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**PARALLEL IMPORTS AND DOCTRINE OF EXHAUSTION
OF INTELLECTUAL PROPERTY RIGHTS**

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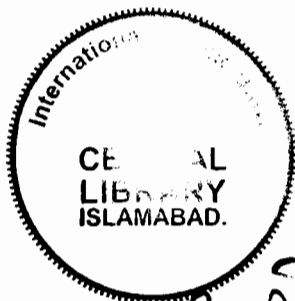
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Intellectual Property rights.

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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LIST OF ABBREVIATIONS

EC	European Community
EC Treaty	European community treaty, treaty of Rome
ECJ	European Court of Justice
EEA	European Economic Area
EU	European Union
GATT	General Agreement on Trade and Tariff
IP	Intellectual Property
IPRs	Intellectual Property Rights
PI	Parallel Imports
TRIPS	Trade Related Aspects of Intellectual Property Rights
UK	United Kingdom
USA	United States of America
WTO	World Trade Organization

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DEDICATION

This work is dedicated to my sweet mother for her never-ending care, love and prayers, which although remained unexpressed and invisible but had substantially played their role through out my life, and to International Islamic University being the cradle of education for many years.

ABSTRACT

PARALLEL IMPORTS AND DOCTRINE OF EXHAUSTION OF INTELLECTUAL PROPERTY RIGHTS

Intellectual property laws grant the producers, inventors and creators an exclusive right over their productions, inventions and creations for a specific period of time so that they should get the reasonable economic reward of their sufferings and hard work. This economic reward serves as an incentive, which motivates them for future innovations in relevant fields. By exercising these rights over IPR protected goods the IP holder may maintain the control over the commercial exploitation of IPRs protected goods even in post sale scenarios. This is the ubiquity of intellectual property right i.e. IP protection will automatically move with each and every copy of that product, invention and creation. No one can sell, rent out, import, copy, import or export the IP protected products except the IP owner or his licensee. In other words IP protection bestows a kind of monopoly over those products, which may restrict the free circulation of those commodities to public at large.

Doctrine of exhaustion of right provides a limit on these forereaching affects of intellectual property. Under doctrine of exhaustion the right of IP holder to control the commercial exploitation of that product exhausts or ceases by the first sale. So the right owner can't restrict the subsequent purchaser from reselling, importing or exporting that product. The doctrine of exhaustion by limiting the affects of IPRs becomes a legal basis for

the activity of parallel imports which is the importation of genuine IP protected products through unauthorized distribution channels i.e. without the consent or permission of IPR owner. The parallel importer provides the goods to the end users at a price, which is lower than the price maintained by the authorized distributor. IPRs safeguard the private interests while parallel imports focuses on public interest. The parallel importer no doubt undercuts the profits of the IPR owner but it is beneficial to the public as it provides the IPRs protected goods at affordable price. The issue is of vital significance in context of pharmaceutical products e.g. HIV/AIDs, which are highly expensive to be afforded especially in least developed countries. The issue was discussed in WTO Uruguay Round of Trade Negotiation but no decision could be sorted out because of importance and benefits of the parallel imports, so in the end the treatment of parallel imports was left upon the discretion of the member states. Generally the industrialized countries are in favour of limiting the scope of parallel imports to the national borders and developing countries are supporting the international exhaustion of IPRs allowing the parallel imports. The member states have adopted the rules for legality or illegality of the parallel imports depending upon the economic and social set up of their countries.

This work is intended to analyze our national laws on exhaustion and parallel importation of trademark and patented goods. It would be a comparative study in a sense that parallel importation regimes, regarding trademarks and patents, of US and European Union will be discussed. Given the nature of research it would be a qualitative research work

coupled with comparative methodology involving literature survey, comprising books, reports, articles and statutes and a coherent analytical framework will be developed.

The whole thesis is divided into four chapters. Chapter I briefly introduces the relevant concepts, definitions, history and economics of parallel import and doctrine of exhaustion of IP rights. Chapter II provides an overview on the regimes adopted by United States and European Union on parallel importation of trademark-protected goods. The last part of this chapter provides an analysis of Trademark Ordinance 2001 on the parallel import of trademark-protected goods. Chapter III deals with the parallel import of patented products in United States and European Union and in the end examines the provisions of Patent Ordinance on the issue of parallel import of patented products in Pakistan. Chapter IV contains the conclusion and recommendation on the subject. The end result of the whole discussion is forwarded to the concerned authority, IPO Pakistan, to properly incorporate the provisions on exhaustion of intellectual property rights and parallel import because of its international significance and to deal with the cases of parallel of parallel imports in Pakistan.

Chapter 1

Introduction

Intellectual property rights (IPRs) grant to the holder of intellectual property a bundle of rights to prevent others from making use of it. For example a patent grants to its inventor the right to prevent others from making, using, selling, offering for sale or importing the invention without his or her consent. Similarly a trademark grants to its holder the right to prevent others from using a protected sign on identical or similar goods where such use causes consumer confusion.¹ A copyright holder can prevent others from reproducing and distributing his original work.² The holder of these rights can exercise all these rights over each and every copy of his product and can control the use of his product and impose restriction on the commercial exploitation of that product even after they had been sold with the help of intellectual property.

This all refers to distinct and unique feature of intellectual property, which discerns it from other tangible properties i.e. Intellectual property, is ubiquitous in nature. The

¹ Exhaustion of rights, available at http://www.iprsonline.org/unctadictsd/docs/RB_Part1_Nov_1.4_update.pdf; last visited on 6th July 2009

² Frederick M. Abbott, "Parallel Importation: Economic and Social Welfare Dimensions" available at http://www.iisd.org/pdf/2007/parallel_importation.pdf; last visited on June 10, 2009.

ownership of any intellectual property right is different from owning any house or a car as the owner's rights over that property come to an end with its sale but this is not true in case of owning any intellectual property. The existence of IPRs is independent from a specific material good, in which they are incorporated. IPR follows the product downstream move with each and every copy of the protected product and potentially control the commercial exploitation of that product.³

In this age almost all the goods are protected by intellectual property so the potential control of these IPRs is far reaching as they automatically get attached with the new offspring of that product. So the IPRs expand endlessly interfering in downstream market by a long way.⁴ It is therefore necessary, at some point, to put an end to the effects of IPRs and the control of the right holder. The doctrine of "exhaustion of rights" brings an end to the ubiquity of the intellectual property rights. This doctrine is a balancing ingredient of exclusive rights (strict monopolies in forms of IPRs), the needs of society and free movements of goods.⁵ The basic idea behind the doctrine is that after putting his goods for first sale in the market, the right holder has been rewarded for his creative work. The exhaustion of right is there to create a balance between the IPRs holder and the public interest. It encourages free movement of genuine goods giving due protection to the owner of intellectual property right.

³ Cornish and Llewellyn, *Exhaustion of intellectual Property Rights: Patent, Copyright, Trademarks and Allied Rights*, 5th edition, part.1, at 604-605.(London: Thomson/sweet and Maxwell, 2003)

⁴ *ibid*

⁵ *ibid*

1.1 BASIC CONCEPTS AND TERMINOLOGIES

1.1.1 Exhaustion of Intellectual Property Rights:

The doctrine of exhaustion of IPRs refers to one of the limits of intellectual property rights. It provides that once a product protected by an IP right has been marketed, by the right holder or with his consent, the IP right of commercial exploitation over the product can no longer be exercised as they are exhausted. Some time this limitation is also referred as “first sale doctrine” as the right to control the commercial exploitation ends with the products first sale.⁶ Unless otherwise specified by the law subsequent act of resale, rental, lending, importing and all other forms of commercial use by the third party can no longer be opposed or controlled.⁷ The underlying rationale of the doctrine is that the holder of the right gets the economic return of his intellectual property by the first sale of the product, thereupon his right exhausts over that product and the subsequent purchaser or transferee of the goods and services must be at liberty to use and dispose of it without further constraints.⁸

So exhaustion is the point where the right of IP holder to control the flow of goods and services is terminated. This termination of control is significant because it ensures the proper functioning of any market economy as it permits the free transfer of goods and services. Without an exhaustion doctrine the IPR holder would perpetually exercise control over the sale, transfer, use of goods and services embodying an IP and would control the economic life.

⁶ Thomson West, Black’s Law Dictionary, 8th edition, 2004, at 614.

⁷ See “Protecting SME Intellectual Property Abroad” available at <http://www.creativeinsightuk.com/CINOTES/Abroad.htm> last visited on 6 July 2009

⁸ Supra note 1.

This doctrine was developed at the end of 19th century, by the case laws in United States and Europe, as an expression of free trade idea. The doctrine as applied to the patent is based on the concept that patentee has no right to control the use (resale, lending, importing etc) of goods and services which are marketed by himself or with his consent by the licensee⁹. Like patent the doctrine also applies to trademark and copyright. Considerable case law and research is available on this aspect of IP law.

The doctrine of exhaustion can be illustrated with the example of 'Mercedes', which is a famous trademark for automobiles. Only Daimler is the company entitled or authorized to sell a new car, which displays the word Mercedes on its body. But when a customer buys a car from authorized dealer he can re-sell it to anyone else. Daimler cannot control its sale afterwards because its trademark right in that vehicle is exhausted with its first sale.

The doctrine of exhaustion of intellectual property rights is applied in following three contexts:

- National Exhaustion;
- Regional Exhaustion; and
- International Exhaustion.

1.1.2 National Exhaustion

⁹ Carlos M. Correa, Intellectual Property Rights and Developing Countries, at 81(London: zed books Ltd.2000)

Under National Exhaustion, owner of intellectual property right loses his right to control re-sale of intellectual property protected goods, which are sold with his consent in that particular country. The principle of national exhaustion is accepted worldwide. There are three main arguments often forwarded from its proponents as follows:

1. The buyer has paid for the product and material owner must have the right to resell, interchange or donate that product;
2. IPRs are already a limitation of previous existing rights and an additional distribution right would be too much; and
3. Exhaustion of right is necessary for promotion of competition in market.¹⁰

The national exhaustion regime is the most restricted one. It allows the producer to set different prices for his products i.e. higher prices in richer countries and lower prices in poor countries or in markets where the business want to establish its position against strong competition. In economics terminology, national exhaustion increases market segmentation.¹¹ Under national exhaustion policies parallel import of the goods is not allowed.

1.1.3. Regional Exhaustion

¹⁰ Ramses Trogh, "The International Exhaustion of Trade Mark Rights After Silhouette: The End of Parallel Imports?" A Masters Thesis of University of Lund, Faculty of Law available at [http://web2.jur.lu.se/Internet/english/essay/Masterth.nsf/0/4715186838FACCD2C1256BC80068C694/\\$File/xsmall.pdf?OpenElement](http://web2.jur.lu.se/Internet/english/essay/Masterth.nsf/0/4715186838FACCD2C1256BC80068C694/$File/xsmall.pdf?OpenElement) last visited on June 17, 2009.

¹¹ Mark Halle, "The Exhaustion of Intellectual Property Rights" available at http://www.iisd.org/pdf/2007/com_exhaustion.pdf last visited on June 09, 2009.

Under Regional or Community Exhaustion, owner of intellectual property right loses his right to control the commercial exploitation of intellectual property protected goods which are sold with his consent in any country of that region. Under regional exhaustion, a geographical region is defined in which exhaustion is applicable. The example of regional exhaustion is exhaustion in European Union (EU). The concept of regional exhaustion is only intended for the countries having similar market conditions.¹² Parallel import of the goods which were placed anywhere within the region is permitted and IP owner can't prohibit the circulation of products within the region however he can restrict the imports coming from non-member states.

1.1.4. International Exhaustion

International exhaustion is the ultimate form of exhaustion. Under International Exhaustion, owner of intellectual property right loses his right to control the commercial exploitation of intellectual property protected goods, which are sold with his consent in any part of the world. Under the regime of international exhaustion goods coming to the market are considered as openly traded goods. Parallel importation of the goods lawfully first marketed in any place of the world is allowed under international exhaustion regime.

The main argument in favour of international exhaustion is that parallel imports are beneficial because it limit the ability of IPRs owner to divide the world market in individual

¹² Ibid.

national markets and thus promotes competition, which is ultimately beneficial to the consumers.¹³

1.1.5. Parallel Importation and Gray Marketing

Parallel importation or gray marketing is the unauthorized sale of IPR protected goods either within the same market or across the markets. When IPR protected goods are marketed within the same market¹⁴ then it is termed as “Gray Marketing”. It is when the authorize distributor sell the IPRs protected goods to unauthorized channels members who then sell it consumers within the same market. When unauthorized channel members distribute the goods across the borders then it is termed as “Parallel Importation”.¹⁵

So “parallel trade is the shipment of bona fide goods across international borders in order to exploit price differences”¹⁶.

Parallel importation (PI), sometimes referred as grey marketing; of the goods protected by intellectual property rights is an important but little understood issue of international trade.¹⁷ It is the importation of intellectual property protected goods from a country where it is marketed, either by the right holder or with his consent, to another country without the consent of right holder. Parallel importation is usually by an independent

¹³ Supra note 10

¹⁴ Where the goods are marketed by the right owner himself or by his licensee.

¹⁵ Dale F. Duhan and Mary Jane Sheffet, “Gray Marketing and the Legal Status of Parallel Importation” vol.52, *Journal of Marketing*, at 76 (July 1988), available at <http://www.jstor.org> last visited on 27 July 2009.

¹⁶ Tommaso M. Valletti and Stefan Szymanski, “parallel Trade, International Exhaustion and Intellectual Property Right: A Welfare Analysis” *Journal of Industrial Economy*, vol, at 499 LIV, (dec.2006), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=934536 last visited on 6 July 2009

¹⁷ Ibid.

entrepreneur who buys the “legitimate” goods in one country at a lower price and imports them in another country for sale at a price which is higher than his purchase price but lower than the price maintained by authorized distributors.¹⁸The disparity of prices in different markets is the economic driver for the activity of parallel import, higher the disparity more the scope of parallel import. If the disparity is small between markets parallel importation will be rarely a major problem. It will be unattractive and will not make any worthwhile profit to parallel importer.¹⁹

The phenomenon of parallel trade can be illustrated by following examples:

- Sale of HIV/AIDS drugs in Africa at a discounted price that are subsequently purchased and imported into European markets.
- Resale of Levi Jeans in European market by wholesalers after purchasing it from US market.²⁰

Three conditions are necessary for parallel imports/gray market to develop

1. Availability of a constant source of supply to parallel importers. This requirement is easily met because of homogenizing global markets.

¹⁸ Supra note 3, part.2, at 48.

