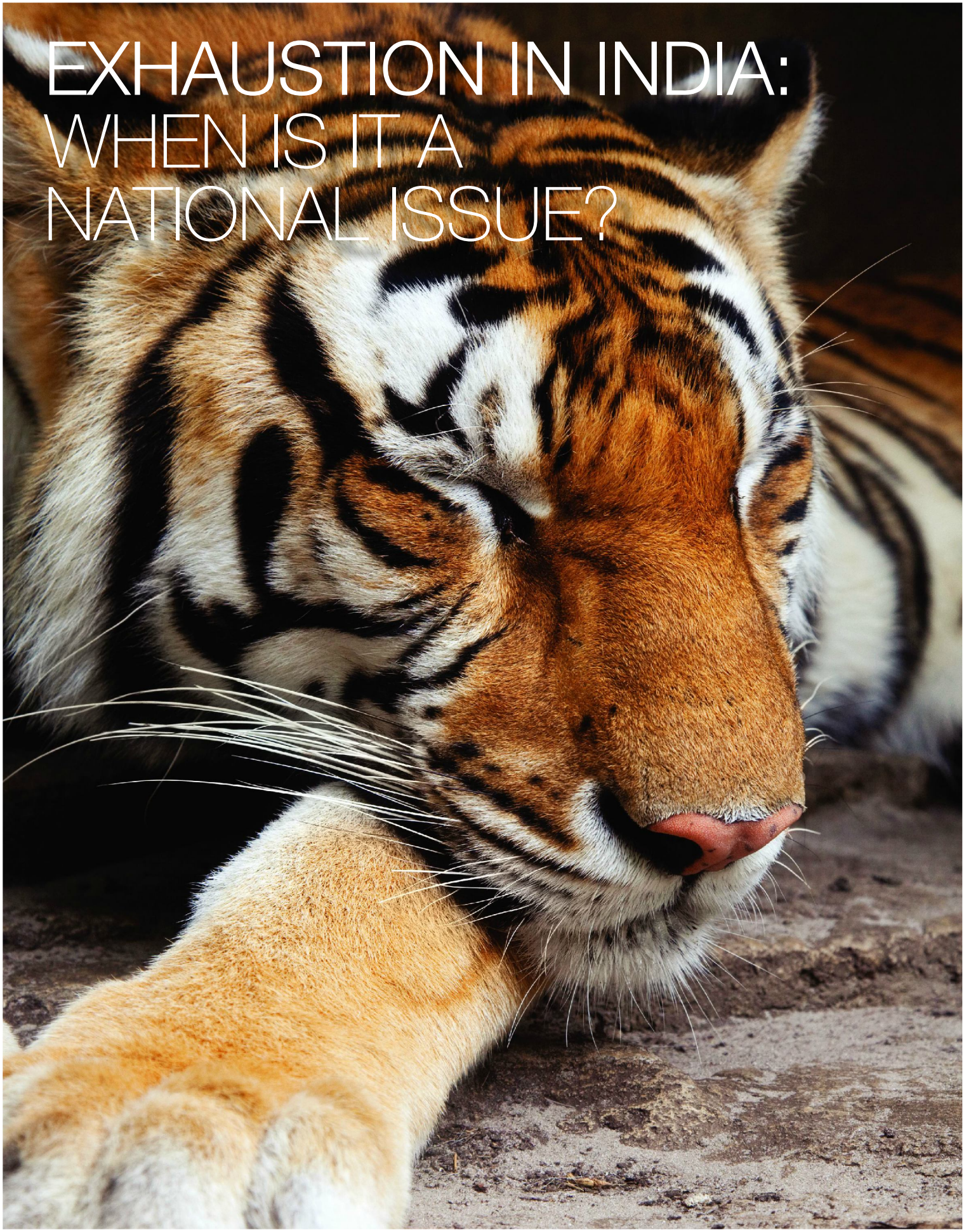
EXHAUSTION IN INDIA: WHEN IS IT A NATIONAL ISSUE?



A parallel imported product is, by definition, a genuine branded product imported from another country without permission of the IP owner. With the world becoming flatter and more connected, traders are easily able to access the price of branded products in different countries. Also, the life cycle of products, in particular electronic products, is getting shorter. As the price of older models drops, goods move from developed to emerging economies where consumers are price-sensitive and amenable to accepting older versions of the product/brand. This is particularly relevant in the context of electronic products such as mobile phones, laptops, tablets, etc. Further, in some cases, the products are cheaper due to differences in duty structure, leading to movement of goods from one country to another.

The Indian market has seen an influx of imported branded goods from Asian and Middle Eastern countries in last five years. A host of factors is responsible for the sudden jump in parallel imports in the electronic, confectionery, tobacco, cosmetics and alcoholic beverages sectors, including rising consumerism and the Indian middle class becoming more brand-savvy; the Indian economy growing by more than 8 percent per annum; and the reduction of customs duty.

