stock at substantially reduced costs.

<sup>100</sup> *James Minifie & Co v Davey* (1933) 49 CLR 349, 354.

upon a new commercial existence”.<sup>101</sup> A new connection in the course of trade is created which becomes the only relevant one.

*Fender* was cited at first instance in *Wingate Marketing Pty Ltd v Levi Strauss*,<sup>102</sup> in which Lockhart J stated that a trademark owner’s rights are virtually exhausted once the goods have been sold to the public.<sup>103</sup> On appeal, Gummow J, accepting the ratio in *Fender*, regarded a trademark’s function as being an indication of the person who originally attached or authorised the initial use of the mark. Consequently there should be “no necessary dichotomy between new and second-hand goods”.<sup>104</sup>

This view conforms most sensibly with the commercial dictates of society. A pragmatic approach similar to that of Gummow J is essential to prevent mass litigation against dealers in second-hand goods that would otherwise follow.

#### IV: PARALLEL IMPORTING IS NOT A “USE” FOR THE PURPOSES OF THE TRADEMARKS ACT 1953

At this point, in contrast to the 1998 provisions of copyright law, trademarks would hardly be considered an effective means of curbing the grey market. The reason for this failure boils down to a question of function. The ability of trademarks to prevent parallel imports is not an incident of trademark law. Rather it is purely the product of skillful legislative interpretation.

Trademarks have their origin in the law of passing off and unfair competition. Their purpose is to prevent the deception of consumers; no person should be able to sell their goods as those of another. This is the function of trademark: to identify a product and distinguish it from products of the same nature.<sup>105</sup> If parallel imports are of the same quality, the consumer cannot be deceived to any quantifiable extent. Manufacturers place trademarks on goods to indicate to consumers that those goods have originated from their factories. When those goods are purchased the trademark has fulfilled its function by identifying the origin of the goods. Primarily, trademarks operate as an indicator of the trade source from which the goods derive but they also can perform a secondary function. Marks are worthy of protection because they symbolise qualities associated by consumers with certain goods and guarantee that these goods measure up to these expectations.<sup>106</sup> Interestingly, in *Bowden Wire v Bowden Brake Co Ltd*,<sup>107</sup> it was held that trademarks are also used to identify the trade hands through which the goods pass on their way to the market.

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<sup>101</sup> Supra note 65 at 264.

<sup>102</sup> (1993) 116 ALR 298.

<sup>103</sup> Ibid 323.

<sup>104</sup> (1994) 121 ALR 191 at 237, per Gummow J.

<sup>105</sup> Supra note 36 at 1341.

<sup>106</sup> Cornish, *Intellectual Property: Patents, Copyright, Trademarks and Allied Rights* (3rd ed, 1996) 527.

<sup>107</sup> (1914) 31 RPC 385.

It is highly unlikely that any Court would hold the actual unauthorised importation of trademarked goods to be a use for the purposes of s 8(1)(A). There is no use of the mark because the importer is not doing anything more than loading the goods onto a carrier and transporting them to New Zealand. It is only when the goods are later offered for sale that the issue of liability becomes relevant.

The parallel importer is using the reputation of the registered trademark to sell the parallel imported goods. The importer is essentially making a false representation as to the origin of the goods by portraying them as the goods of a particular registered proprietor. It is submitted, however, that this is not important to a consumer. Most are not interested in being able to identify the registered proprietor of a trademark, as their primary concern is that the branded item is a genuine product.<sup>108</sup>

Extending the function of the law of trademark beyond an indication of origin has drawn criticism. In what has been deemed “a sizeable leap”, trademark protection is sometimes referred to as also encompassing an investment function.<sup>109</sup> Marks are objects around which investment in the promotion of a product is built and, once established, this investment becomes worthy of protection from misrepresentations either about origin or quality.<sup>110</sup>

Furthermore, trademarks provide a useful means of securing price discrimination between national markets in relation to all branded goods.<sup>111</sup> Using trademarks to prevent parallel imports is a disguised attempt to protect a firm’s pricing policy in a domestic market. Trademark infringement proceedings are lodged against parallel importers in a bid by the authorised distributor to protect the specific marketing procedures in place for their branded goods from interference from unwanted imports.<sup>112</sup>

Conventionally, parallel imports only occur where the branded goods in the exporting country are considerably cheaper than in the country they are being imported to. Hence, trademark protection is used by the authorised importer to prevent breaches of the domestic pricing structure. But one must be wary of this underlying economic motive for initiating trademark infringement proceedings. David Kitchin, an English barrister, reflects this sentiment:<sup>113</sup>