¹⁹ Martyn Hann, “Trademark Right and Parallel Imports in Europe,” *The Journal of World Intellectual Property*, vol 1, issue 4, at 622 (November 2005), available at <http://www3.interscience.wiley.com/journal/119137124/abstract?CRETRY=1&SRETRY=0>, last visited on 6 July 2009

²⁰ Supra note 18

2. The trade barriers (tariffs, transportation cost, legal restrictions, etc) must be low enough so that the parallel importer finds the importation an attractive and profit generating job.
3. The economic driver for parallel importation is the price disparity among different markets. Higher the disparity more the scope for parallel importation. The price differentials in different markets are because of currency exchange rates, differences in demand and segmentation strategies adopted by marketing managers.²¹

Parallel imports are not counterfeited or pirated goods/merchandise. They are legitimate products except that they may be packaged differently and may not carry the original manufacturer's warranty.²² This import is termed as "parallel import" as it stands parallel to the import of IPRs owner or his licensee. The doctrine of exhaustion of intellectual property rights provides the legal basis for parallel importation.²³ However the issue of legality of parallel imports is somewhat contentious as different jurisdictions have adopted diverse approaches with regard to different forms of exhaustion i.e. national, regional and international exhaustion. Moreover the approach is also different with regard to different categories of IP rights such as patent, copyright and trademark.

1.1.6. Re-Importation

²¹ Supra note 16

²² Keith E.Maskus, "Parallel Imports" at 1269 Blackwell publishers (2000)

²³ Supra note 2.

Parallel importation, as mentioned earlier, is the importation of goods from one country, where the goods are marketed by the right owner or by licensee, to another country. Re-Importation is when the goods come back, as a result of parallel importation; to the country from where they have been originated. Re-importation also includes the goods produced under the license in one country back to the country of licensor.

For example the export of pharmaceuticals from USA to Canada which are then re-imported to USA and sold to USA consumers at price which is lower than the price maintained by the owner in USA market. The motivating cause is again the disparity of currencies in different markets.

1.2. ECONOMIC APPRAISAL OF DOCTRINE OF EXHAUSTION OF RIGHT AND PARALLEL IMPORT

World Trade Organization (WTO) strongly supports fair and free international trade. WTO is of the view that effective intellectual property protection can encourage trade and investment, which will help economic development. In order to determine which kind of exhaustion policy will benefit trade, investment and economic development, there is a strong need to make a policy analysis by the policy makers.

The group which is in favour of international exhaustion is of the view that international exhaustion regime will increase the competition in the market which will be beneficial for the consumers. According to them international exhaustion of rights will result in removal of artificial barriers from individual markets. Technological development and concept of e-commerce has transformed the world into a global village and all the national

level limitations have become outdated. Trade through Internet, which has become common today, created price awareness in consumers residing in different countries of the world, which in turn has its effects on businesses.²⁴

The international exhaustion regime is considered as a form of competition policy and is an important limitation on the scope of intellectual property rights. Some developing countries consider restriction on parallel import as detrimental to their economies as it might result in collusive behavior and abusive price setting on their markets by foreign holders of local IPR.²⁵

The other viewpoint is that in the present economic context, international exhaustion will reduce the commercial incentive to investment in innovation and brand reputation. Companies investing in innovation and protection of their branded goods want to recover their costs by exercising control over the marketing and distribution of their goods in different markets.²⁶ Companies on earning from their internationally famous products sponsor the development of products not very profitable but are for the benefit of the society. If their profits are reduced due to effects of parallel imports then these companies are not likely to fund and invest in products having commercial risks, which will be harmful for social welfare.

²⁴ <http://vijaysardana.blogspot.com/> last visited on June 10, 2009.

²⁵ Keith E. Maskus and Yongmin Chen, "Parallel Imports in a Model of Vertical Distribution: Theory, Evidence and policy" *Pacific Economic Review*, at 320. Blackwell publishers (2002), available at <http://www3.interscience.wiley.com/cgi-bin/fulltext/118931544/PDFSTART> last visited on June 10, 2009.

²⁶ *Supra* note 25

Given the reasons it can't be determined presently that whether parallel imports are beneficial or harmful in terms of economic welfare. It is impossible to suggest that whether international exhaustion, globally allowing parallel imports, should be mandated or national exhaustion should be adopted, perpetually restricting parallel imports, or the status quo should be maintained. This controversy, however, is going to be the hot discussion in next round of trade negotiations.²⁷

1.3 EXHAUSTION OF RIGHTS AND DIFFERENT FORMS OF IPRs

1.3.1 Patent Exhaustion

Patent exhaustion refers to the limitation on the right of patent holder over the subsequent circulation when he has marketed the protected product with his consent. Patent exhaustion implies that the patent owner has been rewarded equitably upon the first sale of his product. Patent exhaustions can be justified on the theory of safeguarding market circulation. The theory implies that a right to control subsequent acts of market circulation will raise insecurity as to which context the market participants may dispose of their legally purchased property and will endanger the smooth market circulation.²⁸

1.3.2 Copyright Exhaustion

In case of a copyright, exhaustion means only the exhaustion of distribution right i.e. right to circulate copies of the work such as CDs, books etc. Copyright law does not restrict the

²⁷ Supra note 26.

²⁸ Peter Ganea, "Exhaustion of IP Rights: Reflections from Economic Theory" available at <http://www.iir.hit-u.ac.jp/iir-w3/file/WP06-02Ganea.pdf> last visited on June 8, 2009.

subsequent purchaser from re-selling the legitimately obtained copies of copyrighted works if those copies were originally produced with consent of copyright holder.²⁹ The doctrine of exhaustion of copyright does not permit making additional copies of the work; it only permits re-sale of a legitimate copy.

1.3.3 Trade Mark Exhaustion

The trademark is a type of intellectual property and its essential function is to exclusively identify the commercial source or origin of product or services. A trademark differentiates one businessman's goods from goods of another and allows the customer to distinguish between similar goods. The protection of a trade mark is different from other forms of intellectual property because its object is not to grant its owner exclusive right to put certain goods on market but only an exclusive right to attach a mark showing that the product stems from a center of will that guarantees its quality.³⁰

The function of a trademark can be considered as fulfilled once a trade marked product is legally put into market lawfully. Further circulation of the goods in the market will not affect trademark owner.³¹ Therefore, once the goods have been placed on the market with the consent of trademark owner, he is not then able to further restrict sales of the trade marked goods.

²⁹ <http://en.wikipedia.org/wiki/Copyright> last visited on June 9, 2009.

³⁰ Supra note 29

³¹ Ibid.

1.4 INTERNATIONAL APPROACHES WITH REGARD TO THE EXHAUSTION OF DIFFERENT TYPES OF INTELLECTUAL PROPERTY

Different jurisdictions have adopted diverse exhaustion policies and this is simply because the global system for the protection of IPRs as established under TRIPS agreement didn't provide any uniform policy so far as the exhaustion of IPRs is concerned. Generally, as a matter of fact, the developed states advocate a strong global IPRs system and are in favour of global national exhaustion of IPRs as a natural extension of IP rights to control the commercial exploitation of the products even in post sale scenarios. The developing countries, on the contrary are concerned about the potential for market segmentation to support monopoly pricing and distribution activities so they prefer a global policy of international exhaustion of IPRs. The issue is of particular importance as to the parallel imports of pharmaceutical products is concerned. However the exhaustion policies vary in different jurisdictions with regard to different forms of IPRs.³² Following is the brief overview of the diversity of approaches adopted by different jurisdictions.

1.4.1. Exhaustion Policy in European Union

The European Union has adopted regional exhaustion in all fields of IPRs within the community and excludes parallel import coming from non-member states. The European Court of Justice has frequently upheld the view that, under article 30 of Treaty of Rome, free movement of goods take priority over IPRs i.e. if the IP protected good is placed within the

³² Supra note 22, 1270.

community then its importation to other member states can not be restricted. However, if the product is first placed on market under a compulsory license then it cannot be parallel imported as exhaustion is by first marketing within Community with the consent of the owner. However copyright does not exhaust by its first sale, within EU, because of the needs of repeated showings.³³

1.4.2. Exhaustion Policy in USA

American policy on parallel import is the mixture of régimes, within its territory the United States applies “the first sale doctrine” under which the rights are exhausted by the first sale of that IP protected product, thus the IP owner can’t use his IP rights to prevent importation of the goods carrying his mark within US. Similarly the companies cannot prevent the reselling of the goods any where in the state (national exhaustion). National exhaustion of trademark right is restricted by two exceptions “common control” and “authorize use”.³⁴ American patent owners are protected from parallel import by an explicit right of importation and Copyright Act of 1975 bans parallel import of copyright goods.³⁵

1.4.3. Exhaustion Policy in Japan

³³ Supra note 26, at 323.

³⁴ Common control is when both the US and foreign trademark are owned by single entity and authorize use is when the mark owner has authorized the use of its marks to someone.

³⁵ Supra note 34

Japan has adopted international exhaustion for all forms of IPRs unless the goods are explicitly excluded from parallel trade by contractual provisions or otherwise.³⁶

1.4.4. Exhaustion Policy in Australia

Australia adopted international exhaustion of trademark-protected goods and national exhaustion with respect to patents and copyrights with certain exceptions.³⁷

1.4.5. Exhaustion Policy in New Zealand

New Zealand has adopted, like Japan and Australia, a liberal approach of international exhaustion of IPRs with certain exceptions.³⁸

1.4.6. Exhaustion Regime in South Africa

South Africa is also open to parallel imports. It has adopted the legislation under which the parallel importation of patented medicine will be authorized, since it recognizes international exhaustion of patents.³⁹

1.4.7. Exhaustion Regime in Switzerland

The Swiss Supreme Court decided in favour of national exhaustion (rather than international exhaustion) for patents in Switzerland (based on its interpretation of existing

³⁶ Ibid

³⁷ Ibid

³⁸ Ibid

³⁹ Supra note 1.

national legislation), and decided to apply the rule of international exhaustion for copyright and trademark.⁴⁰

1.4.8. Exhaustion Policy in Singapore

Singapore has adopted a liberal approach of international exhaustion. The High Court of Singapore held that sale of parallel import is legal business and IPR owner can't claim the infringement of his exclusive rights over protected products as his right exhausts by first sale.⁴¹

1.4.9. Exhaustion Regime in Indonesia

Gray marketing hits the highest point in Indonesia because of highly fluctuating currency rates. The government, however, is now thinking to bar the parallel import of patented products.⁴²

1.4.10. Exhaustion Regime in India

India has adopted a regime of international exhaustion for trademark and patents and national exhaustion for copyright with certain exceptions.⁴³

1.5 HISTORICAL DEVELOPMENT OF DOCTRINE OF EXHAUSTION

The concept of exhaustion of intellectual property rights originated from decisions of the German Reichsgericht in the first decade of the previous century.⁴⁴ The idea behind the rule

⁴⁰ Ibid

⁴¹ Combating Gray Market Goods in a Global Market: Comparative Analysis of Intellectual Property Laws and Recommended Strategies, available at <http://www.entrepreneur.com/tradejournals/pub/6237.html> last visited on 7 July 2009

⁴² Ibid

⁴³ Supra note 34

⁴⁴ Supra note 10.

is that owner of the intellectual property right cannot control the subsequent sale of his products after the first sale which took place with his consent.

Josef Kohler regarded the rule of exhaustion as a necessary demarcation line between two colliding properties; the intellectual property right of the producer and the common proprietary right of the owner of a copy of a product he has bought.⁴⁵ The subsequent purchaser has the right to freely enjoy his ownership of the product i.e. freedom to re-sell or dispose of his property.

1.6 TRIPS AND EXHAUSTION OF IPRs

The issue of exhaustion of IP rights and parallel imports has not been discussed by Berne convention and Paris convention for the protection of industrial property. Other IP conventions are also silent about the issue of parallel imports.⁴⁶ The discussion over parallel imports was included in the Agenda of Uruguay Negotiations Round at the will of industrialized/developed countries who were in the favour of national exhaustion of IP rights. The developing countries, on the other hand, were supporting the international exhaustion of IPRs. The debate remained indecisive because of the benefits of parallel imports in economic terms and the issue was left for further discussion in next negotiation round. However the whole negotiation resulted in the formation of TRIPS Agreement for the protection of intellectual property rights.

⁴⁵ Ibid

⁴⁶ Christopher Heath, "Parallel Imports and International Trade," available at http://www.ompi.ch/edocs/mdocs/sme/en/atrip_gva_99/atrip_gva_99_6.pdf: last visited on August 17 2009.

Trade Related Aspects of Intellectual Property Rights (TRIPS) came into effect on January 1, 1995 and it is considered as the most comprehensive multilateral agreement on Intellectual Property. It provided the minimum standards for the protection of IPRs. It was expected by an agreement covering all aspects of intellectual property rights that issue of parallel importation must also be included but it was not. However unlike the previous IP Conventions, TRIPS didn't completely rule out the issue of exhaustion of rights. In order to overcome the stalemate condition⁴⁷ Article 6 of the TRIPS provides that for the purposes of dispute settlement under this Agreement, subject to the provisions of Articles 3 and 4 nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.⁴⁸ But what it provided in Article 6 is said to be "an agreement to disagree" by Mr. Fredrick Abbot.

The language of Article 6 demonstrates that TRIPS is neither making any commitment nor issuing any direction to the member states in respect of exhaustion of intellectual property rights. TRIPS did not create, modify or extinguish any principle or right as far as exhaustion of intellectual property rights are concerned. TRIPS agreement only requires its members to adhere to the principles of National Treatment (Article 3) and Most Favored Nation (Article 4) while dealing with the issue of exhaustion of rights.⁴⁹ All member states are free to develop the doctrine of exhaustion of rights, as it is best suitable to their economic

⁴⁷ Ibid.

⁴⁸ TRIPS Agreement, Article 6.

⁴⁹ S. K. Verma, Exhaustion of IP Rights: Recent Developments available at http://www.wipo.int/mdocsarchives/ATRIP_GVA_99/ATRIP_GVA_99_2_E.pdf last visited on June 29, 2009.

needs and political preferences.⁵⁰ But their rules and policies on exhaustion of right should conform to Article 3 and 4 of TRIPS. According to Article 6 any complaint cant be filed or relief cant be sought through Dispute Settlement Mechanism regarding the exhaustion regime adopted by single member states so far as it comply with the provisions of Art, 3 and 4 of TRIPS Agreement.

National treatment provisions of TRIPS when applied to doctrine of exhaustion means that members must treat foreign nationals like their local nationals regarding protection of intellectual property rights by exhaustion rules.⁵¹ Most Favored Nation principle prescribed by TRIPS means that members must not apply different exhaustion rules to nationals of different members.⁵²

Hence no obligation has been created by the TRIPS Agreement with respect to parallel imports so parallel imports are being practiced. Article 6 leaves the member states with three possible options regarding the exhaustion of IP rights and parallel importation:

- Members may adopt international exhaustion of IP rights thus allowing parallel import.
- Members may adopt regional exhaustion of IP rights thus allowing parallel imports in that region only and it can be opposed from outside the region.
- Members may adopt national exhaustion of IPRs thus prohibiting parallel imports.

⁵⁰ Ibid.

⁵¹ <http://michaeldizon.wordpress.com/2009/01/20/doctrine-of-exhaustion-of-intellectual-property-rights/> last visited on July 2, 2009.

⁵² Ibid.

So TRIPS agreement didn't bring any uniform approach as to the exhaustion of rights. Availing this flexibility different countries adopted different exhaustion regimes with the fact that developing countries are more inclined towards international exhaustion of rights and developed countries towards national exhaustion, with logical economic and social arguments from both sides.

