



universität
wien

MASTER-THESIS

Titel der Master-Thesis

**“COMPARATIVE STUDY ON PRINCIPLE OF EXHAUSTION AND
TRADEMARK PROTECTION IN PARALLEL IMPORTATION**

----- Based on EU, U.S. and P.R.C. jurisdictions”

Verfasst von

Xuxia Ma

angestrebter akademischer Grad
Master of Laws (LL.M)

Wien, 2015

Universitätslehrgang:

European and Asian Legal Studies

Studienkennzahl lt. Studienblatt:

A992 396

Betreut von:

Univ.-Prof. Dr. Friedl Weiss Phd

Table of Contents

Introduction.....	1
Chapter One Parallel Importation and Trademarks.....	5
1 Concept of Parallel Importation.....	5
2 Function of Trademarks.....	6
3 Relationship between Parallel Importation and Trademarks.....	8
4 Reasons of Emerging of Parallel Importation concerning Trademarks.....	9
Chapter Two Principle of Exhaustion and Parallel Importation relating to Trademarks.....	12
1 Definition of Principle of Exhaustion in Parallel Importation.....	12
2 Principle of Exhaustion in TRIPS.....	14
3 Types of Exhaustion of Rights.....	17
4 Theoretical Background of Parallel Importation relating to Trademarks.....	20
Chapter Three Legislations and Judicial Practices of Parallel Importation relating to Trademarks in EU and U.S.....	25
1 Legislations and Judicial Practices in EU.....	25
(1) First sale is outside EEA.....	27
(2) First sale is within EEA.....	31
(3) <i>Paranova</i> guidelines.....	37
2 Legislations and Judicial Practices in U.S.....	39
(1) Protective function of trademarks---- <i>Apollinaris v. Scherer</i>	39
(2) Protection of independent good will----- <i>A. Bourjois & Co., Inc. v. Katzel</i> ...	41
(3) Legislations of parallel importation in U.S.....	45
3 Comparative Analysis on Judicial Practice of Parallel Importation relating to Trademarks in EU and U.S.....	50
(1) Objective of balancing interests.....	50

(2) Trend of international exhaustion of rights.....	51
(3) Material differences.....	52
Chapter Four Parallel Importation Concerning Trademarks in China....	54
1 Status Quo of Parallel Importation relating to Trademarks in China.....	54
(1) Status Quo of parallel importation in China.....	54
(2) Amendment of trademark law in China.....	55
2Legislations and Judicial Practices of Parallel Importation relating to Trademarks in China.....	59
(1) “LUX” case---infringement to the exclusive license of a trademark.....	60
(2) AN’GE case---unfair competition performance.....	62
(3) <i>French Michelin v. HU Yaping</i> ---protection of good will of trademarks.....	64
3 Comparative Analysis on Judicial Practice of Parallel Importation concerning Trademarks in China, EU and U.S.....	66
Chapter Five Conclusion.....	72
Bibliography.....	78
Zusammenfassun.....	82
Abstract.....	85

COMPARATIVE STUDY ON PRINCIPLE OF EXHAUSTION AND TRADEMARK PROTECTION IN PARALLEL IMPORTATION

----- Based on EU, U.S. and P.R.C. jurisdictions

Ma Xuxia

Introduction

With the development of trade and globalization, the scope of trade becomes wider than before, ranging from simple goods to service, technology and so on. Thanks to WTO, with the decreasing of tariff barriers and non-tariff barriers, and implementation of national treatment principle, it helps to promote the integration of global economy. Under such condition, there are more and more merchants pursuing various new methods to make profits. Parallel importation becomes popular among them. Parallel importation is also called “gray market”¹ importation. “The gray market is the innovation of the entrepreneurial arbitrageur who purchases legitimately trademarked goods at a low price in one market and then resells the same good in a higher-priced market.”²

As China has a market with lower price for a long time, few parallel importations occurred in domestic market at the beginning of implementation of open and reform policy,³ thus it didn’t attract many people’s attention at that time. However, with the stronger of China’s international trading power and outbreak of economic crisis, the currency of neighboring countries devaluates while RMB still goes strongly, which makes prices of China’s domestic market higher than before.⁴ Under such condition, parallel importations catch people’s attention. The famous case *Shanghai LI HUA Limited Co. v. Guangzhou export and import trading Limited Co.*⁵ was the first time

¹ Michel Waelbroeck, *Trademark Problems in the European Common Market*, 54 TRADEMARK REP. 333, 351 (1964).