The brand owner's perspective

Brand owners are obviously concerned about this growing problem: it eats into their profits and makes locally produced products less attractive from a price point of view. Brand owners argue that encouraging parallel imports is counterproductive, as local manufacturing generates employment and the collection of taxes. Further, in each product a certain amount of customisation takes place locally, taking into account local preferences and demand, which are obviously lacking in an imported product. Brand owners also cite the lack of warranty on such products as a discouragement for consumers to buy them.

The trader's perspective

Traders who deal in parallel imported, or grey market, goods argue that they benefit consumers and keep a price check on locally manufactured products. The traders rely on the principle of exhaustion to say that once the brand owner, or any party authorised by him, has sold a branded product, they cannot prohibit the subsequent resale of that product since their rights have been exhausted by the act of selling the product.

The traders also argue that parallel import is allowed under the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement; in fact, TRIPS explicitly states that it does not address the issue of parallel import, thereby leaving countries free to determine their own policy in this respect.

Legal position

To claim trademark infringement under Section 29(1) of the Trademark Act, the following needs to be satisfied: the use of a mark identical, or similar, to a registered trademark:

- In the course of trade;
- Without permission/authorisation of the registered proprietor; and
- Use in the manner to be taken as use of a trademark.

The Indian Trademark Act, Section 29(6)(c) also provides that import and export of goods under the mark will be considered use of a registered trademark.

Combined reading of the above provisions makes it clear that importing and exporting of goods is "use" of a registered mark, and such import is an infringement if the importer is not permitted or authorised by the registered proprietor, although there is no provision under Section 29 that distinguishes between genuine goods or counterfeit goods being imported. However, import of genuine goods must be treated differently and the exceptions to infringement as laid down under Section 30 of the Trademark Act must be looked into when determining whether such use would come within the exceptions to infringement.

Defences to infringement

Section 30(3) provides that where goods bearing a registered mark are lawfully acquired by a person, then sale of such goods in the market, or dealing with such goods, is not an infringement by the only reason that:

- The registered trademark having been assigned by the registered proprietor to some other person after the acquisition of those goods; or
- The goods having been put on the market under the registered trademark by the proprietor, or with his consent.

Section 30(4) provides that Section 30(3) shall not apply where there exist legitimate reasons for the proprietor to oppose further dealings in the goods, in particular where the condition of the goods has been changed or impaired after they have been put on the market.

Judicial decisions

Overall, the above discussion show that Indian trademark law provides for exhaustion of rights once the goods are put into the market; it is not clear, however, whether the markets referred to are national or international.

In the decision of the court in *Samsung Electronics Company Ltd v Kapil Wadhwa*, the court has analysed the issue of parallel imports and come up with the clear finding that the interpretation of various provisions under the Indian trademark law would show that it is national, as opposed to international, exhaustion that is provided for under the Trademark Act.

In this case Samsung Electronics instituted civil action for trademark infringement and passing off against three parties who were alleged to be importing genuine Samsung branded printers without permission of Samsung Electronics.

The parties were advertising these printers and running websites that used identical trademarks and logos without permission from the registered proprietor.

Samsung pointed out various material changes or impairment in the goods imported by the parties, enabling them to oppose further dealings in the market, including incorrect or missing price labels, that the warranty is not applicable in India, and different plugs.

The defendants argued that the printers being sold were original and unaltered, that Samsung had a business relationship with them and was aware of this activity since 1998, and that Samsung had purposely pleaded alterations to come within the exception under Section 30(4).

The court considered:

- Whether the importation of the goods amounts to trademark infringement;
- Whether Section 30(3) defines the market as international or domestic;
- Whether acquisition of goods in the first place from legitimate channels would mean the case falls under the exception laid down in Section 30(4); and
- The impact of past business relationship between the parties.

The court advocated a plain and simple reading of the provisions and ruled that:

- The import of goods in India by a party requires permission of the registered proprietor, and without such permission the definition of infringement is applied;
- The defence in Section 30(3) is for goods sold in the domestic market. Thus exhaustion of rights applies to goods sold locally and not to those acquired from overseas, and any such import needs permission of the registered proprietor;
- The lawful acquisition does not specify location and it can not mean that goods can be acquired and put on any market;
- The parties' previous dealings with Samsung were admission of their knowledge about parallel importation which was regulated in their previous agreement; and
- The parties must stop dealing in parallel imported products.

The judgment has been widely welcomed by brand owners as the clarity on parallel imports provided by the court will help other fast-moving consumer goods (FMCG) companies to address this problem. On the other hand, proponents of 'international exhaustion theory' see this as a setback for a global market with free movement of goods. ■

Ranjan Narula founded specialist IP firm Ranjan Narula Associates in 2004. With more than 20 years of post-qualification experience, Narula advises IP holders on IP management issues and provides strategic advice on IP clearance, exploitation, acquisition, protection and enforcement.

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