The provisions of TRIPS agreement does not automatically translate into national laws, they are required to be incorporated in national laws of the states. The countries opting different exhaustion regimes are required to enact legal provisions to that effect declaring the applicable regime and the extent to which parallel imports are allowed under their national laws.

Chapter 2

PARALLEL IMPORTATION OF TRADEMARK PROTECTED PRODUCTS

2.1 EXHAUSTION AND PARALLEL IMPORTATION OF TRADEMARK PROTECTED GOODS

A trademark is a sign, name or logo, which indicates the origin of the goods and differentiates the products of one manufacturer from the others on the basis of its unique traits and origin.¹The owner of the registered trademark has exclusive right over the commercial exploitation of that trademark-protected product or service and he may commence legal proceeding for trademark infringement to prevent the unauthorized use of the trademark.² The trademark is a type of intellectual property and its essential function is to exclusively identify the commercial source or origin of product or services. A trademark differentiates one businessman's goods from goods of another and allows the customer to distinguish between similar goods. The protection of a trademark is different from other forms of intellectual property because its object is not to grant its owner exclusive right to put certain

¹ Its origin goes back to ancient times, when craftsman reproduce their signatures or marks on their artistic or utilitarian work. Over the years this practice of using these marks evolved in today's system of trademark registration and protection. As quoted by Kamil Idris in "Intellectual Property a Powerful Tool for Economic Growth" at 18(World Intellectual property Organization 2007)

² Ibid

goods on market but only an exclusive right to attach a mark showing that the product stems from a center of will that guarantees its quality.³

As discussed earlier that IPRs are ubiquitous in nature and the doctrine of exhaustion put the limit on the ubiquity of IPRs. Exhaustion of the trademark right means that once the owner himself places a product protected by trademark in the market or the product is marketed with his consent then the right of the owner to control its further exploitation is “exhausted”.

The function of a trademark can be considered as fulfilled once a trademarked product is legally placed on the market. Further circulation of the goods in the market will not affect trademark owner.⁴ Therefore, once the goods have been placed on the market with the consent of trademark owner, he is not then able to further restrict sales of the trademarked goods.

Doctrine of exhaustion provides the legal basis to the activity of parallel imports. Treatment of parallel import of trademark-protected goods depends upon the exhaustion regime adopted by the states with respect to trademark. There are three possible exhaustion regimes with respect to trademarks:

1. International exhaustion of trademark
2. National exhaustion of trademark

³ Peter Ganea, “Exhaustion of IP Rights: Reflections from Economic Theory,” available at <http://www.iir.hit-u.ac.jp/iir-w3/file/WP06-02Ganea.pdf> last visited on June 8, 2009.

⁴ Ibid

3. Regional exhaustion of trademark.

TRIPS Agreement has not provided any uniform policy for the issue of exhaustion and left the issue of exhaustion at the discretion of each member state. The countries are free to adopt their preferred exhaustion regime for each form of IPRs. Following are the different regimes adopted by European Union, USA and Pakistan in the field of the trademarks;

Summary of Trademark Exhaustion Regime in EU, USA and Pakistan

Name of the country	Exhaustion regime
European union	Community exhaustion
United States	National exhaustion limited by common control
Pakistan	

2.2 EXHAUSTION AND PARALLEL IMPORTATION OF TRADEMARK

PROTECTED GOODS IN EUROPEAN UNION

The doctrine of exhaustion occupies a central place in the Intellectual Property Laws of European Union as it ensures the free movement of the goods protected by IPRs. The doctrine of exhaustion applies in a variety of legal context so it creates a high degree of

uncertainty as to its proper doctrinal foundations, despite of the fact that it seems to be an uncomplicated principle.⁵

European Union applies regional exhaustion to all forms of IPRs. The trademark exhaust regionally in European Union i.e. if the product has been marketed under a trademark in any country of the European Union the proprietor of that mark has no right to preclude its importation in other member states of regional block as his right has been exhausted by the first sale of that protected product but can exclude parallel imports coming from non members.⁶

2.2.1 Emergence of Exhaustion Principle in EU with regard to Trademarks

2.2.1.1 Exhaustion under EC Treaty

Free circulation of goods and services among member states has been a keystone of EU internal trade. EC Treaty⁷. It ensures and emphasizes that member states can't impose those restrictions on cross border transaction which they don't apply within their own borders because these restrictions will disrupt the free movement of goods and services in community⁸. EC Treaty, Article 28 and 30(now 30 & 36) deal with the concept of free movements of goods, Article 28 states that:

⁵Guido Westkamp, "Intellectual Property, Competition Rules, and the Emerging Internal Market: Some Thoughts on European Exhaustion Doctrine," Marquette Intellectual Property Law Review, Vol. 11, issue No. 2, at 292(2007). Available at SSRN: <http://ssrn.com/abstract=1115423> last visited on August 3, 2009.

⁶ Keith e Maskus, "Parallel Imports" Blackwell publishers limited. (2000), 1272.

⁷ EC treaty is also termed as Treaty of Rome. European Community was established on the basis of this treaty.

⁸ Christopher Stothers, "Trademark Exhaustion and Parallel Imports: The EU Position" in Trademark Licensing by Neil J. Wilkof and Daniel Burkett, 2nd Edition, at 357-358(London. Sweet & Maxwell, 2005).

Qualitative restrictions on import and all other measures having equivalent effect shall, without prejudice to the following provisions be prohibited between Member states.⁹

According to this article all measures which, including the enforcement of national IPRs that restrict the free movement of goods by granting exclusive right over IPR protected product, restrict the free movement of goods and services among member states are proscribed.¹⁰

The principle of free movement of trademark-protected goods is inconsistent with the enforcement of national trademark right as the national trademark law empowers the mark owner to prevent and restrict the resale or import of the products containing his mark. However Article 30 states that such restrictions can only be defended when they are not a mean of arbitrary discrimination or disguised restrictions on free trade among member states¹¹ and they are for the “protection of industrial and commercial property”.¹²

Article 30 provides

The provisions of article 30 to 34 shall not preclude prohibition or restrictions on import, export or goods in transit justified on grounds of public morality.....or the protection of industrial and commercial property, such prohibitions or restrictions shall not,

⁹ Article 28 EC Treaty.

¹⁰ Supra note 8.

¹¹ Ibid

¹² Industrial and commercial Property in this context is another name of intellectual property.

*however, constitute mean of arbitrary discrimination or disguised restriction on trade between member states.*¹³

The exercise of intellectual property rights may interfere with the principle of free movement of goods, intellectual property grants a right, which can't be exercised because of these provisions. However, according to these articles and case laws established by ECJ in light of these two provisions, when the goods are marketed within EEA by a third party (non member state) then the owner can use his trademark to prevent such importation and when the goods are marketed within EEA by the mark owner himself or with his consent then trademark right can't be used to ban the importation or resale within community and this principle was termed as "EEA-wide Exhaustion".¹⁴

Articles 28 and 30 of EC Treaty formulated the principle of exhaustion, which was incorporated in later intellectual property legislations and implemented by national courts.

2.2.1.2 Case Law Evolving the Principle of Regional Exhaustion

EU applies regional exhaustion regime to parallel importation cases in community internal trade (EEA wide exhaustion), which is the result of abundant case laws decided by European court of Justice (ECJ) in view of article 28 and 30 of EC Treaty.¹⁵ These cases provided precedent-setting decisions and the treatment of parallel importation is required to be consistent with these case laws. However a difference is emerging in the treatment of parallel

¹³ Article 30 of EC Treaty

¹⁴ Supra note 8

¹⁵ Paul Demaert and Inge Govaere, Parallel Imports, Free Movement and Competition Rules: The European Experience and Perspectives, in "Intellectual Property" edited by Cottier, Mavroidis, Panizzon and Lacey, World Trade Forum, vol.3, at 148(The University of Michigan Press, 2006).

importation cases depending upon the fact whether the trade among community member states is involved or trade between community and third country is in question. As a matter of practice in first case, the trade between member states is concerned, the parallel importation cannot be opposed by the trademark owner while in second situation, the trade between community and third country is involved, the reverse solution applies.¹⁶

The parameters for legalizing the parallel trade among member states, as developed by the court of justice, are “first sale consent test” and the rule of “common origin.” According to “first sale consent test” national IPRs owner cannot ban parallel imports if the trademark-protected goods were placed on the market abroad (in any other member state’s market) by the owner himself or with his explicit or implicit consent.¹⁷

2.2.1.2.1 ECJ’s Approach From 1960s-1980s

Exhaustion of Rights, First Sale Consent Test and Rule of Common Origin

HAG I, HAG II & Sirena are the early key decisions by the court of justice establishing the concept of Exhaustion of Trademark right, First Sale Consent and the rule of Common Origin. All the three cases, however, didn’t directly deal and resolve the issue that whether exhaustion is limited only to European Community (EC) or it was to be considered world wide i.e. international exhaustion. Since the mid of 1960s the approach of ECJ was that the intra-union exhaustion should be the “minimum standard” to be followed by the member

¹⁶ Ibid

¹⁷ Ibid

states¹⁸. It had not been the intention of ECJ by that time that the national courts can't apply a more liberal approach recognizing the international exhaustion as a matter of their national doctrine.¹⁹

2.2.1.2.1. a HAG I and HAG II

The decisions of the court in both these cases made the connection between Common Origin and Consent of proprietor with the principle of exhaustion more evident. HAG I²⁰ confirmed the rule of Common Origin and HAG II²¹ emphasized that the consent of the right owner is the necessary ingredient to enforce the principle of regional exhaustion.²²

2.2.1.2.1. b Sirena Case

In Sirena case²³ the court referred to intra-community exhaustion of trademark right and it widened its interpretation including the common origin as an essential part of it.

A US company was the owner of the trademark "Prep" for cosmetic products. It sold its trademark to different Italian and German companies. The contention started when the German company imported the products in Italy and Italian company tried to ban the

¹⁸ Domenico Sindico, "On parallel Importation TRIPS and European Court of Justice Decisions," *The Journal of World Intellectual Property*, vol 5, issue4, at 505. Blackwell Publishing Ltd. (July 2002) available <http://www3.interscience.wiley.com/journal/118962511/issue?CRETRY=1&SRETRY=0> last visited on 3 August 2009. Will be named hereafter as: "On parallel Importation TRIPS and European Court of Justice Decisions".

¹⁹ Ibid

²⁰ ECJ case 192/73 Van Zuylen Freres v. HAG 1974, ECR 731; As quoted in; Domenico Sindico, "On parallel Importation TRIPS and European Court of Justice Decisions,"

²¹ ECJ case 10/89 CNL-Sucal v. HAG 1990, ECR 1-3711. As quoted in; "On parallel Importation TRIPS and European Court of Justice Decisions".

²² Ibid 508.

²³ ECJ case 40/70 Sirena v. EDA, 1971, ECR 69. As quoted in; "On parallel Importation TRIPS and European Court of Justice Decisions", 508.

TH6500.

importation by German mark owner. ECJ decided that Italian company couldn't stop the importation of the products that had been legitimately sold in Germany by German mark owner because both the Italian and German trademarks have "common origin."²⁴

After Sirena case the consent of trademark owner, its definition and interpretation became a very critical element of intra-community exhaustion of trademark right.²⁵

2.2.1.2.1. c Centrafarm BV v Winthrop BV

In Centrafarm BV v Winthrop BV²⁶ ECJ confirmed the vital significance of the "consensus of the proprietor of trademark" in deciding about trademark exhaustion and common origin. Sterling company was manufacturing the drugs under the mark "Negram" in Great Britain. Winthrop BV was acting as a subsidiary company in Netherlands for Sterling's drugs. Centrafarm BV bought a large quantity of "Negram" in UK and imported them into Netherlands. Due to the price differential in both markets Centrafarm was able to make a very good profit. Winthrop BV brought an action to stop Centrafarm from importing into Netherlands the "Negram" drugs claiming the exclusive right over "Negram" in Netherlands.²⁷

The Dutch court held (and the decision was confirmed by ECJ) that trademark owner in this case couldn't stop the importation by using its trademark right. Further if any company wants to avoid the risk of parallel importation of its products then it must not

²⁴ Ibid

²⁵ Ibid 509.

²⁶ ECJ case 16/74, Centrafarm BV v. Winthrop BV. 1974 E.C.R. 1183, As quoted in "On Parallel Importation TRIPS and European Court of Justice Decisions"

²⁷ Ibid

decide to sell its product in EEC and when the product is sold in any of the member states by the free consent of the owner of the right thence can't use his trademark to oppose the further circulation of goods in other member states. The court referred to regional exhaustion and the consent of the right owner more convincingly.²⁸

2.2.1.2.1. d IHT v. Ideal Standard case

IHT v. Ideal Standard case²⁹ clarified the significance of “consent test” and the “rule of common origin” with respect to trademarks exhaustion.

The “Ideal Standard” was a trademark registered both in France and Germany. In France, the common owner of the mark assigned a part of the French trademark to an unrelated business concern. The partial assignments were allowed under French trademark law but not under German law. Consequently two different firms, the original owner and the partial assignee owned the French trademark. The goods marketed by partial assignee were then imported in to Germany without the consent of German trademark owner. The issue was whether the imports are legal or not and whether the German mark holder can exclude the imports by using its German trademark

The court held that the imports are not legal and the German owner can exclude the goods lawfully marketed by the French assignee in France. The rationale behind the decision, as declared by the court, was that the German and the French trademark, to the

²⁸ Ibid

²⁹ IHT v. Ideal Standard case, [1994] 3 C.M.L.R.857.

extent it had been assigned, are no longer subject to common control. Further the voluntary assignment of the trademark is not at all adequate to the consent required for the exhaustion of right and the required consent can only be inferred if both trademarks had been subject to common and unified control.³⁰

All these cases formed and refined the final approach applied by the courts since mid 1960s to onward. ECJ considered the regional exhaustion as a “minimum standard” to be followed by the members in parallel importation cases but it didn’t mean that national member states can’t apply international exhaustion of trademark right as regime of their own choice in their national boundaries. The national courts were free to protect their national IPRs according to their own polices as per the article 36 of EC Treaty and ECJ didn’t consider the international exhaustion as violation of EC Treaty.³¹ By using this flexibility of ECJ’s approach different member states of EU adopted international exhaustion of trademark rights such as Benelux countries, Austria, Sweden, Finland, Liechtenstein and Norway. The Spanish and Italian trademark laws, on the contrary, limited the scope of rule of exhaustion to the products placed on the market by the owner of the trademark or with his consent only within EEA i.e. Regional Exhaustion.³²

³⁰ Supra note 15,149.

³¹ ECJ case 270/80 Polydor v. Harlequin Record Shops, ECR 329,9 February 1982

³² Patricia Egli and Juliane kokott, “Sebago INC. And Ancienne Maison Dubois & Fils SA v. GB-Unic SA, case.c-173/98court of justice of European Community,” The American Journal of International Law, vol 94,at 886 (July 1.1990), available at <http://www.jstor.org>, last visited on April 28, 2009.