² Richard M. Andrade, *The Parallel Importation of Unauthorized Genuine Goods: Analysis and Observations of the Gray Market*, Journal of International Law, Vol. 14, Iss. 3 Art. 4(1993).

³ Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002, 25.

⁴ Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002, 57.

⁵ Xiang Yu, *The Regime of Exhaustion and Parallel Imports in China*, 26 EUR. INTELL. PROP. REV.

for Chinese people to recognize that parallel importation and realize the huge benefit behind this.

Parallel importation concerning trademark is a comprehensive issue, involving the conflicts between protection of rights of trademark proprietor and freedom of the markets. Except for that, the legality of parallel importation is still under debate in global scholar circle.¹ Additionally, from perspective of proprietors of trademarks and exclusive distributors, parallel importation can, to some extent, do harm to their exclusive right of them. As parallel importation relates to the exhaustion of intellectual property rights, while when referring to that issue, even article 6 of TRIPS which 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.”²

doesn't give us a clear clue for each nation to deal with parallel importations, TRIPS leaves such issue to domestic legislations of each member states. However, national laws of each member states take different attitude towards parallel importations, such differences also affect protection of trademark proprietors and freedom of the market.

This paper will focus on the different legislations and judicial practices in courts in different jurisdictions (US, EU, China) on the issue of parallel importation relating to trademarks based on principle of exhaustion.

First of all, in Chapter One, I will introduce the concept and characteristic of parallel importation and introduce the relationship between parallel importation and trademark protection.

Next, in Chapter Two, I will introduce the relationship between principle of exhaustion (Exhaustion Doctrine) and parallel importation relating to trademarks.

105, 106-07 (2004).

¹ William Cornish and David Llewelyn and Tanya Aplin, *Intellectual Property: Patents, Copyrights, Trademarks & Allied Rights*, Sweet & Maxwell published, 2010, 7th ed, 60.

² Article 6 of TRIPS, https://www.wto.org/english/docs_e/legal_e/27-trips_03_e.htm assessed on May 27.

Last, in the main part of my paper (Chapter 3, Chapter 4), I will analyze and investigate similarities and differences of reception in court of this principle from comparative perspective. From the conclusion of that, I can further rethink on the one hand, how china forms its own legal regime on parallel importation concerning trademarks meanwhile on the other hand, based on the previous comparative study, I will analyze how China regulates parallel importation on the protection of trademarks compared to experiences of the court in America and EU on the issue of parallel importation and trademark proprietor and consumer protection(including consumer confusion and repackaging), especially focusing on how EU and US judicial practices affect Chinese judges when there are no provisions in legislation.

Through the above research, I want to show the similarities and differences on judicial practices among EU, U.S., China and further analyze why these differences exist under globalization.

On the legislation part, in EU, I will focus on Article 7 of Trade Mark Directive 89/104, article 34, 35, 36 of Treaty on Functioning of European Union, I will learn how ECJ interprets the principle on specific cases dealing with parallel importations concerning trademarks, in which I decide to divide into two aspects: first sale in EEA with/without consent, first sale out of EEA with/without consent. After analyzing interpretation of principle of exhaustion, I will move to the judicial practice on the trademark and consumer protection studying on how EU deals with the problems arising from parallel importation (repackaging, consumer confusion).

Besides, I will combine the analysis of EU cases in the legislation and judicial practice analysis, mainly including (*Deutsche Grammophon*¹ case, *Silhouette*², *Sebago*³, *Zino Davidoff*⁴ cases) on the interpretation of principle of exhaustion of ECJ. On the judicial practice of trademark and consumer protection, I will mainly study

¹ C-56 & 58/64, *Consten SARL & Grunig-Verkaufs-GmbH v. Commission* [1966] ECR 299

² C-355/96, *Silhouette International v. Hartlauer*, [1998] 2 ECR 593.

³ C-173/98, *Sebago Inc & Ancienne Maison Dubois et fils v. G.B Unic SA*, [1999] ECR I-4103.

⁴ C-414/99, *Zino Davidoff SA v. A&G Imports Ltd*, [2001] ECR I-8691.