The decision recognises the function of a trademark as being an indication of the source of the branded goods and not a means of protecting a market from unwanted imports. In practice, parallel imports occur where domestic prices are higher than those of the exporting country. Such attempts to restrain such imports are generally launched with a view to preserving the domestic price structure. Partitioning of the markets in this way is not the

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<sup>108</sup> This point can be debated. If the price point is low enough, a consumer may not be concerned whether the goods are genuine. A counterfeit item that resembles the authentic one may be a realistic alternative to the ordinary consumer.

<sup>109</sup> *Supra* note 106 at 635.

<sup>110</sup> *Ibid* 527.

<sup>111</sup> Kitchin, *The Revlon Case - Trademarks and Parallel Imports (UK)* (1980) EIPR 86, 88.

<sup>112</sup> Beier, “The Principle of the International Exhaustion of Trademark Rights in the Member States of the European Communities and Selected Non-Member States” (Unpublished Paper) 4-5.

<sup>113</sup> *Supra* note 111.

function of trademarks or their territorial nature and the decision is, accordingly to be welcomed.

There would seem to be little justification for enabling a trademark proprietor to exploit trademark rights in this way by prohibiting parallel imports of genuine goods. The result would be an unwarranted extension of the fundamental purpose of trademarks.

The most definitive statement on the applicability of trademark law to parallel importing comes from the often cited case *Champagne Heidsieck Et Cie Monopole Societe Anonyme v Buxton*.<sup>114</sup> The plaintiffs were French wine makers who produced two types of champagne under the same name but for different markets (England and France). The defendant acquired bottles destined for the French market, and exported them to the United Kingdom. The plaintiff then sued for trademark infringement and passing off. Justice Clauson dismissed the action, stating categorically that a trademark's function is as a "badge of origin" and not as an exclusive right to prevent others from dealing in the goods.<sup>115</sup> The critical factor was whether the goods were genuine, for where the plaintiff's mark is properly used deception cannot be caused, and therefore will be insufficient to justify infringement.<sup>116</sup>

A later Australian decision reiterates Clauson J's contention. In *Atari Inc and Futuretronics Australia Pty Ltd v Fairstar Electronics Pty Ltd*.<sup>117</sup> Justice Smithers dismissed an application for an interlocutory injunction against a parallel importer. His Honour rejected a literal interpretation of s 62(1) of the Australian Trademarks Act 1955 whereby any use in the course of trade other than by the owner or registered user would be unlawful. The judge considered that such an action did not amount to infringement of the mark, because:<sup>118</sup>

once a manufacturer puts a trademark on his goods and sends them into the course of trade on the billowing ocean of trade, wherever people bona fide deal with those goods under that name and by reference to that trademark, not telling any lies or misleading anyone in any way at all, they are simply not infringing the trademark. They are not "using" the mark in the relevant sense.

The *Atari* decision was cited with approval by Young J in *R & A Bailey & Co Ltd v Boccaccio Pty Ltd*.<sup>119</sup> The plaintiffs, manufacturers of Bailey's Original Irish Cream, sought to restrain the defendants who had imported the same product into Australia. Affixed to the bottles were elaborate labels which were claimed by the plaintiff to be part of their trademark which was registered under the Australian Trademarks Act

<sup>114</sup> Supra note 53. See Smithers J's quote in *Atari Inc and Futuretronics Australia Pty Ltd v Fairstar Electronics Pty Ltd* (1983) 50 ALR 274, 277 – "The *Champagne* case has never been said to be inaccurate and has many times been approved".

<sup>115</sup> Ibid 339.

<sup>116</sup> Ibid 341.

<sup>117</sup> (1983) 50 ALR 274.

<sup>118</sup> Supra note 57 at 277.

<sup>119</sup> (1986) 6 IPR 279.



1955. *Boccaccio* was the first case to go to full trial on the issue of parallel importing in Australia. This presented Young J with the perfect opportunity to consider the developing line of authorities. The first case his Honour discussed was *W.D. & H.O. Wills (Australia) Ltd v Rothmans Ltd*.<sup>120</sup> Pall Mall cigarettes were sold in the United States, then exported to Australia in response to direct orders made by consumers. There was held not to be a prohibited use of the trademark of the registered proprietor in Australia because “[t]he cigarettes were not imported for sale. They were imported for consumption”.<sup>121</sup> All trading in the goods was done in the United States and the trademark was only allegedly used as a trademark in that country. No use in Australia meant the Trademarks Act 1955 could not apply.