The court, by these cases, established and interpreted the Regional Exhaustion and the elements which lead toward the regional exhaustion of trademark in EC i.e. Free Consent Test and Rule of Common Origin.

2.2.1.2.2 Introduction of Trademark Directives 89/104 and Change in ECJ's Approach

The significant debate on the area of trademark was instigated when it was proposed that the new Trademark Directives suggest the international exhaustion as a favoured regime required by the member states to be followed.³³ Up till now the whole case law and community legislations declared that regional exhaustion is a "minimum standard" to be followed by the national courts but it had been silent as to the issue of international exhaustion. Following uncertainties arose because of the silence of community legislature on the issue of international exhaustion:

1. Whether the silence by community legislature can be interpreted as approving the international exhaustion.
2. Whether the silence is meant to grant option to member states to decide whether or not to apply the rule of international exhaustion.
3. Whether silence means exclusion of international exhaustion from entire community legislations.³⁴

³³ Patrick Kenny and Patrick McNutt, "Competition Parallel Import and Trademark Exhaustion: Two wrongs from a Trademark Right" at 1 (Dec 1999), available at <http://www.globalcompetitionforum.org/regions/europe/Ireland/8.pdf> last visited on 3 August 2009.

³⁴ Supra note 15, 153.

These uncertainties were creating problems as to the proper doctrinal implementation of exhaustion, and the problem was reinforced when it was found that the Trademark Directives of 1989/104 and the Community Trademark Regulations were also vague in the end as to the principle of trademark exhaustion.³⁵

Such uncertainties obviously created many conflicts and it is through one of such conflicts, the silhouette case, that the court resolved the ambiguity and declared that the silence of community legislature is to be interpreted as elimination of international exhaustion from entire European Community³⁶. The court of justice based its ruling on the need of protecting the integrity and unity of European market and not on trademark policy.³⁷ The court was of the view that the unity and integrity of the European market will be disrupted if the member states were left free to decide according to their own choices and this will in turn create differences and barriers to free community trade³⁸. Further international exhaustion of the trademark right is incompatible with the objectives of treaty establishing a single European market.

2.2.1.2.2 .a Silhouette v. Hartlauer

³⁵ Supra note 33, 2.

³⁶ Ibid

³⁷ Supra note 34

³⁸ Ibid

Silhouette v. Hartlauer³⁹ was a remarkable decision, which brought a conclusive and decisive ruling regarding the regional exhaustion as an applicable rule for entire community and exclusion of international exhaustion from community legislations.

Silhouette, the plaintiff, was Austrian company producing and distributing high quality spectacles under the word and picture "Silhouette." it regulate its business worldwide by different subsidiary companies and through selected distributors. In Austria it also uses to supply spectacles only to specific opticians.⁴⁰

Hartlauer, the defendant, was also indulged in spectacles business in Austria and it always tried to solicit the customers by maintaining the price lower than the price prevailing in market. In October 1995 silhouette sold 21,000 out dated models of spectacles to Union Trading and it specifically directed its sale representatives to inform the subsequent purchasers that the sale of these spectacles is restricted only to Bulgaria or the states of former Soviet Union. In November 1995, Hartlauer purchased the spectacles and offered them for sale in Austria. Silhouette sought prohibitory injunction from the court in order to restrain the importation, as the mark owner did not authorize those spectacles for sale in EEA. Silhouette argued that the trademark exhaust in EEA only when the goods are marketed in EEA by the owner himself or with his consent while he has not consented for sale in EEA so his right has not been exhausted. Hartlauer argued that silhouette didn't

³⁹ ECJ Case C-335/96, Silhouette Int. Schmied GmbH & Co KG v. Hartlauer Handelsgesellschaft mbH, C.M.L.R. 953[1998]

⁴⁰ Martyn Hann, "Trademark Right and Parallel Imports in Europe," The Journal of World Intellectual Property, vol 1, issue 4, at 809. (November 2005) available at <http://www3.interscience.wiley.com/journal/119137124/abstract?CRETRY=1&SRETRY=0>, last visited on 6 July 2009

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⁴⁰ Martyn Hann, "Trademark Right and Parallel Imports in Europe," *The Journal of World Intellectual Property*, vol 1, issue 4, at 809. (November 2005) available at <http://www3.interscience.wiley.com/journal/119137124/abstract?CRETRY=1&SRETRY=0>, last visited on 6 July 2009

specifically provided that the import into EEA is prohibited and also that the Austrian trademark law didn't provide for any prohibitory injunctions in these situations.⁴¹

Silhouette failed in regional and higher regional courts and then applied to Supreme Court of Judicature that submitted the following two questions to ECJ for reference:

1. Whether Article 7 of Trademark Directives enables the trademark owner to prohibit any party from using the protected goods which have been placed on a non member country's market, and
2. Whether the prohibitory injunctions can be granted, on the basis of Article 7, to bar such importation.⁴²

The practice of ECJ is that all question referred for resolution are first well thought-out by an Advocate General who then submits his non-binding opinion to ECJ. Advocate General Jacob considered these issues and submitted his opinion to ECJ. He said, as to first contention, that the legislative history of trademark evidences that international exhaustion is excluded and the right exhaust only when the goods are marketed within EEA by the right owner himself or with his consent and if the goods are marketed outside EEA then the mark owner has the right to exclude the importation. The second question arose because the Austrian trademark law didn't incorporate Article 5(1) (a) of Directives, which provide for prohibitory injunctions. Prohibitory injunctions, he said, can still be granted although only

⁴¹ Ibid, 809-810.

⁴² Ibid

Article 7 has been incorporated and the national courts are bound to give the trademark the same protection as if this article has been expressly incorporated into national law.⁴³

The judgment of the court was very brief it held that Trademark Directives only recognize the regional exhaustion and international exhaustion of IPRs has no compatibility with the objectives of Directives.⁴⁴

Article 7 of Trademark Directives reads as follow:

1-“The trademark shall not entitle the proprietor to prohibit its use in relation to the goods which have been put on the market in the community under the trademark by the proprietor or with his consent.

2-Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialization of the goods especially where the condition of goods is changed or impaired after they have been put on the market.”⁴⁵

The court held that according to Article 7 of the Trademark Directives, trademark right exhausts only when the goods are placed on the market within EEA with the consent of the owner and not otherwise. The letter and spirit of the Directives are against any other interpretation of exhaustion and only this definition ensures the free movement of goods and services within EEA and the same has been emphasized in Recitals to the Directives.⁴⁶

So far as the second issue is concerned the court reversed the opinion of the Advocate Jacob and held in the absence of Article 5 in national legislation, a prohibitory injunction

⁴³ Ibid, at 811.

⁴⁴ Ibid

⁴⁵ Article 7 of Trademark Directives 89/104

⁴⁶ Supra note 40, 812.

cannot be granted merely on the basis of Article 7.⁴⁷ Unquestionably the Silhouette was a remarkable decision as to the parallel importation of trademark-protected goods. The decision is important as it provided the interpretation to Article 7 of the Trademark Directives. The silhouette judgment anchored on two principles:

- (a) Intra-community exhaustion of IPRs
- (b) The need of the free consent of the IP holder to the first sale within community.⁴⁸

The plain reading and the rationale underlying silhouette case's decision led to the conclusion that henceforth the regional exhaustion will be the only standard for dealing the cases of parallel importation.

2.2.1.2.2. b Sebago case

ECJ confirmed his ruling later in Sebago case⁴⁹. Sebago, the US Company was the proprietor of two trademark laws for shoes "Sebago" and "dockside" registered in Benelux. Masion Dubois was the exclusive authorized distributor for Sebago's shoes in Benelux. In 1996, 2561 pairs of Sebago dockside shoes were marketed in Maxi-GB hypermarkets, which were subsequently purchased and imported in EEA by GB-Unic, the parallel importer. Sebago and Masion Dubois filed suit in Belgian courts stating that GB-Unic has committed the

⁴⁷ Ibid

⁴⁸ Ibid

⁴⁹ ECJ, Case C-173/98, Sebago case (1999) ECR I 4103.

infringement of their trademark right by marketing Dockside shoes into EEA without their consent.⁵⁰

Sebago contended that Article 7 of Trademark Directives laid down the principle of regional exhaustion while GB-Unic supported international exhaustion. In reaching the decision the court relied upon its ruling in silhouette case and also referred to Recitals of contained in Trademark Directives. It held that exhaustion is only restricted to European Community as it is obvious from the words and spirit of first Recitals to Directives that national trademark laws contain disparities which lead to disrupt the free movement of goods and services among member states and will distort the principle of competition, it is therefore necessary to harmonize the trademark laws of member states. The intended harmonization was only possible by restricting the member states to a uniform exhaustion policy.⁵¹

The main issue in all so far discussed cases has been the “consent of the proprietor” to the first sale of the trademark-protected product within EEA. Sebago case tried to resolve the issue to some extent but still left some ambiguities. The most important among them was, whether the express or implied consent of the proprietor of the trademark was all that was required to import the goods from outside EEA into EEA.⁵² The court focused on this issue in next Davidoff case.

⁵⁰ Supra note 32

⁵¹ Ibid

⁵² See “parallel imports the latest” available at http://pharmalicensing.com/public/articles/view/964100513_397701a14832b last visited on 3 August 2009

2.2.1.2.2. c Davidoff case: Forms of Proprietor's Consent.

The decision of the Davidoff case⁵³ enlarged the interpretation of the “consent” and widened its possible scope. It motivated a more liberal approach to parallel imports within EEA. Brief facts of the case are as follow:

Davidoff Company was producing high quality perfumes under the registered trademark “Cool Water”. They marketed their perfumes outside EEA which were then imported to EEA by A&G, the defendant parallel importer, A&G removed the source codes from the outer packaging and from the perfumes bottles before their entry into EEA Davidoff filed a suit against A&G relaying on following contentions:⁵⁴

- Trademark right of Davidoff is not exhausted by marketing the goods outside EEA because, according to Article 7 of Trademark Directives 89/104, exhaustion occurs only when the goods are first marketed within EEA by the owner or with his consent while this has not been the case. Moreover Davidoff has not consented to the importation of product, containing his mark, within EEA.
- Removal of the source code from the packaging and bottles damaged the reputation of trademark and the proprietor as well, hence provided a strong cause of action against A&G under Article 7(2) of Trademark Directives.⁵⁵

⁵³ ECJ, Case 41/99, Zino Davidoff S.A. v. A&G Importation Ltd.

⁵⁴ Supra note 52

⁵⁵ Ibid

Consensus of the proprietor was again the central issue, the disputes aroused, firstly, that how the mark owner can prove that he has not given his consent to the importation of goods from outside EEA into EEA or how the importer can make it clear that the required consent was given by the mark owner and, secondly, whether the express or implied consent is all that is required from the proprietor for the importation of the products within EEA.

ECJ focused on all these issues and finally held that goods were marketed in circumstances when the proprietor might have restricted its resale or import but he didn't do so and the consent of the proprietor need not necessarily be expressed always. It can be implied and may also be inferred from the "behavior" of the mark owner by the elements and circumstances prior, contemporaneous or subsequent to the first sale that take place outside EEA. If it can be concluded, by keeping in view all the circumstantial evidences and the mentioned elements, with "certainty" that the consent was given then imports can't be banned within EEA, if not then reverse solution applies.⁵⁶

This was an interesting interpretation, which enlarged the possible application of doctrine of exhaustion and widened the scope of parallel imports. The word "certainty" is of much importance in this context. National judges were required to carefully evaluate the provided evidences so that the implied consent can be sufficiently proved.⁵⁷

⁵⁶ Supra note 18, 512.

⁵⁷ Ibid

ECJ followed the same reasoning in many other cases. The decision of ECJ in *Levi Strauss & Co. and Another v. Tesco Stores Ltd*⁵⁸, and *Levi Strauss & Co. and Another v. Costco Wholesale UK Ltd*⁵⁹ further elucidated the consensus of proprietor. The court held that the consent of the trademark owner may be implied but it can't be presumed and the silence of the mark owner is not sufficient to prove the required consent.

All the above-mentioned cases go into numerous details and considerations, which are specifically irrelevant to the present discussion. It is, however, pertinent to note that every new decision in the row provided the broader interpretation to the "consent of proprietor" which subsequently modified and refined the decisions in forthcoming cases. Now the parallel imports coming from outside EEA can be defended in a better way by analyzing the behavior of the proprietor prior, contemporaneous and subsequent to the first sale outside EEA and national courts are bound to evaluate the evidences in accordance with the principles settled by ECJ which demand the "certainty" of the implied consensus as it can't be presumed.⁶⁰

2.2.2 Regional Exhaustion and Parallel Importation of Repackaged Goods

All the aforementioned rules are concerning the parallel importation of the products that have not been altered since the time of their first marketing. So far as the parallel import of repackaged goods within EEA is concerned, ECJ has consistently held that "specific subject matter of the trademark is to guarantee the origin of that product" and "that the repackaging

⁵⁸ ECJ, case 415/99, *Levi Strauss & Co. And Another v. Tesco Stores Ltd and Another*.

⁵⁹ ECJ case 416/99, *Levi Strauss & Co and Another v. Costco Wholesale UK Ltd*.

⁶⁰ *Supra* note 18, 512-513

of that product by the third party without the authorization of the proprietor is likely to create the real risk for that guarantee of origin”⁶¹ So the mark owner has the right to avoid that risk by precluding the import of repackaged goods.

However there are some situations, recognized by ECJ, where goods can't be imported to other countries except being modified or altered by importer. It may be when national language regulations of any state require that the instructions or labeling on the goods must be in the national language of the country in which the goods are being imported. In this situation the parallel importer may wish to make additional labeling or to repackaged the goods entirely or partially and the owner of that product, on the other hand, will try to stop and bar such repackaging and imports. Mostly the cases involve the repackaging of pharmaceutical products, where national regulations generally require that the imported products must have the labeling in national language of the concerned state. The problem is of particular importance in context of Common market, which has twenty different official languages. ECJ has long considered the issue of repackaged goods and held that generally the trademark owner has the right to ban the import of repackaged good but he can't use his

⁶¹ Case C-143/00 *Boehringer Ingelheim v Swingward* [2002] E.C.R.I-3759:As quoted in: Christopher Stothers, “Trademark Exhaustion and Parallel Imports: The EU Position” in *Trademark Licensing* by Neil J. Wilkof and Daniel Burkett, second Edition, at 357-358(London. Sweet & Maxwell, 2005). Will be named hereafter as “Trademark Exhaustion and Parallel Imports: The EU Position”

right to prevent the parallel imports of repackaged goods when following conditions are fulfilled.⁶²

1. When the goods are first marketed within EEA by the mark owner himself or by his licensee.
2. When repackaging is essential to import the goods into other country. This condition was established in *Bristol Myers Squibb V. Paranova*.⁶³ Where only the additional labeling in the language of country of import is sufficient to serve the purpose then repackaging is not permitted
3. When repackaging doesn't adversely affect the original condition of trademark protected goods. It means the mark owner can challenge and ban the importation of repackaged goods when it is going to create a "real risk" to the product's condition. Every risk may not confer such right, what is the real risk that confers upon the owner the right to exclude the parallel imports is the question of fact and needs the proper interpretation.⁶⁴
4. When repackaging does not harm the goodwill of the trademark or its owner. This rule was established in *Bristol-Myers Squibb v Paranova*. If repackaging harms the reputation of the mark or the mark owner the mark owner can ban the importation.