Sony Entertainment v. Tesco Stores Ltd,¹ *Hoffmann-La Roche & Co. AG v Centrafarm*² case and *Dior case*³.

In U.S, I will also divide into two parts: legislations about parallel importation, and judicial practices of trademark and consumer protection in parallel importation in court. On the legislation part, I will mainly analyze Tariffs, Section 526 and Lanham Act, Section 42, so as to learn the reception of principle of exhaustion in court. Next I will move to the judicial practice of trademark protection in court dealing with the problems arising from parallel importation(repackaging, consumer confusion) combining cases studies (*A Bourjois & Co. v. Katzel*⁴, *Lever Brothers case*⁵) on the interpretation of principle of exhaustion and protection of trademark.

In China, as there are no relevant stipulations in trademark law, anti-unfair competition law, nor some custom regulations supplement to protect trademark rights in parallel importation, I will focus on cases studies (“*LUX*” case⁶, *AN’GE case*⁷, *French Michelin v. HU Yaping*⁸) to analyze how Chinese judges refer to foreign judicial experience to “fill in the gaps”⁹ of the statute and further analyze the position of China on the principle of exhaustion.

From previous analysis, I want to fulfill the goal of this paper to show the similarities and differences on judicial practices among EU, U.S., China and further analyze why these differences exist under globalization.

¹ C-415/99, *Levi Strauss & Co. v. Tesco Stores Ltd* [2001] ECR. I-8691.

² C-102/77, *Hoffmann-La Roche & Co. AG v Centrafarm* [1978] ECR. I-1139.

³ C-337/95, *Parfums Christian Dior v. Evora* [1998] ECR, I-6014.

⁴ *A Bourjois & Co. v. Katzel* 260 U.S.689 (1923)..

⁵ *Lever Brothers Co. v. United States of America*, et al. 981 F.2d 1330 (D.C.Cir 1993).

⁶ Xiang Yu, *The Regime of Exhaustion and Parallel Imports in China*, 26 EUR. INTELL. PROP. REV. 105, 106-07(2004).

⁷ Xia Fan, *Cross the grey market—how enterprises escape from damages in parallel importation* <http://www.unitalen.com.cn/html/report/25424-1.htm> assessed on June 20 2015

⁸ *French Michelin v. HU Yaping* ,<http://ip.people.com.cn/GB/9244136.html>, assessed on May10, 2015.

⁹ Ronald Dworkin, *Law’s Empire*, Harvard University Press, 1986, 65.

Chapter One Parallel Importation and Trademarks

1 Concept of Parallel Importation

Parallel importation is also called “gray market”¹ importation. “The gray market is the innovation of the entrepreneurial arbitrageur who purchases legitimately trademarked goods at a low price in one market and then resells the same good in a higher-priced market.”² For example, manufacturer A produces a perfume bearing a trademark “Hap” in France, B is a legal distributor of A to sell its perfume with “Hap” in Austria. The price of such perfume in Austria is cheaper than in France, so an unauthorized third party imports the cheaper perfume from Austria to a country where sells such perfume with higher price(perhaps France or other third country) in order to make the profits from the price differences.

Parallel importation is different from infringement of intellectual property right, as the products which are parallel imported are “genuine goods”.³ I believe how to define “genuine goods” is the first step for us to grasp the concept of parallel importation. On one hand, the sources of the goods are from IP (intellectual property) right holders or from ones who have the license of IP right holders to legally produce their products.⁴ In other words, this means the channel should be legal, which is different from counterfeit goods. On the other hand, parallel importation complies with the supervising of customs, which is also different from smuggling. Smuggling is through illegal channel by escaping the supervising of customs in order to sell the illegal goods into market.⁵ Generally speaking, parallel importation has following

¹ Michel Waelbroeck, *Trademark Problems in the European Common Market*, 54 TRADEMARK REP. [1964] 333, 351.

² Richard M.Andrade, *The Parallel Importation of Unauthorized Genuine Goods: Analysis and Observations of the Gray Market*, Journal of International Law, Vol. 14, Iss. 3, Art. 4(1993).

³ *Id.*

⁴ Michel Waelbroeck, *Trademark Problems in the European Common Market*, 54 TRADEMARK REP. 333, 351 (1964).

