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## Brand owners argue parallel imports undermine R&D investment

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The parallel imports saga after many twists and turns has now reached the Indian Apex Court.

### Facts in brief:

**Samsung Electronics Co. Ltd. (Plaintiff) v. Kapil Wadhwa & others (Defendant)**, the Plaintiff filed a suit for trade mark infringement and passing off against the Defendant allegedly importing into India printers bearing SAMSUNG trade mark from Korea for retail sale. Further the Plaintiff alleged that the Defendant was meta-tagging their website for marketing parallel imported products.

### Order passed by Single Judge:

The Single Judge of the Delhi High Court vide order dated 17<sup>th</sup> February 2012 held that any goods imported without the consent of the registered proprietor will amount to infringement under the Trademarks Act, 1999. Accordingly, the Defendant was restrained from importing, exporting and dealing in printers / cartridges bearing SAMSUNG trade mark as well as from using the same in respect of any promotional activities on their website. Interestingly, the Central Board of Excise and Customs (CBEC), vide circular issued on May 8 2012, stated that the Trade Marks Act, 1999 provides for the principle of 'international exhaustion' of rights and clarified that parallel imports are allowed as long as the goods are genuine and have not been materially altered or impaired.

### Order passed by Division Bench:

Aggrieved by the order passed by the Single Judge, the Defendant preferred an appeal before Division Bench of the Delhi High Court (FAO (OS) 93/2012). The issue before the Division Bench was if Trademarks Act provides for national or international exhaustion. The Court held that India follows the principle of 'international exhaustion', thus taking the position advocated by the CBEC circular. The Court reversed the decision of the Single Judge and observed that the Trade Marks Act does not prohibit import of products into India without the consent of the registered proprietor. Accordingly, the order of single judge was set aside. However, the Court did pass an order of injunction restraining the Defendant from meta-tagging their website to

that of the Plaintiff. The court further directed the Defendant to prominently display in their showroom that the goods are imported and that the Plaintiff does not provide any warranty or after-sales services. The Plaintiff being aggrieved by the order passed by Division Bench has now filed an appeal in the Supreme Court.

The issue before the Supreme Court is whether the Delhi High Court was correct in interpreting the Trademarks Law to say that it provides for international exhaustion. Meanwhile, the International Trademark Association (INTA) has for the first time filed an amicus brief in India with the Supreme Court seeking leave to intervene in this matter. Dell is reported to have filed an intervention petition as well.

**The gist of INTA's submissions is outlined below:**

- As use of a mark in one country does not automatically confer rights in all countries, the principle of exhaustion should likewise apply only nationally. "The principle of law applicable must be the same for creating a right as for the exhaustion of a right so created."
- Buying products in one jurisdiction cheaply and then reselling them in another for less than the trademark owner's price point in that country "causes irreparable prejudice to trade mark owner and its franchisee/licensee/subsidiary who have invested in market research, product development, brand promotion, after sales service, and distribution network." If return on Research and Development (R&D) is undermined by parallel imports, the investment will inevitably decline.
- Parallel importers do not just affect the trade mark owner and their franchisee, but they also undermine consumers trust in the marks and the quality, as there is no supervision and quality control over the imported goods. This may lead to causing consumer unhappiness and dissatisfaction.
- The quality of product varies from region to region. Not all formulations suit all markets and delays in delivery of parallel imported goods can erode the quality of original product. Examples of potential harm to consumers on account of lack of consistent quality include unworkable consumer helpline numbers in the country of import, lack of regulatory approval in the country of import, variations in recipe/taste/ formulation according to cultural preferences or climate and varying environmental protection standards.

- Parallel importers often alter packaging of goods. This leads to breach of packaging legislation which in turn places consumers at risk.
- Many countries worldwide favour national exhaustion. National exhaustion benefits trade mark owners, consumers and promotes investment in all countries
- Economic analysis favors the concept of regional or national exhaustion. International exhaustion threatens to undermine low-pricing policies in underdeveloped countries and it can be unfair to local distributors. It also encourages importation of counterfeits by legitimizing parallel imports, which are often shipped through the same channels or mixed with counterfeit goods.

**Conclusion:**

The brand owners have made huge investments in India in last 10 years to cater to burgeoning middle class and their zest for branded goods. Thus the decision has a direct impact on their business plan. On the other hand proponents of global economy advocate free movement of goods and would like to see “international exhaustion theory” being applied. The court is likely to hear arguments in January, 2014.

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**About RNA:** RNA is a full service Intellectual Property Law Firm with offices in Gurgaon and Chennai in India. Please note that the above is not advice on the subject. For more information/advice, please contact us at: [info@indiaiprights.com](mailto:info@indiaiprights.com).

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