⁶²Ibid, 358.

⁶³ *Bristol-Myers Squibb v Paranova* [1996] E.C.R. at Para 56:As quoted in ""Trademark Exhaustion and Parallel Imports: The EU Position"

⁶⁴ The principle was established in *Hoffmann-La Roche v. Centrafarm*, [1978] E.C.R, 1139: As quoted in "Trademark Exhaustion and Parallel Imports: The EU Position" 358-359.

5. When the repackaged goods clearly state the origin of goods i.e. the name of the manufacturer and the name of importer by whom it has been repackaged. (Hoffman-La Roche v. Centrafarm). However there is no need of indicating that the repackaging is carried on without the permission of mark owner. This condition usually applies to the repackaging of pharmaceutical products.
6. The notice of repackaging must be given to the trademark owner prior to the marketing of repackaged goods. Further the sample of repackaged good must be provided to the proprietor of mark if he requires so.

These conditions, established by ECJ through case laws, had been subject to criticism by national courts but ECJ has been confirming and upholding the conditions consistently.⁶⁵

2.3 PARALLEL IMPORTATION OF TRADEMARK PROTECTED GOODS IN U.S.

Trademark is an indicator of the origin of the product i.e. it indicate who is the manufacturer of the product and it distinguishes the products of a particular manufacturer from those made by other in relevant field. Additionally it indicates the quality of the product and establishes the goodwill of that product with regard to the quality standards.⁶⁶ Trademark laws of the United States also recognize these functions of the trademark and are designed to prevent the consumer confusion as to the origin and quality of the products marketed.⁶⁷

⁶⁵Ibid 360.

⁶⁶ Dale F. Duhan and Mary Jane Sheffet, "Gray Marketing and Legal Status of Parallel Importation" *Journal of Marketing*, vol.52, (July 1988), 77. available at <http://www.jstor.org>, last visited on 3 August 2009.

⁶⁷ Cooley Godward Kronish, "parallel imports" available at <http://www.cooley.com/57419>, last visited on 21 July 2009. Will be named hereafter as "parallel imports"

2.3.1 Trademark Laws of the United States and Exhaustion of Trademark Right

United States applies “first sale doctrine” in its national jurisdiction.⁶⁸ The trademark right exhausts by the first sale of the product within the U.S. territory and the owner of the trademark cannot restrict its resale unless it is specified by the terms and conditions of the contract.⁶⁹

This doctrine is designed to balance the trademark protection with the principles of competition as it has been observed by the court of law in Sebastian case⁷⁰ “the doctrine preserves an area of competition by limiting the producer’s power to control the resale of the product”.⁷¹ In United States, the cases of Parallel importation of the trademark protected goods are resolved by applying the following three different theories in different times;

2.3.1.1 The Theory of Universality or Trade Identity

This theory looks at the trademark as a sign or indicator of the origin of goods. It provides that if the goods are genuine and the trademark is affixed properly then it will demonstrate the origin, wherever it will go, without any misrepresentation. The practical application of this theory by the courts results in legality of trademark goods because the origin of the

⁶⁸ The exhaustion rule is also referred to as the “first-sale doctrine” because of its similarity in principle to the first sale doctrine of copyright law. First proclaimed in *Bobbs-Merrill v. Straus*, 210 U.S. 339 (1908).

⁶⁹ The terms and condition will be only binding for the distributor of the product and will not bind the subsequent purchaser of the product

⁷⁰ *Sebastian-International, Inc. v. Longs Drugs Stores Corporation*, 53 F .4d 1073, 1075(9th Cir. 1995). As quoted in, “parallel imports”

⁷¹ *Ibid*

product will be same wherever it goes regardless of the particular route of distribution channel.⁷²

The courts do not apply this principle now a day as it does not regard the sovereignty of nations and the legal rights there under and also because the trademark in one country may represent a literally different goodwill than in any other country. Therefore the statutory laws and case laws have consequently repudiated the universality principle within U.S.⁷³

2.3.1.2 The Theory of Exhaustion

This theory provides that the right of the trademark owner over the commercial exploitation of his product ceases as long as that product is released in market for first time. The origin of the product remains the same and this theory also does not regard, just like the universality principle, the legality or illegality of the route of distribution channel. Parallel imports, under this theory are permissible as nothing illegal happens as long as the goods are genuine.⁷⁴

2.3.1.3 The Theory of Territoriality

This theory considers the trademark as territorial in nature and also that the marks are affective only within the territories in which they have been registered. This theory considers

⁷² Supra note 66, 78.

⁷³ Irvine Clarke III, "Trademark Rights in Gray Markets," International Marketing Review, vol 17(2000) available at <http://www.emeraldinsight.com/Insight/ViewContentServlet?Filename=Published/EmeraldFullTextArticle/Articles/0360170305.html>, last visited on 21 July 2009. will be termed hereafter as ""Trademark Rights in Gray Markets."

⁷⁴ Supra note 72

both the genuineness of the product and the legality of the route of distribution as of equal importance.

Under this theory the owner of the registered trademark has the right to bar the importation of the products, although genuine, if they enter in United States through unauthorized distribution channels. So the products bearing the US trademark remain within the control of the trademark owner even in post sale scenarios.⁷⁵

This theory, unlike the universality and exhaustion which only consider the trademark as indicator of the products origin, regards the additional function of the trademark i.e. establishment and preservation the goodwill which might be damaged when the goods enter into market through unauthorized distribution channel. The owner is satisfied in this theory that his goodwill will not be exploited even if other uses the product as he has all the right to bar such importations.

The trademark laws of United States contain no reference to the principle of exhaustion rather exhaustion is concept derived from case laws and applied by the national courts and it is used as a defense in claim of trademark infringement where the defendant has resold the genuine goods bearing the trademark of another.⁷⁶ The case laws of the United States, so far, only recognize the principle of territorial exhaustion of trademark and of all other kinds of IPRs.⁷⁷ The territorial exhaustion of the trademark right has compatibility with

⁷⁵ Ibid

⁷⁶ See Report of the United States Group of AIIPI on Exhaustion of IPRs in Cases of Recycling and Repair of Goods (July 2008) at 4, available at http://www.aippi-us.org/images/Q205_USA.pdf last visited on 21 July 2009

⁷⁷ See Exhaustion of IP Rights Recent developments, by Prof S.K. VERMA available at http://www.wipo.int/mdocsarchives/ATRIP_GVA_99/ATRIP_GVA_99_2_E.pdf last visited On 21 July 2009

the purposes of the trademark as recognized in trademark laws of the United States. The trademark right exhaust within the territory in a way that ensures that origin of the product has not been changed and it would not cause the consumer confusion as to the originality and quality of the product is concerned.

The trademark law, in contrast to patent and copyright laws in United States in which the right owners have exclusive rights and they can exclude all others from reselling or distributing the protected product, just aims to prevent others from causing consumer confusion and does not merely aims to grant the exclusive right to sell. Professor Kitch in his ATRIP lecture in following words has explained this fact.⁷⁸

Strictly speaking, there is no doctrine of exhaustion in American trademark law. This is because American trademark law is based on a tort rather than a property theory. The action for trademark infringement is an action for creating a likelihood of confusion harmful to the plaintiff, not an action for trespassing on the exclusive rights of the trademark owner. The purchaser of a trademark acquires no right in the trademark. However, the courts reach the same functional result on the theory that the purchaser of genuine trademarked goods creates no likelihood of confusion by owning, using, and reselling the goods because they are in fact what they purport to be -- genuine goods whose origin is the owner of the trademark.

2.3.2. Right of Importation and U.S. Trademark Laws

As discussed earlier that U.S. recognizes the national or territorial exhaustion of trademark rights where the right exhaust only within the territory giving the ability to the holder of the trademark to exclude unauthorized importation of trademark protected products. The mark

⁷⁸ As quoted by Professor William. O. Hennessey in his ATRIP lecture on "Recent Development in Parallel Importation under US Trademark Law, The New Lever Rule" (ATRIP July 1999) at 2, available at http://www.wipo.int/mdocsarchives/WIPO_ATRIP_GVA_99_21/ATRIP_GVA_99_21.pdf, last visited on 21 July 2009. Gathered the idea from; Edmund W. Kitch "Exhaustion of Intellectual Property: A Perspective from the U.S." (ATRIP 1995). 21

holder may have resort to certain legal avenues and adjudicating institutions for that purpose. However there are certain exceptions to this territorial exhaustion of the right where the right owner can't use his right to exclude imports.

The right of importation of trademark-protected goods is grounded in the following two statutes⁷⁹

- Firstly in Trade Law, known as Tariff Act, section 526 and,
- Secondly the Trademark Law commonly called the Lanham Act, in section 42.

These provisions are regulated and implemented by US Treasury Department, in its capacity as an administrator of import regulations through the U.S. Custom Service. These provisions however are worded differently but are implemented by the Treasury Department with the same Treasury Regulations. Moreover the federal courts have interpreted the two provisions in the same meaning.⁸⁰

Both of these legislations don't specifically deal with the issue of parallel imports or exhaustion of trademark right, so they can't be taken as basis to prevent parallel imports. As the concept of exhaustion has been dealt with by case laws, which provide that "the plain language of the statutes doesn't bar importation of genuine goods"⁸¹

⁷⁹ Ibid

⁸⁰ Frederick M. Abbot, "Political Economy of U.S. Parallel Trade Experience: Toward a More Thoughtful Policy," in "Intellectual Property" edited by Thomas Cottier and Petros C. Mavroidis, World Trade Forum.vol 3, at 180 (The University of Michigan Press,2006).

⁸¹ Olympus Corporation v. United States, 792 F.2d 315(2d cir 1986) As quoted in " Report of The United States Group of AIIPI on exhaustion of IPRs in Cases of Recycling and Repair of Goods (July 2008) at 4,available at http://www.aippi-us.org/images/Q205_USA.pdf last visited on 21 July 2009

As mentioned earlier the trademark laws of United States emphasize on the genuineness of the goods involved and on the relationship with the product or their origin and not to the consent of the right owner to the first sale as it is in European Union.

2.3.2.1 Tariff Act and Parallel Imports

The evolution of the Tariff Act goes back to Apollinaris case⁸² in 1886, which allowed the importation of trademark goods stating that trademark is only meant to denote the authenticity and source of goods, so the imports involving the genuine goods are allowed, as there is nothing illegal. This decision shaped the parallel import cases till 1922, when the appellate court ruled, in A. Bourjois & co v. Katzel case,⁸³ that the importation of the goods bearing a trademark, which a domestic company had purchased from a foreign manufacturer, would not be bared.⁸⁴

In response to this decision section 526 of the Tariff Act was enacted barring the imports of the foreign goods that had US registered trademark without the prior consent of U.S. owner. After the enactment of this section the Supreme Court in 1923 reversed the ruling of Appellate court in Katzel case prohibiting the imports into US by foreign manufacturer and allowed the domestic company an exclusive right of use of, within United States, the trademark which it had purchased from foreign manufacturer on the bases of this new enactment⁸⁵. Section 526 of Tariff Act provides:

⁸² Apollinaris Co v. Scherer, 27 F. 18, 22 (S.D.N.Y.1886) As quoted in: "Trademark Rights in Gray Markets".

⁸³ A. Bourjois & co v. Katzel case, 260 U.S. 689 (1923). As quoted in "Trademark Rights in Gray Markets,"

⁸⁴ Ibid

⁸⁵ Ibid

"[I]t shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created, or organized within, the United States, and registered in the Patent and Trademark office by a person domiciled in the United States ... unless written consent of the owner of such a trademark is produced at the time of making entry."

The section seems to favor the domestic manufacture, however, it does not prohibit all the gray market products it only excludes the importation of the product without the consent of U.S. owner of the right.

Hence there are certain exceptions to this rule. In 1972, Custom Service Regulations interpreting and implementing the Section 526 of the Tariff Act provided for some exceptional cases where the trademark owner can't exclude the parallel imports on the bases of Section 526. parallel imports can't be excluded in the following situations:

1. When the foreign and Us trademark are owned by the same person or same business entity
2. When the foreign and domestic trademark owners are parent and subsidiary companies or otherwise are subject to common control
3. When the US trademark owner authorizes /licenses some foreign manufacturer, the goods bearing the authorized trademark

The first two exceptions create “common control or affiliate exception” and the third case forms “authorized use exception”.⁸⁶The common control exception allows the parallel imports when the domestic and foreign trademarks are owned by the same entity or they have parent subsidiary relationship or otherwise are subject to common ownership. The authorize use exception allows the importation of the goods when the US trademark holder has authorized the use of his trademark to the foreign manufacturer.⁸⁷

2.3.2.1.1 K –Mart Corp. v. Artier, Inc.

In 1988, the Supreme Court of United States in K –Mart Corp. v. Artier⁸⁸ briefly examined the “common control” and “authorize use” exceptions and the way how section 526 applies to both of these situations. The court declared that the goods entering into U.S. market under “authorize use exceptions” may be detained by Customs and it may not allow the entry of goods under this exception. So the Supreme Court annulled the “authorize use” exception and only permitted the imports under “common control or affiliate exception”.⁸⁹

Common control develop in three different forms of domestic foreign affiliations

1. Foreign Firm and Domestic Subsidiary Situation

A domestic subsidiary of foreign firm owns the U.S. trademark for the goods manufactured abroad but bearing the U.S. trademark.

2. Domestic Firm and Foreign Subsidiary Situation

⁸⁶ Dorothy Cohen, “Trademark Strategy Revisited,” *Journal of Marketing*, vol.55, 54-55(July 1999), available at <http://www.jstor.org> last visited on 22 July 2009.

⁸⁷ Ibid

⁸⁸ K –Mart Corp. v. Artier, Inc.486 US 281(1988).

⁸⁹ Supra note 86

US based firm owns a foreign subsidiary that produces the goods bearing the U.S. trademark and then those goods are imported into U.S.

3. Domestic Firm and Foreign Division Situation

A US firm maintains a foreign division that division produces the goods bearing the goods bearing the US trademark owned by U.S. Company and then those goods are imported into U.S.⁹⁰

The Tariff Act section 526 didn't completely ban the importation of goods. It allowed the importation of identical goods under "common control exception" and in this context K-Mart decision was a green light for the importation of the genuine goods.