⁵ *Id.*

characteristics¹:

- a. It happens in two different countries, not in single one country.
- b. Imported goods are genuine goods.
- c. Parallel importer is the unauthorized third party.
- d. The distributing channel is legal.

Parallel importation has different types in market, based on the floating direction of goods, I divide them into two groups²:

- a. Forward parallel importation.³ For example, manufacturer A produces facial crème bearing a trademark “LAL” in England, it licenses B to produce its facial cream in Singapore, and the price of that cream sold in Singapore is much cheaper than in France. A also sells its product in America through legal distributor, however, in U.S., the price is more expensive than in Singapore and France. An unauthorized third party imports the crème from Singapore to American market, this is the forward parallel importation.
- b. Reverse parallel importation.⁴ Take the previous example, an unauthorized third party imports the crème from Singapore and resells it in France, this is the reverse parallel importation.

2 Function of Trademarks

First of all, trademarks reflect the sources of products.⁵ This means that consumers can recognize the products through trademarks. This is the basic and primary function of trademarks. When consumers do the purchasing, they will choose the products according to the sources of the goods, through that way, trademarks can be effective on consumers' choice.⁶

Secondly, trademarks promote the sales of products.⁷ This is the most obvious function of trademark, which also shows the economic nature of trademark. This

¹ William Cornish and David Llewelyn and Tanya Aplin, *Intellectual Property: Patents, Copyrights, Trademarks & Allied Rights*, Sweet & Maxwell, 2010, 7th ed, 25.

² Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002, 45.

³ *Id.*

⁴ *Id.*

⁵ Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002, 78.

⁶ *Id.*

⁷ William Cornish and David Llewelyn and Tanya Aplin, *Intellectual Property: Patents, Copyrights,*

function also links to another function I will talk about next—function of establishing good will¹ of enterprises. Manufacturers will invest a lot before new products enter into the market, most of the investment will go into advertisements. Besides the spirit of a manufacture will be throughout the whole advertisement, trademark is the other element throughout the whole advertisement. Since consumers remember the trademarks of products, they will choose the products in the shopping mall according to trademarks. Trademarks help consumers recognize the products and affect consumers' choices. Based on that, trademarks promote the sales of the products.²

Thirdly, trademarks guarantee the quality of products.³ On one hand, manufacturers show themselves by trademarks to make consumers learn that these products come from them; on the other hand, consumers also distinguish goods and services through trademarks, and differentiate the quality among products.⁴ Such distinguish and differentiate will determine the fate of manufacturers and distributors. Thus, trademarks not only guarantee the quality of products but also to some extent, urge the manufactures to pay attention to the quality and maintain the quality.⁵ In my opinion, in real life, there are a lot of examples of bankruptcy of enterprises because of changing of quality which leads to the consumers' doubt on the trademarks and stop buying products bearing those trademarks. From previous description, trademarks can promote the competition among manufacturers in the market, and make the domestic economic healthily develop.⁶ This function of trademarks also links consumers with manufacturers closely.

Trademarks & Allied Rights, Sweet & Maxwell, 2010, 7th ed, 27.

¹ “Good will may be defined as the favorable consideration shown by the purchasing public to goods known to emanate from a particular source.” *White Tower Sys. v. White Castle Sys. of Eating Houses Corp.*, 90 F.2d 67, 69 (6th Cir.), *cert. denied*, 302 U.S.720 (1937).

² Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002,74.

³ *Id.*

⁴ Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002,78.

⁵ Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002,79.

⁵ *Id.*

⁶ Timothy H. Hiebert, *Parallel importation in U.S. trademark law*, Greenwood Press, 1994, 56.

Last but not the least, trademarks can establish the good will of enterprises.¹Trademarks reflect the sources of products, guarantee the quality of product and spread the reputation of manufacturers, all those functions indicate that trademarks condense the good will and credit of manufacturers or distributors, trademark is the best label for spreading reputation of enterprises and reflecting credit of products. Thus, on one hand, establishing good will is the most efficient way to establish well-known trademarks.² From my perspective, such good will not only help consumers choose trusted products but also help manufacturers and distributors escape from the damage of reputation. In the judicial practice of EU, US and China, whether enterprises establish good will of trademark is also the key element for courts to determine whether parallel importation infringe trademark right of manufacturers or distributors.³ With spread of the good will of trademark, the manufacturers or distributors will be more competitive in the market.