In contrast, however, the *Rothmans* case was distinguished by the High Court in *Estex Clothing Manufacturers Pty Ltd v Ellis & Goldstein Ltd*.<sup>122</sup> Sale of the goods took place in England, not in response to customer orders but rather for the purpose of resale in Australia. “The buyers were not consumers, they were traders”.<sup>123</sup> Accordingly the appellants lost their bid to have the respondent’s marks removed from the register for non-use. Goods being projected into the course of trade for means of retail sale in another country was certainly a use of the trademark by the manufacturer.

Before finishing his judgment, Windeyer J observed that despite goods being projected into the course of trade constituting a use for the owner, “the retailer to whom the goods have been sold for re-sale does not, in any relevant sense, use [the trademark]”.<sup>124</sup> This remark seems to suggest that a parallel importer is not using the registered owner’s trademark for the purposes of infringement under trademark law.

In the later decision of *Pioneer Kabuki Kaisha v Registrar of Trademarks*,<sup>125</sup> a case concerning the issue of whether a distributor can be registered as user, Aickin J considered Windeyer J’s statement to have little weight. Responding to the contention that on the grounds of the *Estex* case, a retailer selling goods bearing Australian registered trademark did not use the mark, and therefore the distributor did not use the mark attaching to the goods, his Honour said:<sup>126</sup>

In my opinion the *Estex Case* is not authority for that proposition. It is authority for the proposition that the foreign owner of an Australian mark uses it in Australia when he sells goods for delivery abroad to Australian retailers and those retailers import them into Australia for sale and there sell them. It demonstrates that such a situation does not differ from that where he sells the goods for delivery in Australia to the retailer or where he advertises the goods in Australia. It was not necessary in that case to consider whether the retailer had also used the mark because the only relevant question was whether the registered proprietor himself had used the mark in Australia. There is no doubt that if the retailer

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<sup>120</sup> (1956) 94 CLR 182.

<sup>121</sup> *Ibid* 188.

<sup>122</sup> (1967) 116 CLR 254.

<sup>123</sup> *Ibid* 269.

<sup>124</sup> *Ibid* 271.

<sup>125</sup> (1977) 137 CLR 670.

<sup>126</sup> *Ibid* 688 (emphasis added).

had on the same basis imported goods *other than those of the registered proprietor* but bearing its mark, he would have used the mark by infringing it.

To be infringing, the imported goods must not be those of the registered proprietor. So long as the registered proprietor is the same in both countries, a parallel importer will not commit trademark infringement.<sup>127</sup>

The second point that becomes apparent is that only where the goods remain in the course of trade can there be use of a trademark. This issue was addressed by Lord McMillan in *Aristoc v Rysta*, who stated:<sup>128</sup>

A trademark ... must be used in relation to goods, it must indicate a connexion in the course of trade between goods and the user of the trademark. A trademark must thus be used in trade. "Trade" is no doubt a wide word but its meaning must vary with and be controlled by its context. A connexion with goods in the course of trade in my opinion means, in the definition section, an association with the goods in the course of their production and preparation for the market. After goods have reached the consumer they are no longer in the course of trade. The trading in them has reached its objective and its conclusion in their acquisition by the consumer.

In light of this, a parallel importer does not have the requisite "connection in the course of trade" with the goods. The importer is using the trademark to indicate a connection in the course of trade between the goods and the registered proprietor, and not to indicate a connection between itself and the goods. The relevant use is therefore that of the registered proprietor.<sup>129</sup>

It is the *Boccaccio* decision that seems to provide a final clarification of the position. Justice Young remarked "[t]he danger of applying cases decided in one branch of trademark law in another branch is well illustrated by the treatment of the *Estex* case by Aickin J in *Pioneer Kabushiki Kaisha v Registrar of Trademarks*".<sup>130</sup>

The plaintiffs in *Boccaccio* contended that goods should not be considered genuine if the mark affixed to the product is not the mark chosen by the manufacturer for the purposes of trade in Australia, and are not projected by them into the Australian market. Justice Young, unperturbed by their arguments, refused to distinguish "the line of authority based on the *Champagne* case".<sup>131</sup> His Honour rejected the claim for infringement, accepting that the right of exclusive use - conferred by s 58(1) of the Trademarks Act 1955 - "only operate[s] to prevent the sale in Australia of goods which are not the proprietor's but which are marked with the proprietor's mark".<sup>132</sup>

<sup>127</sup> This is consistent with s 8(3)(a) of Trademarks Act 1953. One would infer that if the proprietor is the same in both the exporting and the importing countries, the owner has applied the mark, and therefore is unable to implement infringement proceedings against a parallel importer.