2.3.2.2. Lanham Act and Parallel Imports

Lanham Act is the principal US trademark law dealing with unauthorized use of trademark, (specifically Section 32, 42 &43) which may cause consumer confusion. The courts often used to exclude the parallel imported goods, which were otherwise allowed under "common control or affiliate exception", with the help of these provisions, specifically using Section 42 of the Lanham Act.⁹¹

Section 42 of the Act provides

"No article of imported merchandise which shall copy or simulate the name of any domestic manufacture, or manufacturer, or trader, or of any manufacturer or trader located in any foreign country which, by treaty, convention, or law affords similar privileges to citizens of

⁹⁰ Ibid

⁹¹ Supra note 73

the United States, or which shall copy or simulate a trademark registered in accordance with the provisions of this Act or shall bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States, or that it is manufactured in any foreign country or locality other than the country or locality in which it is in fact manufactured, shall be admitted to entry at any customhouse of the United States.”

The language of this section implies that any product copying or stimulating the US trademark can be excluded under this section but it didn't cover the goods bearing the genuine trademarks.⁹²

This section is the second legal avenue that a trademark owner can avail in order to get relief from parallel imports as it provides a cause of action for “unfair competition”. Lanham Act provides relief irrespective of the trademark owner's citizenship and affiliations.⁹³ So the trademark owner, who remained unable to prevent parallel imports under section 526 of Tariff Act, especially after K-Mart decision, turned their attention to Lanham Act to limit the parallel imports only to “identical goods” or “genuine goods”.⁹⁴

The Lever Bros v. United States

The Lever Bros v. United States⁹⁵ was a landmark decision determined by the court in this context and was just after one year of the K-Mart decision. A company was maintaining two subsidiaries, in UK and U.S. bearing the same mark (were under common control). The issue

⁹² Supra note 78

⁹³ See Update Intellectual Property “ Parallel Importation: Using Us Intellectual Property Laws to Address Difficult Gray Market Scenarios” available at http://www.hhlaw.com/files/Publication/dbda6bec-a9df-4852-b8d0-527d91dc2084/Presentation/PublicationAttachment/c6b24117-cb88-4793-81ed-96fcb888d50b/737_030828_Parallel_Importation.pdf last visited on 22 July 2009.

⁹⁴ Supra note 65

⁹⁵ The Lever Bros v. United States 877 F.2d101 (D.C.Cir 1989)

aroused when the UK subsidiary imported the goods into US and the entry was allowed by the Customs as the goods were identical and were allowed under “common control exceptions”. However there were material differences between the products produced by the U.S. –subsidiary from those produced by UK-subsubsidiary as they were customized to specific national taste and environment. These products performed quite differently when they were imported to U.S. The consumers were confused as to the quality of the product and the made complaints to U.S. producers.

The Custom service refused to ban the goods as they were subject to “common control exception” and was identical. They refused to consider the physical differences between the products and unwillingness of the U.S. trademark owner to such importation.⁹⁶

Upon appeal, the federal appeal court focused on physical differences between the products and the “misrepresentation implicit in the use of US trademark” and the court held that if there are material differences between the products then the importation is not allowed as it may cause consumer confusion.⁹⁷

In response to this injunction the Custom Service published a new regulation, on 24 February 1999, providing that the goods, although genuine and allowed under common control, may be restricted if they are “physically & materially different” from the articles authorized for sale in United States by U.S. trademark owner. Further the restriction was not

⁹⁶ Professor William O. Hennessey, “Recent Developments in Parallel Importation Under U.S. Trademark Law-The New “Lever Rules-1999”Pierce Law Publication & Papers available at http://www.ipmall.info/hosted_resource/pubspaper/tm_lever_rule_hennessey_99.asp: last visited on 22 July 2009.

⁹⁷ Ibid

meant to bar the parallel imports but it only requires that material and physical differences of the goods should be labeled and properly highlighted, in accordance with the regulation former to their entry as follows:⁹⁸

*"This product is not a product authorized by United States trademark owner for importation and is physically and materially different from the authorized product."*⁹⁹

This rule is known as "Lever Rule" and the label representing that the goods are different from those allowed for sale in U.S. is termed as "Lever Label". So if the goods contain proper disclaimer from importer of the products (by way of Lever Label) then they will not be detained by Custom.¹⁰⁰

2.3.2.2.1 Material Differences and Consumer Confusion

As long as the parallel imports involve the genuine goods the U.S. trademark holder can't rely on its trademark to prevent the importation. This is for the simple reason that the US trademark law is designed to prevent consumer confusion as to the origin and quality of the products. The consumers are not confused so far as the goods are genuine. The goods are considered to be genuine when they are not physically and materially different from the authorized one.¹⁰¹

Whether the goods are genuine or not it depends upon the examination of the two factors:

⁹⁸ Ibid

⁹⁹ Section 133.23(b), 19 Code of Federal Regulations.

¹⁰⁰ Ibid

¹⁰¹ Supra note 67

- (a) Whether the trademark owner was in full control of the product prior to their entry in market, and
- (b) Whether the goods were materially different from those sold under the same mark in domestic market.¹⁰²

(a)Pre- Market Control of Trademark Owner

The goods are not genuine when the holder of the mark is unable to exert adequate pre-market control over the products. It may happen when the manufacturer of the mark holder distributes the goods without the authorization of mark owner or when the goods are manufactured in excess and they are marketed without the inspection and consent of the mark owner.¹⁰³

(b) Material Differences

A difference which is considered relevant by the consumer in buying decision is a material difference or the difference which may lead the consumer to think that he might has not purchased a genuine good is the material difference. If the consumer buys a product and found that the characteristics of concerned product are different from his previous purchase then the consumer will get confused as to the source and quality of that product.¹⁰⁴

¹⁰² Supra note 76

¹⁰³ Ibid

¹⁰⁴ Ibid

Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.¹⁰⁵ is one of the so many cases that highlighted the material differences of parallel imported product from genuine products. Original Appalachian Artworks (“OAA”) was the manufacturer of well-known Cabbage Patch Dolls. OAA granted its right to manufacture and distributes its Dolls to one company in Spain and to another in U.S .The Spanish dolls were carrying different instructions, birth certificates and adoption papers in Spanish language while US dolls were also accompanied by the same documents but in English. The US purchaser, moreover, get a birthday card from OAA on the completion of first year of adoption. The dolls manufactured by Spanish licensee were subsequently imported into U.S. The U.S. purchasers of imported Spanish goods then started complaining because they were not able to understand the Spanish language and they didn’t receive any birthday card. The U.S. Court of Appeals for the Second Circuit held that these differences are material as they cause consumer confusion and upset the expectations of the of US consumer regarding Cabbage Patch Dolls so the import was not permissible. In brief, the Spanish dolls were not considered genuine Cabbage Patch Dolls to U.S. purchasers.¹⁰⁶

The difference must be material but need not to be great. However what constitute a material difference is the question of fact and may vary from case to case. In some cases the difference in only one feature is deemed to be relevant while in other cases totality of difference is required to declared the product materially different from authorize one. Among

¹⁰⁵ Original Appalachian Artworks, Inc. v. Granada Electronics, Inc., 816 F.2d 68, 76 (2nd Cir. 1987).

¹⁰⁶ Supra note 67

the features of the product that have been declared material by the courts in combination or alone are:¹⁰⁷

- Differences in ingredients.
- Differences in packaging, addition or absence of any mark.
- Difference in products shape or appearance.
- Instructions in any language other than English.
- Difference in labeling or non-compliance with the U.S. Government, or state nutrition or labeling laws.
- The absence of promotional materials so that the buyer can't participate in the same advertising and promotional strategies.

So the parallel imports, which were initially allowed in U.S. under “common control” and “authorize use” exceptions, were qualified after K-Mart decision only to the common control exception by the interpretation of section 526 of the Tariff Act, and then were further restricted only to the products which are genuine and are not materially different from the authorized goods by section 42 of the Lanham Act.

If the trademark owner can't stop the importation of the goods using these legal avenues still there is another resort available to him in form of Copyright Act, to get relief from parallel imports to some extent.

2.3.2.3. Copyright Law and Parallel Imports

¹⁰⁷ Quoted by Cooley Godward Kornish in “parallel imports” available at <http://www.cooley.com/57419>

Copyright law may be used to exclude parallel imports in some instances even when the goods are “essentially identical”¹⁰⁸ to those marketed in U.S. The Copyright Act provides protection to all forms of expression fixed in tangible medium. It provides relief only when the trademark-protected product is partially copyrightable and where Tariff and Lanham Act don’t bar parallel imports. Copyright Act will bar parallel imports in form of Injunctive relief, criminal penalties and civil damages pursuant to Copyright Act.¹⁰⁹

Under the U.S. Copyright Law the copyright owner has the exclusive right over copyright protected products. The third parties are not permitted to sell, rent, transfer or otherwise distribute the copies of the work without the consent of the copyright owner. Further the U.S. Copyright Act also provides that importation into the United States of the copies of the works that have been acquired outside the United States is the infringement to the exclusive right to distribute and is therefore actionable. This exclusive right, however, is subject to first sale doctrine.¹¹⁰

2.4. EXHAUSTION OF TRADEMARK RIGHT AND PARALLEL IMPORTATION OF TRADEMARK PROTECTED GOODS IN PAKISTAN

Trademark laws in Pakistan are embodied in Trademark Ordinance 2001, which was based on Trademark Act 1940. Trademark Ordinance 2001 has been amended several times to comply with the requirements of international instruments.

¹⁰⁸ When the goods are essentially identical (are not materially and physically different) to those marketed in US then they cannot be excluded with the Tariff Act & Lanham Act, then the Copyright Act provide relief to some extent.

¹⁰⁹ Supra note 73

¹¹⁰ Ibid

So far as the subject of current debate is concerned, trademark law is silent and deficient both on the issue of exhaustion of trademark right and parallel importation of trademark protected goods. Moreover no case law is available on the issue in Pakistan.

Following is the, keeping this position of Trademark Ordinance in view, brief analysis of the sections, which somehow appear to be relevant to current debate. Section 39 of the Ordinance grants the exclusive rights to the holder of registered trademark to use that mark and consider the mark his personal property.

Section 40 states that using the identical or deceptively similar mark or the goods or services for which the mark is registered is the infringement of the trademark thus provide a cause of action to the proprietor of the mark. Moreover applying or affixing the mark without the consent of the mark owner is the infringement of the mark and the goods containing the marks on their packaging without the authorization from the, mark owner are “infringing goods” according to the language of section 49 of trademark ordinance.

Section 49(1) (b) deals with the importation of the goods into Pakistan. It provides that goods shall be deemed infringing goods if the application of mark to them is considered the infringement of the mark in Pakistan and if the mark is identical or deceptively similar to the registered mark in Pakistan.

Section 49(2) provides that nothing contained in sub section (1) will affect the importation of lawfully imported goods into Pakistan. This section seems to be dealing with the importation of repackaged goods. However still there are certain ambiguities and uncertainties regarding the issue.

Section 53 of the Ordinance grants to the proprietor of the registered trademark a right to give a notice of infringing goods to the Collector of Customs stating that he is the owner of the mark and the infringing goods or articles are supposed to be imported into Pakistan and are, therefore, subject to the control of Custom Authorities under Customs Act of 1969 and they must be declared "prohibited goods". Sections 54-66 provide the whole detail of procedure to be followed by the custom authorities in dealing with those infringing goods and articles. These goods may also be considered as counterfeited trademark goods as per section 2 (ix).

It can be concluded that trademark Ordinance of Pakistan contains no clear reference to exhaustion of the trademark or parallel importation of the trademark protected goods. The only reference to the importation of the goods in Pakistan is in section 49 which provide that the importation of the goods in Pakistan, which bear the trademark without the authorization from the original mark owner, is not allowed, as they are counterfeited or infringing goods. On the other sec 49(1) will not affect the lawfully imported goods. This is the case of parallel importation of repackaged goods while generally the parallel imports are original goods except that they are distributed through unauthorized distribution channel.

The stance of Pakistan on parallel importation of trademark protected goods cannot be decided by these provisions as there is no case law providing the interpretation of these sections. Whether Pakistan is in favour of international exhaustion of trademark right or it is a proponent of national exhaustion of trademark right. This is to be taken into consideration by the policy makers as being the member of the TRIPS Agreement Pakistan is under the

obligation to clarify its stance and the extent to which it is allowing the parallel importation of trademark protected goods within its jurisdiction.

Chapter 3

PARALLEL IMPORTATION OF PATENT PROTECTED PRODUCTS

3.1 EXHAUSTION OF PATENT AND PARALLEL IMPORT OF PATENTED PRODUCTS

. The specific subject matter of the patent is to provide the incentives to the inventors for future innovations and to ensure their future participation in the promotion of science and technology by providing a sort of monopoly over the commercial exploitation of their invention ensuring the economic reward for patent holder. The patent right is subject to doctrine of exhaustion like all other forms of intellectual property. The doctrine of exhaustion of patents may be linked to its fundamental purposes and free downstream flow of patented products. Patents afford inventors of new products and technologies the legal right to eliminate the competitors from making, selling, and distributing his patented innovation.¹The fundamental purpose of the patent is considered to be fulfilled when the patent holder gets the economic reward from the first marketing of his patented product. Further the contract of sales of goods are based upon the logic that the subsequent purchaser

¹Keith E. Maskus , "Parallel Imports in Pharmaceuticals: Implications for competition and Prices in Developing Countries" Final Report to World Intellectual Property Organization(April 2001) available at http://www.wipo.int/about-ip/en/studies/pdf/ssa_maskus_pi.pdf last visited on August,7,2009

will enjoy all those rights in the product, which the seller exercised, unless it is explicitly restricted by the terms and conditions of contract. This exhaustion of patent right is necessary as it ensure the free circulation of patented product in downstream channels of distributions.²

It is the general practice with respect to patents, unlike trademark and copyright, that patentee usually made the conditional sale and places certain restrictions and qualification on subsequent purchaser restricting his right to freely enjoy his ownership in purchased products. Patentee has historically wanted to maintain the control over the inventions thus restricting the resale, import and export of protected product.

3.1.1 Patent Exhaustion under Trips Agreement

TRIPS, Article 28 provides exclusive rights to patent holders including the right of making, using, selling or importing the process or product patented invention but the exercise of all these rights is subject to the provisions of doctrine of exhaustion as indicated in the footnote to the article. Article 6 prevents the countries from raising any issue of exhaustion before Dispute settlement mechanism for determination regarding the issue of exhaustion of IPRs. These provisions of the TRIPS agreement facilitate the developing and least develop countries, lacking the manufacturing capacity ,and research and development infrastructure ,to fulfill their requirement by importing from the countries where the prices

²See Doctrine of Exhaustion as Applied to Patent Rights, intellectual property column available at <http://www.harakenzo.com/en/column/article/20050812.html>, last visited on 7, August 2009.

are affordable for their economy. Here comes the issue of parallel imports, which definitely provides the products at lower price and make the product accessible to these countries. . But the dispute arises regarding the permissibility of parallel imports with the interpretation of the doctrine of exhaustion. Whether the international exhaustion or national exhaustion should be the standard to deal with parallel import activity of parallel imports, no solution is provided by TRIPS. The Developed countries recognize these articles as an obvious threat that infringes the rights of their national IPRs holders and allows the parallel importer to flood their markets with cheapest goods under-cutting the profit of original owners. The developing countries, on the other hand take these provision as a ground for the activity of parallel imports enabling them to provide the access to products, information and technology to their people at affordable price. However these efforts of the developing countries are often pressurized by the industrialized countries to promote their profit and monopoly over IPRs protected products.