3 Relationship between Parallel Importation and Trademarks

Trademark right is one branch of intellectual property right, it has some similarities with patent right and copy right on the issue of parallel importation, however, it has its own differences.

Trademark is composed with words, numbers, figures and anything other elements, which is used as a sign born on a product or service to distinguish form other product or service.⁴The most important character and function of trademarks is to label the sources of the goods and guarantee the quality of the goods, which offer necessary references for consumers purchasing.⁵

However, trade mark proprietor is entitled to dispose the legal trade mark and the

¹ Xu Congyin, Intellectual Property Law, Citic Publishing House, 2002,80

² Thomas Cottier and Petros C. Mavroidis, editors, Marion Panizzon and Simon Lacey, associate editors, Intellectual property: trade, competition, and sustainable development, University of Michigan Press, 2003,178.

³ I will discuss it in Chapter 3 and 4.

⁴ Ekaterina Shekhtman and Evgeniy Sesitsky, *Exhaustion of Parallel Importation in the Field of Trademarks*,<http://www.turin-ip.com/research-papers/papers-2008/shekhtman-sesitsky-final-pdf> assessed on June 1, 2015..

⁵ *Id.*

goods bearing them, it is a statutory right and no one can deprive it from the proprietor. Parallel importation has something to do with possibility of the third party who is unauthorized by the trademark proprietor importing and selling the goods bearing the trade mark, which determines the scope and limitation of trade mark proprietor to dispose their goods in international trade.¹ Consumers rely on trademarks which can reflect the good will of enterprises.² In order to affect consumers' purchasing choice, manufacturers try their best to establish good will³ of business which, to some extent, the guarantee of the quality of goods. Therefore, they invest a lot to increase the quality of goods and expand marketing.⁴

Generally speaking, trademarks are the crystallization of huge investment of enterprises. For example, "Coca-Cola" is a very famous trade mark all over the world. In 1967, the value of the trade mark worth three billion dollars, in 2013, it increased to \$79.2 billion.⁵ If one day, the enterprise of "Coca-Cola" faces crisis, there are still many other enterprises will invest to them because of the value of the trademark. However, trademark protection is different from patent protection, the last one is with strong protection mode to encourage the creativity while the former one is in a less strong protection weak as it is not to encourage creativity, which will affect trademark owner's right in parallel importation.⁶ Parallel importation relating to trademarks concludes many parties' interest, and it not only includes international trade issues but also include intellectual property protection.

4 Reasons of Emerging of Parallel Importation concerning Trademarks

¹ *Id.*

² "Good will may be defined as the favorable consideration shown by the purchasing public to goods known to emanate from a particular source." *White Tower Sys. v. White Castle Sys. of Eating Houses Corp.*, 90 F.2d 67, 69 (6th Cir.), *cert. denied*, 302 U.S.720 (1937).

³ *Id.*

⁴ Ekaterina Shekhiman and Evgeniy Sesitsky, *Exhaustion of Parallel Importation in the Field of Trademarks*, <http://www.turin-ip.com/research-papers/papers-2008/shekhtman-sesitsky-final-pdf>

⁵ "Benefits of trademark"

http://www.nytimes.com/2013/09/30/business/media/apple-passes-coca-cola-as-most-valuable-brand.html?_r=0.assessed on 3 June 2015

⁶ S.K. Verma, *Exhaustion of Intellectual Property Rights and Free Trade-Article 6 of the TRIPs Agreement*, 29 IIC 534,549.

The prevalence of parallel importation relating trademark is determined by the suitable global soil. The reasons are following:

(1) Multilateral trading system under free trade principle¹

Multilateral trading system is starting with GATT agreement, after a series of negotiations, the tariff barriers among nations decrease gradually. In these negotiations, the importance of free trade principle became more and more obvious, even TRIPS takes not using intellectual property as a non-tariff barrier into consideration.²

Before China entering WTO, China had to bear high tariff when foreign goods imported into domestic market. After her entering WTO, situations changed. With the reduction of tariff barrier, parallel importation increases at a surprising speed.³