<sup>128</sup> *Supra* note 49.

<sup>129</sup> See Muratore & Robertson, "The Trademarks Act 1955 and Parallel Imports" (1984) NSWLJ 117, 127.

<sup>130</sup> *Supra* note 119 at 286.

<sup>131</sup> *Ibid.*

<sup>132</sup> *Ibid.*

This is essentially the same point that Aickin J had made, despite Young J's firm denial of that judge's interpretation of the *Extex* case. The result is that trademark law is not able to prevent the importation and sale in Australia of genuine marked goods correctly designated as originating from the holder of the Australian registered trademark.

The *Champagne* line of cases articulates the doctrine of exhaustion. The trademark owner's rights are exhausted by the first act of placing goods on the market, so the trademark owner is unable to exercise any control over subsequent dealings in the goods.<sup>133</sup> The primary function of trademark as an indication of origin remains intact, for regardless of where the goods happen to land, so long as they are genuine goods, their origin is determinable.

The conclusion is that it appears unlikely that a New Zealand court would find trademark infringement where the defendant is merely trading in genuinely labelled products of the registered proprietor of that mark.

## V: CONCLUSION

In order to infringe trademark, a parallel importer must use in the course of trade the mark of another. At a glance this proposition may seem simple, but in reality it is far from the truth.

The law relating to trademark and parallel importing in New Zealand is largely untested. Despite the unsuccessful outcome for the plaintiffs, the *Tamiya* decision demonstrates that New Zealand courts have considered that the act of parallel importing may potentially be a "use" for the purposes of s 8(1) of the Trademarks Act 1953. However in that case the use in question fell within the provisions of s 8(3) and was subsequently excused.

A trademark proprietor will not be able to stop parallel imports where the owner has applied the mark to the imported goods or has expressly or impliedly consented to the use of the trademark on the imported goods.<sup>134</sup> This consent does not extend to situations where the imported goods are of inferior quality to the trademarked goods.<sup>135</sup>

A local distributor who is the registered user is unlikely to be able to prevent parallel imports using trademark law where the registered proprietor is unable or unwilling to prevent the parallel imports.<sup>136</sup>

Even where a trademark has been assigned to a New Zealand importer, the registered user will be unlikely to prevent parallel imports unless there is substantial independent goodwill associated with its use of the trademark, and the assignment was carried out in circumstances that allow the public to realise that the trademark has in fact been assigned.

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<sup>133</sup> Supra note 40 at 510.

<sup>134</sup> Trademarks Act 1953, s 8(3).

<sup>135</sup> Supra note 87.

<sup>136</sup> Supra note 111.

The importation of second hand trademarked goods is likely to avoid infringement proceedings.<sup>137</sup>

Trademark law's lack of ability to protect against parallel imports is a product of its nature. It was never designed to be used to prevent parallel importing and is therefore fundamentally flawed as an effective solution. One must also appreciate the context in which the law is likely to be interpreted even if infringement proceedings were to go to trial. The Government's motive was to liberalise the import market in general. This policy is almost certain to be reflected in the way the Courts will decide any questions on parallel importing and trademarks. Furthermore, any adverse outcome from the Government's perspective may cause future amendments. Next time it may be the Trademarks Act 1953 that comes under the "battleaxe".<sup>138</sup>

In concluding the writer would like to, with respect, provide his own interpretation of Templeman LJ's famous quote:<sup>139</sup> Registered proprietors or users cannot complain about the lack of success trademark law has had and will have in protecting them against parallel imported goods. The object of a trademark is to indicate the origin of the goods. The problem is that the New Zealand public will not be confused by the presence of parallel imported goods in the market. Thus, parallel importing cannot be prevented by substituting trademark law (the monkey) for copyright law (the organ grinder).

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<sup>137</sup> The New Zealand used car market is a case in point.

<sup>138</sup> John Wright MP 568 NZPD 8805 (14 May 1998).

<sup>139</sup> Original quote cited supra note 44.