TRIPS recognizes the exhaustion of patent rights. In effect, the successive buyer can resell and import the patented products to other countries without the authorization of patent owner. Notwithstanding the restriction imposed by the patent owner, the patent exhausts either internationally, regionally or nationally specifying the possible scope of parallel import of patented products. As the IPR are territorial in nature, each nation has established its own policy covering the exhaustion and scope of parallel imports.

The legality or illegality of parallel import of patented products mainly depends upon the importing nation's regime of exhaustion. Following are the patent exhaustion regimes as applied by United States, European Union and Pakistan.

Summary of Patent Exhaustion Regime in EU, USA and Pakistan

Name of the country	Exhaustion regime
European union	Community exhaustion
United states	National exhaustion
Pakistan	International Exhaustion

3.2 PARALLEL IMPORT OF PATENTED PRODUCTS IN EUROPEAN UNION

The European Union pursues regional exhaustion in all forms of IPRs that has been developed by the case laws over the time. The regional exhaustion of patent is based on the same principles and elements as elaborated for the exhaustion of trademark in previous chapter. The regional exhaustion principle was developed generally for all kinds of IPRs.

Patent exhaust regionally in European Union, regional exhaustion of the patent is in conformity with the objectives of EC Treaty. The patent exhaust regionally i.e. the patent holder cannot restrict the importation of the patent product when the patented product was first marketed within the community with the free consent of the patent holder. The consent

of the proprietor to the first sale of patented product is an essential element for the exhaustion of patent. If the first marketing was made under compulsory license then the right of the patent holder will not exhaust. The patent right does not exhaust when the goods were first marketed outside EEA, as exhaustion is the first marketing of patented product within EEA with the consent of the patent owner. Moreover when the patent holder decide to market the patented product in a member state where no patent protection exist the right will still be exhausted and the free circulation of patented products to other member states cannot be restricted.

The restrictions on the import or export of the patented products are not appreciated according to the Article 30 of treaty of Rome; Article 36 however allows such restrictions only when they are for the protection of “industrial and commercial property.”

The European Court of Justice (ECJ) dealt with the issue of parallel import of patent protected product within the Communities in *Centrafarm v. Sterling Drug*³. The Sterling Company was the owner of the patented drug “Negram” in UK and Holland. It had the license agreement in both countries. Centrafarm imported the product from UK to Holland because of its Low price in UK. . The Sterling brought an action to stop the import. The Domestic Dutch law enables the patent holder to prevent unauthorized import. However, ECJ held that the specific object of the patent is to recompense the inventor for his contribution to the advancement of science and technology and this is done by granting him the exclusive right over the control of first marketing of his product and as well as by giving him the right to oppose the infringement of his patent.

³ Case 15/74 *Centrafarm v. Sterling Drug* [1974] ECR, 1147.

Thereafter his right exhausts as the purpose of the patent is fulfilled. The judgment pronounced that:

[t]he exercise by a patentee of the right given him by the laws of a member-State to prohibit the marketing in that State of a product protected by the patent and put on the market in another member-State by such patentee or with his consent would be incompatible with the rules of the EEC Treaty relating to the free movement of goods in the Common Market.

The approach in the field of patent is based on the same principles, namely first sale consent test, the principle of common origin and all that have been developed in context of trademark after silhouette case by ECJ.

3.2.1 Regional Exhaustion of Patent and Community Patent Convention

Community legislation dealing with patents is Community Patent Convention, which subordinate the EC Treaty. The purpose of the Community Patent Convention was to ensure the free movement of patented goods within the common market and to remove the trade barriers thereto so that the competitive conditions must be same within the community. In this connection Article 32 of the Convention (Protocol on exhaustion annexed to the Convention) prohibit the use of the community patent to divide the common market into segmented national markets by means of national laws of the member states.⁴

Before the promulgation of the Patent Convention, the commission suggested that the Exhaustion Protocol attached to the draft may become a barrier to free trade in community

⁴ Manfred Schmiemann, Exhaustion of Patent Rights and the European union, World Patent Information, vol 20.issue 3(Sep-Dec 1998), available at <http://www.sciencedirect.com/science>, last visited on 12, August 2009.

because it's Article 32 provided that the prohibition of the division of markets would not be appropriate for patented goods in-between a period of five to ten years. Further the article rendered that the prevention of the splitting up of community market would not be applies for patented goods during a transitional period of five to ten years. On the basis of this provision the patent holder can restrict the parallel import of his patented product within the community that has been marketed by him or with his consent.⁵ As a corollary the common market would be divided into national segmented markets with different market prices of the same object in each member state. The commission was of the view that the implementation of the these provisions will impede the main objective of EC Treaty i.e. the establishment of an integrated community market while the early case law on the issue has already provided for the EEA-wide exhaustion of intellectual property rights and it didn't differentiated in patent and other forms of IPRs. This all was not required so he Community Patent Convention, with its annexed Protocol aiming at adjourning the exhaustion principle for patented goods, has never been implemented.⁶

3.3 PARALLEL IMPORT OF PATENTED PRODUCTS IN UNITED STATES

So far as the issue of parallel import from outside the state is concerned the United States follows the strict national exhaustion regime of patent right, and restrict the parallel imports into United States. When the patented products, marketed outside US, are sought to be imported into United States, the patent holder has the right to prevent such importation. Thus US patent law is designed in such way which allow the US patent owners the right to stop parallel imports into United States and provide the

⁵ Ibid

⁶ Ibid

strong IPRs protection by granting him the exclusive right over patented product. The patent holder may start actions to exclude parallel imports and to enforce U.S. patents right in U.S. District Courts or in the U.S. International Trade Commission (ITC).

Within its territory, US apply first sale doctrine, where the patent right exhausts by the first sale of the product .The patent holder cannot stop the sale of its patented product and the subsequent purchaser may resell the products without getting the permission from the patent holder as a general rule. However this general rule is not followed when the patentee has placed the restriction on the sale of the product, generally or through license agreements.

Even within the territory he US patent owners have tried to avoid the exhaustion of patent right by adopting different avenues e.g. they use to license their patented products instead of selling it out, in case of sale the rights the to control the product after the first sale exhausts so no restriction can be imposed. While in case of licensing they may control and place restriction at any level of distribution chain. The practice of structuring the licenses in such a way, which ensures the maximum control over the flow of products, has grown by the time. It is in these situations where the issue of exhaustion is frequently discussed by the courts.⁷

The law developed by the courts in response to the efforts made by the US patent owners to maintain the control and preserve their rights in post sale scenarios is quite complex.⁸ It is relatively important to understand the rationale of this phenomenon in the

⁷ John C. Paul, Kia L. Freeman, Bart A. Gerstenblith, and Jessica R. Underwood, "US Patent Exhaustion: Yesterday, Today, and may be Tomorrow" *Journal of Intellectual Property Law & Practice*, 2008, Vol. 3, No. 7, available at <http://jiplp.oxfordjournals.org/cgi/content/abstract/jpn079>, last visited on 12 August 2009.

⁸ *Ibid*

context of patent law. Patent rights afford monopoly and exclusivity and price leverage automatically comes along with such rights. I have examined these issues in this chapter with the help of a case study by using a very recent US case on the question of exhaustion of patent rights to demonstrate the kind of policy and legal challenges, which USA is facing right now.

3.3.1 Quanta Computer, Inc. v. LG Electronics, Inc

There has been considerable debate, on the Internet and in the legal literature at least, over the precise meaning and actual holdings of the Supreme Court's decision in *Quanta Computer, Inc. v. LG Electronics, Inc.*⁹ since the case was decided on June 9, 2008. While an analysis of the Court's decision can proceed from a variety of perspectives, commentators on the Supreme Court's patent jurisprudence have observed that the views expressed by the Solicitor General, in patent cases in particular, often appear to have a considerable impact on the Court's ultimate disposition of those cases. In light of that observation, it may be instructive to assess the scope and import of the Court's *Quanta* decision through the lens of the briefs filed by the Solicitor General.

After a review of the factual and procedural history of the case, this Chapter outlines the principal points advanced by the Solicitor General in his briefs and assesses the extent to which the Court's decision is best read as adopting, rejecting or avoiding any resolution of the various positions put forward by the government. For the reasons set forth below, this Article concludes that the Court adopted, either implicitly or explicitly, nearly all of the

⁹ 128 S. Ct. 2109 (2008).

positions taken by the government, particularly the government's positions that:

- (1) The authorized sale of a patented article triggers patent exhaustion as a matter of law;
 - (2) Patent holders cannot avoid patent exhaustion by attempting to impose restrictions on a purchaser's use or resale after an authorized sale;
 - (3) Restrictions on use or resale after an authorized sale are potentially enforceable only under contract law;
 - (4) Sales in violation of license restrictions on the right to sell do not give rise to exhaustion;
 - (5) The authorized sale of a component of a patented invention may result in exhaustion;
- and
- (6) Patent exhaustion applies to method claims.

As a consequence, the *Quanta* decision amounts to a sweeping reaffirmation of the Court's patent-exhaustion precedents and an implicit rejection of the exhaustion jurisprudence reflected in *Mallinckrodt, Inc. v. Medipart, Inc.*¹⁰ and its progeny.

Background of the Case

The underlying facts of the case can be summarized as follows: LG Electronics ("LGE") purchased several patents claiming systems and methods for receiving and transmitting data in computer systems and then entered into a cross-license agreement with Intel that authorized Intel to "make, use, sell (directly or indirectly), offer to sell, import or otherwise dispose of" any Intel products.¹¹ Intel manufactured and sold microprocessors and chipsets

¹⁰ 976 F.2d 700 (Fed. Cir. 1992).

¹¹ *Quanta*, 128 S. Ct. at 2113–14 (citation omitted) (internal quotation marks omitted).

that did not directly infringe the system and method patent claims at issue but, according to LGE, did meet many of the limitations of those claims.¹² The sole intended use of those microprocessors and chipsets was to be combined with generic computer components like memory, buses and peripheral devices to make computers that infringe LGE's system and method claims.

The license agreement provided that "no license is granted . . . to any third party for the combination" of licensed Intel products with components "acquired . . . from [other] sources,"¹³ and that "nothing in the licenses granted hereunder or otherwise contained in this Agreement shall expressly or by implication, estoppels or otherwise give either party any right to license the other party's Patents to others."¹⁴ The license agreement also included a statement that attempted to prevent the "effect of patent exhaustion" with respect to LGE's patent rights. In a separate master agreement, which referenced the license agreement, the parties stipulated that LGE's grant of a license to Intel "shall not create any express or implied license under [LGE's] patents to computer system makers that combine Intel Integrated Circuits with other non-Intel components."¹⁵ The master agreement also required Intel to "send a notice to its customers stating that . . . 'any Intel product that [they] purchase is licensed by [LGE] and thus does not infringe any patent held by

¹² Ibid. at 2114–15; *LG Elecs., Inc. v. Asustek Computer, Inc.*, 65 U.S.P.Q.2d (BNA) 1589, 1592 (N.D. Cal. 2002), *aff'd in-part, rev'd in-part, vacated in-part & remanded sub nom. LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364 (Fed. Cir. 2006), *rev'd sub nom. Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2007).

¹³ *Quanta*, 128 S. Ct. at 2114.

¹⁴ Brief of Respondent at 7, *Quanta Computer, Inc., v. LG Elecs.*, 128 S. Ct. 2109 (2008) (No.06-937) [hereinafter Brief of Respondent].

¹⁵ Brief for the United States as Amicus Curiae Supporting Petitioners at 2, *Quanta Computer, Inc., v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2008) (No. 06-937) [hereinafter U.S. Merits Brief].

[LGE],” but that Intel’s license “does not extend, expressly or by implication, to any product that [they] may make by combining an Intel product with any non-Intel product.”¹⁶

The petitioner, Quanta, is a computer manufacturer to which Intel sold microprocessors and chipsets that Quantum combined with other generic computer components to create finished computer systems. These combined parts are then sold to companies like Dell and Hewlett-Packard, which in turn sell them to end-users. In accordance with the terms of the master agreement, Intel notified Quanta that Intel’s license did not authorize Quanta to combine Intel microprocessors or chipsets with components obtained from other sources. Quanta nonetheless proceeded to make and sell computer systems using Intel’s chips and other components obtained elsewhere.

Proceedings in Lower Court

After entering into the licensing arrangement with Intel and receiving an undisclosed royalty payment,¹⁷ LGE brought suit against Quanta—and other similarly situated computer manufacturers—alleging infringement of its system patents by virtue of Quanta’s combination of the Intel components with other components.

On summary judgment, the district court found that the components, which Quanta purchased from Intel, were “essential components of the patented products,”¹⁸ “cannot be

¹⁶ *Ibid.* at 3 (emphasis omitted).

¹⁷ Petition for a Writ of Certiorari at 2, *Quanta Computer, Inc., v. LG Elecs.*, 128 S. Ct. 2109 (2008) (No. 06-937) [hereinafter *Petition for Cert.*].

¹⁸ *LG Elecs., Inc. v. Asustek Computer, Inc.*, 248 F. Supp. 2d 912, 916–17 (N.D. Cal. 2003), *aff’d in-part, rev’d in-part, vacated in-part & remanded sub nom. LG Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364 (Fed. Cir. 2006), *rev’d sub nom. Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2007).

used to carry out a non-patented function,” were ‘destined . . . to be finished by the purchaser in conformity with the patent’” and “ha[d] no reasonable non-infringing use.” Given those undisputed facts, the district court concluded that most of LGE’s infringement claims were barred by the patent-exhaustion doctrine. In light of Federal Circuit precedent, however, the court held that LGE’s method claims were not subject to patent exhaustion and further concluded that the claims were not infringed.¹⁹

On appeal, the Federal Circuit reversed in part.²⁰ Relying on *Mallinck rodt* and its progeny, the court held that the patent-exhaustion doctrine is triggered only by an “‘unconditional’” sale and “‘does not apply to an expressly conditional sale or license.’” The court reasoned that Intel’s sale of microprocessors and chipsets to Quanta was “conditional” in the relevant sense because the LGE-Intel agreement “expressly disclaims granting license allowing computer system manufacturers to combine Intel’s licensed parts with other non- Intel components” and “required Intel to notify its customers of the limited scope of the license, which it did.” Even though “Intel was free to sell its microprocessors and chipsets” without fear of infringement, the court concluded that Intel’s customers could not use those components for their only intended use without infringing LGE’s patents. Quanta filed a petition for a writ of certiorari and the Supreme Court granted review.²¹

The Solicitor General’s Brief

¹⁹ Quanta, 128 S. Ct. at 2115.

²⁰ LG Elecs., Inc. v. Bizcom Elecs., Inc., 453 F.3d 1364, 1381 (Fed. Cir. 2006), rev’d sub nom. Quanta Computer, Inc. v. LG Elecs., Inc., 128 S. Ct. 2109 (2007).