(2) Profitable price difference⁴

The main reason of the arising of parallel importation is profit from price difference. As different countries carry out different condition on marketing policy, environment, labor costs, raw material prices, which makes the same brand has different prices in different countries.⁵ I present an example of myself, “REPLAY” jeans are my favorite brand, they are very expensive in China, each cost almost 1000-2000 RMB, not many people can afford to that while in Italy, they are very cheap and amount about 300-400 RMB. Except for the price differences caused by objective conditions, many multinational companies will diversify price system in different countries according to consumer spending levels, elasticity of demand, market competition, so as to maximize the profit.⁶ Stigler believes that it is a kind of price discrimination.⁷ Since driven by the profit, many people will seek to import goods from low price

¹ H. JEHRAM, *Prohibition of Parallel Imports Through Intellectual Property Rights* in 30 *IIC*, at 497-499.

² Takamatsu, *Parallel Importation of Trademarked Goods: A Comparative Analysis*, 57 *Wash. L. Rev.* 433, 434 (1982).

³ Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002, 45.

⁴ S.K.Verma, *Exhaustion of Intellectual Property Rights and Free Trade-Article 6 of the TRIPS Agreement*, 29 *IIC* 534, 549.

⁵ Takamatsu, *Parallel Importation of Trademarked Goods: A Comparative Analysis*, 57 *Wash. L. Rev.* 433, 434 (1982)

⁶ *Id.*

⁷ T. HEIDE, *Trade Marks and Competition Law after Davidoff* 25 *EIPR* 163 (2003).

market to high price market, which on one hand makes those imported goods very competitive, on the other hand makes consumers pay less to buy genuine.¹

(3) Enterprises' global promotion strategy

For expanding foreign market, enterprises will license distributor to sell or establish factories to manufacture their goods, which offers opportunities for parallel importers to do their business.² License contracts fulfill incompletely or temporarily transferring trademarks. Under such condition, multinational enterprises will be most influenced by parallel importation. The franchises will sometimes make some adjustments according to local specific condition when selling products.³ For example, cosmetics manufactured in China and manufactured in France which bear the same trademark will be different in formula according to different environment and skin condition. In my opinion, if parallel importers import these cosmetics from Japan to China, to some extent, consumers will confuse even if feel uncomfortable after using it, the damages may be borne by trademark proprietors, which will cause the trademark erosion. It is very difficult for consumers to know who the parallel importers are, thus they will just doubt the quality of the enterprise which owns the trademark.

The profit from price difference promotes the emerging of the parallel importation. When it relates trademarks, there will be many parties relevant, mainly parallel importer, trademark right holder and exclusive distributor.⁴ In my opinion, as trademarks represent the quality of the product and reflect the pre-investment of the trademark right holder, parallel importers can use such function to sell the parallel imported products in domestic market or other countries with lower price than the domestic trademark owner or exclusive distributor, therefore the protection of the trademark right in parallel importation needs us to pay attention.

¹ Takamatsu, *Parallel Importation of Trademarked Goods: A Comparative Analysis*, 57 Wash. L. Rev. 433, 434 (1982)

² Richard M. Andrade, *The Parallel Importation of Unauthorized Genuine Goods: Analysis and Observations of the Gray Market*, Journal of International Law, Vol. 14, Iss. 3 Art. 4(1993).

³ *Id.*

⁴ Malueg, D.A. and M. Schwartz, *Parallel Imports, Demand Dispersion, and International Price Discrimination*, Journal of International Economics, 37(3-4) 168,172(1998).

Chapter Two Principle of Exhaustion and Parallel Importation relating to Trademarks

1 Definition of Principle of Exhaustion in Parallel Importation

The theory which relates closely to parallel importation is principle of exhaustion, which is also called exhaustion doctrine.¹ As we know, trademark proprietor has an exclusive right to use the trademark to prohibit the use of the trademark by the third party², which to some extent, will be the obstacle of the free movement of the market when trademark proprietor refuse to license or raise the license expenses.