²¹ *Ibid.*

The first point addressed by the government through the Solicitor General was of the validity of and continued justification for the patent-exhaustion doctrine as enunciated in numerous Supreme Court decisions prior to the 1952 re-enactment of the Patent Act. The government traced the development of the doctrine from *Bloomer v. McQuewan*²² in 1852, through and beyond *United States v. Univis Lens Co*²³. in 1942, explaining that the Court's cases had consistently defined exhaustion as an integral limitation on the scope of the patent grant that arises from the very nature of the exclusive right to sell that patent law confers on the patent holder. Accordingly, exhaustion necessarily follows by operation of law from the exercise of the exclusive right to sell, in other words, from any "authorized," "lawful" or "legal" sale of a patented item.²⁴

The Solicitor General explained that the re-enactment of the patent laws in the Patent Act of 1952 did not change or undermine the patent-exhaustion doctrine, notwithstanding the absence of any explicit discussion of patent exhaustion in the Act. As a substantive limitation that is derived from the terms of the exclusive rights granted by patent law, and in particular the exclusive right to "vend" or "sell," the patent-exhaustion doctrine "delimit[s] the scope of the patent grant"²⁵ and was accordingly left intact by the 1952 re-enactment. "Acting against the backdrop of almost 100 years of [the Supreme] Court's precedents applying the first-sale doctrine to patent law, Congress made no effort to alter that

²² 55 U.S. (14 How.) 539 (1852).

²³ 316 U.S. 241 (1942).

²⁴ U.S. Merits Brief, *supra* note 11, at 21 (citing *Keeler*, 157 U.S. at 666) (stating that exhaustion is triggered by "the purchase of the article from one authorized by the patentee to sell it" (emphasis added)); see *Hobbie*, 149 U.S. at 363 (explaining that exhaustion occurs when a patented item is "lawfully made and sold" (emphasis added)); *Adams*, 84 U.S. (17 Wall.) at 457 (same); *Chaffee v. Boston Belting Co.*, 63 U.S. (22 How.) 217, 223 (1859) (exhaustion arises whenever "a person legally acquires a title to" a patented item (emphasis added)).

²⁵ *Aro Mfg. Co.*, 377 U.S. at 497.

construction” in 1952.³⁸ And “when ‘judicial interpretations have settled the meaning of an existing statutory provision, repetition of the same language in a new statute indicates, as a general matter, the intent to incorporate its . . . judicial interpretations as well.’”²⁶

The Supreme Court’s Opinion

In its opinion, the Court accepted and reaffirmed the same fundamental principle advanced by the Solicitor General, namely, that the patent-exhaustion doctrine retains its historic force and effect in the modern era. The Court began its opinion stating that “[f]or over 150 years this Court has applied the doctrine of patent exhaustion to limit the patent rights that survive the initial authorized sale of a patented item,” and reiterated that “[t]he longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item.”²⁷

The Court did not specifically address the general effect of the 1952 Patent Act or of § 271(d) in particular, a fact that has caused some commentators to suggest that there is unresolved tension between the statute and the Court’s holdings in *Quanta*, perhaps creating a need for future resolution by the Court. The Court’s unequivocal endorsement, reaffirmation and application of its traditionally robust understanding of the patent-exhaustion doctrine, however, leaves little room for either hope or fear that the Court will subsequently eviscerate that doctrine by concluding for the first time—more than fifty years

²⁶ U.S. Merits Brief.

²⁷ U.S. Certiorari Brief, *supra* note 16, at 20 n.7 (citations omitted); see also Reply Brief for Petitioners at 12–15, *Quanta Computer, Inc., v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2008) (No.06-937).

after the 1952 enactment of § 271(d)—that Congress unknowingly and unintentionally overturned a century’s worth of patent-exhaustion law in that 1952 enactment.

In the *Quanta* opinion, the Supreme Court did not explicitly overrule or even cite *Mallinckrodt*, and accordingly, questions have arisen regarding the continued vitality of that case and its Federal Circuit progeny, with various commentators vigorously asserting both sides of the question. One possible explanation for the Court’s failure to discuss *Mallinckrodt* in its opinion is as follows: LGE’s counsel, after viewing the Solicitor General’s and *Quanta*’s extended criticisms of that decision in their briefs, chose not to defend the reasoning or holding of *Mallinckrodt* and instead sought to defend the judgment below on alternative grounds—principally that *Quanta* purchased mere components of the patented systems, that Intel was a licensee with limited rights, that LGE was seeking to restrict only the right to *make* patented systems (rather than the right to use purchased articles) and that method patents are not subject to exhaustion. Indeed, the only discussion on the merits of *Mallinckrodt* in LGE’s brief was contained in a footnote that concluded as follows: “Even if this Court firmly believes that the Federal Circuit erred in its specific holding in *Mallinckrodt*, the issue presented there is not the one presented here.”²⁸

Patent Exhaustion Applies to Method Claims

As a logical consequence of the general scope and import of the patent- exhaustion doctrine, the Solicitor General also argued that the court of appeals had erred in holding that method patent claims are exempt from exhaustion. The Solicitor General observed that “[s]cant

²⁸ Ibid.

rationale . . . has been offered for” that holding, and concluded that “[t]here is no evident reason why the patent- exhaustion doctrine should be deemed inapplicable to method patents.”²⁹

The Supreme Court agreed, reasoning that “nothing in this Court’s approach to patent exhaustion supports LGE’s argument that method patents can- not be exhausted.” While acknowledging that “a patented method may not be sold in the same way as an article or device,” the Court emphasized that “methods nonetheless may be ‘embodied’ in a product, the sale of which exhausts patent rights.” And the Court reasoned that “[e]liminating exhaustion for method patents would seriously undermine the exhaustion doctrine,” because “[p]atentees seeking to avoid patent exhaustion could simply draft their patent claims to describe a method rather than an apparatus.”¹⁴⁴ Demonstrating a clear desire that the patent-exhaustion doctrine not be deprived of its full historic scope and effect, the Court also commented that “[t]his case illustrates the danger of allowing such an end-run around exhaustion,” because LGE’s theory could render downstream purchasers of a licensed Intel system “liable for patent infringement,” a result that would “violate the longstanding principle that, when a patented item is ‘once lawfully made and sold, there is no restriction on [its] use to be implied for the benefit of the patentee.’”³⁰

The foregoing analysis demonstrates that the Supreme Court’s decision in *Quanta* is almost entirely consistent with the arguments advanced by the Solicitor General in his briefs to the Court. Either expressly or by implication, the Court appears to have agreed with the

²⁹ U.S. Merits Brief, *supra* note 11, at 25–26.

³⁰ *Quanta*, 128 S. Ct. at 2117.

Solicitor General regarding the continued vitality of the patent-exhaustion doctrine, the broad and mandatory scope of that doctrine (and thus the invalidity of the Federal Circuit's "conditional sale" exception to patent exhaustion, the potential availability of contractual remedies for patent holders seeking to enforce post-sale restrictions, the continued ability of patent holders to limit the effects of exhaustion by imposing restrictions on licensees' rights to sell, the application of exhaustion principles to the sale of components of patented inventions and the application of patent exhaustion to method claims. In adopting those positions as its own, the Court has swept aside a number of Federal Circuit precedents and reinvigorated the formerly moribund patent-exhaustion doctrine, a result that will undoubtedly continue to have considerable impact on licensing practices and litigation in the years to come.

As suggested at the outset, the similarities between the views expressed in the Solicitor General's briefs and the reasoning and conclusions adopted by the Supreme Court suggest that *Quanta* also provides further support for the perception that the Court gives substantial weight to the Solicitor General's position in patent cases. Of course, alternative explanations can be posited as well, such as the possibility that the Solicitor General's office—which consists of generalist appellate lawyers who are intimately familiar with the workings of the Supreme Court and highly skilled at interpreting its precedents—is more likely than most to construe Supreme Court patent cases in the same manner as the Court, or the fact that the positions adopted by the Solicitor General often reflect a compromise among various interested agencies with different perspectives on the question at issue and, thus, can present a carefully balanced and nuance the position that the Court may find attractive.

But whatever the explanation, it is fair to say that the Solicitor General's briefs will bear close reading when the Supreme Court once again delves into patent law.

3.4 PARALLEL IMPORT OF PATENTED PRODUCTS IN PAKISTAN.

Patent law in Pakistan is grounded in patent ordinance 2000 which replaces the Patent and Design Act 1911. The patent ordinance unlike the Trademark Ordinance does not completely ignore the issue of parallel import and exhaustion of patented products. Section 30 of the ordinance provides that the patent, whether be a product or process patent, grants its holder the exclusive rights over the use of that patented product. Using, selling, offering for sale and importing the patented product without the consent of the patent holder is the infringement of the patent and therefore actionable. Section 30(4A) provides that the holder of any invention in Pakistan shall have an exclusive marketing right of that patented product for 5 years. This exclusive right of the patentee holder is restricted in section 30(5)(a) which provides that

“(5) The rights under the patent shall not extend to-

(a) acts in respect of articles which have been put on the market anywhere in the world by the owner of the patent or with his consent or by an authorized person or in any other legitimate manner such as compulsory licenses;”

When the patent protected product is marketed by the right owner himself or by his licensee or by any other person with his consent or the first sale takes place in any other legitimate manner e.g. under compulsory license then the right of the patent holder to control the future commercial exploitation of his patented product is lost or exhausted. He can't control or restrict the subsequent purchaser from reselling or importing his product. This

provision is ostensibly accepting the international exhaustion of the patent right in Pakistan. Thus allowing the parallel import of patented products into Pakistan, which was initially considered as the infringement of patent under Patent and Design Act 1911.

This is the only reference to exhaustion in trademark Ordinance; article 37 provides that any limitation on the commercial exploitation of the patented product by the holder of the patent will be the breach of the provisions of the Ordinance. It means that getting the license of the use of patented product is not necessary as such.

Under section 30(5) (a), the right of the patent will also exhaust when his products are marketed under compulsory license in Pakistan. This provision also prevents the patent owner to exercise his patent right against the resale, import or export of his patented product that had been marketed under compulsory license.

The patent ordinance is somewhat contentious in this regard as it is apparently adopting the a very liberal approach with respect to patents limiting the right of patent holders even when the product is marketed without his consent through compulsory licensing and moreover it suggest, as appears, limitation on the use by patentee are not appreciated and are against the provisions of the said ordinance. The international exhaustion of patents right as it is incorporated and may be interpreted will defiantly allow he parallel importer to make worthwhile profit with no considerable benefits to the end users. Moreover the eliminating the restrictions and control of the patent owner as inferred from the analysis will defiantly affects the foreign direct investments in R&D programs within Pakistan.

Chapter 4

CONCLUSION AND SUGGESTIONS

Since the emergence of WTO Agreement on Trade Related Intellectual Property Rights Parallel importation has become a controversial issue especially in the context of pharmaceutical industry. Most of the right holders advocate that the scope of the parallel importation should be quite limited so that they can control the flow of the goods even in post sale scenario. Many economic arguments are generally offered in this regard. On the other hand groups working for the cause of medicines at the affordable price and access to knowledge and information advocate that a liberal and broad exhaustion policy is in favour of public and consumers thus allowing parallel importation. In the absence of any uniform international approach, the countries have adopted their favoured regimes on exhaustion of IP rights and specified the scope of parallel importation accordingly. The laws on exhaustion and parallel importation are incorporated in relevant national legislations and a lot of case law is available on the issue.

It is evident from aforementioned background and context that parallels importation is the critical aspect of IP regime and massive research is going on in this area i.e. on parallel

Importation of IPRs protected products. Unfortunately in Pakistan no work has been done on this topic despite of its obvious relevance and importance. Some work has been done with regard to patents law but generally researchers and academicians have not touched this topic. Pakistan is all set to adopt new IP standards maintained by the TRIPS agreement and all the IP legislations has been revamped during the last 5-7 years; however the doctrine of exhaustion has not been properly incorporated in national legislations and the extent up to which the of parallel importation is or should be allowed in Pakistan is still undetermined.

So far as the trademarks are concerned the Trademark Ordinance 2001 contains no clear reference to exhaustion or parallel import. Section 49 deals with the importation of infringing goods, which include the goods, imported into Pakistan, bearing the registered mark without the authorization of mark owner and also termed as counterfeited trademark goods according to the Ordinance. Section 49(1) provides that the above mention rule will not affect the lawfully imported goods while parallel imports are usually lawfully imported goods neither counterfeited nor pirated. They are the genuine goods bearing the original mark but are distributed through unauthorized distribution channel. The provision is not clear and does not explain the parallel imported goods. Moreover it is not differentiating the counterfeited trademark products from parallel imported products.

Trademark Ordinance must be amended to properly incorporate the concept of exhaustion of trademark rights specifying the scope the exhaustion regime that in turn will demonstrate the limitations of parallel import of trademark protected goods. The policy

makers must decide in favour of any of the exhaustion regime keeping in view the economic and sociological demands of state. The Ordinance must also be amended to clarify and differentiate the counterfeited and parallel imported products. The concept of “infringing goods” and “Prohibited goods” also need the consideration of the policy makers with reference to parallel imported products.

The position of Patent Ordinance 2000 is somewhat different from that of Trademark Ordinance 2001. The Patent Ordinance does not completely ignore the issue of parallel imports of patented products. Section 30 of the said Ordinance provides that the holder of the patent, whether product or process, exercises the exclusive right over his patented product in Pakistan. The limitation on this exclusive right is laid down in section 30(5) (a) which provides that when the patent protected product is marketed by the right owner himself or by his licensee or by any other person with his consent or the first sale takes place in any other legitimate manner e.g. under compulsory license then the right of the patent holder to control the future commercial exploitation of his patented product is lost or exhausted.

The Patent Ordinance needs the amendments on the issue of exhaustion. The exhaustion regime that is to be followed should be clearly incorporated as there is no case law on the issue so the relevant provision must remove the ambiguities relating the proper form of exhaustion to be followed in patents and the scope of parallel importation will automatically adjusted.

The exhaustion of the right of the patent holder under compulsory licensing as enunciated by the ordinance needs the consideration and clarity as universally the right exhaust only when the first marketing of the product is by the free consent of the patent holder not otherwise

The principle of international exhaustion that usually has been adopted by most of the developing countries of the region as they lack the infra structure and cant afford the cost of research and development for those innovation. Patent holders strategically place their positions by pricing the same products differently in different markets keeping in view the purchasing power and affordability of their product. Thus, patented products are generally highly priced in developed and middle-income countries as compared to developing and least developing countries. Here comes the incentive to go for parallel importation along the markets, which is a matter of key concern for right holders and patentees. Parallel import of patented products is, especially the pharmaceutical products, is the main reason which lead the developing countries towards the adoption of regime of international exhaustion which provides the expensive life saving drugs at affordable price. If the parallel imports of these life saving drugs is banned then these countries can't afford the highly expensive drugs.

The developing countries are under the constant pressure by developed industries because of the high level of parallel economy and infringements of IPRs. There is strong need to amend the IPR Laws to properly deal with the issue of parallel import and exhaustion of IPRs protected goods keeping in view the socio-economic structure of the

country which will help to reduce the international pressure on IPRs infringement.

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