Under the principle of exhaustion, if the trademark owner approves to put a product on the market through affiliate, license, distribution, the right of the trademark owner on that product will be assumed as exhausted.³ In US, it means after the “first sale” of the trademark owner, the right is exhausted. Under EC doctrine, it means that after the trademark proprietor put the goods bearing the trademark on the market, the trademark owner will lose the control of the distribution and cannot prohibit the resale of the product sold by him or with his consent.⁴

On the European Continent the notion of exhaustion was first developed at the end of the nineteenth century by the German patriarch of modern intellectual property law, Joseph Kohler.⁵ In 1902, The case *Kölnisch Wasser and Mariani*⁶ case formally confirm this principle and the supreme court of German followed Kohler’s theory and

¹ H. JEHRAM, *Prohibition of Parallel Imports Through Intellectual Property Rights* in 30 *IIC*, at 497-499.

² Ekaterina Shekhiman and Evgeniy Sesitsky, *Exhaustion of Parallel Importation in the Field of Trademarks*, <http://www.turin-ip.com/research-papers/papers-2008/shekhtman-sesitsky-final-pdf>.

³ *Id.*

⁴ J. RASMUSSEN, *The Principle of Exhaustion of Trade Mark Rights Pursuant to Directive 89/104 (and Regulation 40/94)*, at 174; F. ABBOTT – T. COTTIER – F. GURRY, *International Intellectual Property in an Integrated Economy*, at 270; S. VERMA, *Exhaustion of Intellectual Property Rights and Free Trade – Article 6 of the TRIPS Agreement*, at 537.

⁵ H. JEHRAM, *Prohibition of Parallel Imports Through Intellectual Property Rights* in 30 *IIC*, at 497-499.

⁶ 28 February 1902, 50 RGZ 229- *Kölnisch Wasser* and 2 May 1902, 51 RGZ 264- *Mariani*.

established it in case law.¹ It applied not only in trademark law, but also in patent and copyright law. Under the definition of principle of exhaustion of EC doctrine, consent is necessary element.

According to the object of consent, it is divided into two groups: one is the consent of first sale, the other one is the consent toward the resale of the third party.² The consent of first sale indicates that the object of consent by the trademark owner will only be the first sale of the product. Once the product is sold on the market, the trademark owner can't continually control this product, while the consent toward the resale of this product will be another question. If the third party buys this product and sells it again, then the third party needs to obtain the consent of the trademark owner. The consent of exhaustion of the first sale only relates with the law while the consent of the resale will be determined by the agreement or the contract.³ For example, the trademark owner engages an exclusive license agreement with the distributor in import country, the distribution agreement provides that, the distributor is the exclusive one approved by the trademark owner in that country, no one else can import the product bearing the trademark from other countries and resell it into this country. ⁴When the law of the importing country recognizes this regional restriction of the exclusive distribution agreement based on domestic trademark law, the first sale of the trademark owner will not be exhausted, he can still determine the re-circulation of his product. ⁵This consent breaks the relativity of the contract, the regional restriction extends the effect on the third party.⁶ Judge Laddie J in High Court of Justice in UK points out in *Zino Davidoff v. M&S Toiletries*⁷, "after the product bearing the trademark is put on the market by the right holder or with the right holder's consent, the trademark right on this product owned by the trademark owner will be lost, this right lost is not based on that the right holder has consent the re-sale

¹ *Id.*

² H. JEHORAM, *Prohibition of Parallel Imports Through Intellectual Property Rights* in 30 *IIC*, 497,499.

³ *Id.*

⁴ *Id.*

⁵ *Id.*

⁶ *Id.*

⁷ *Zino Davidoff, SA v. M&S Toiletries, Ltd; Joop! GmbH v. M&S Toiletries* [2000] S.L.T. 683.

of the product, it is only relevant with the first sale.”¹

The consent toward resale is prevalently recognized and accepted by most common law countries.² For example, in US, in Antitrust Guidelines for the Licensing of Intellectual Property, restriction clauses in patent license are called white clauses which will not be regulated by this guideline.³

In my opinion, if the resale of a product should obtain the trademark owner’s consent, things will be more complex and it perhaps causes the price monopoly. The restriction clause will be used by the enterprises which have the dominant place in the market to divide the market and finally monopoly the market. Besides, it is very hard to identify that the consent toward the resale only focuses on the next sale after the first one or each sale after the first one, the legislation and interpretation of the court will face the difficulty.

2 Principle of Exhaustion in TRIPS

Since 1994, representatives from 108 countries signed the WTO Agreement, and past 8 years, the negotiation toward GATT finally concluded in Uruguay round. The consequence of Uruguay round is to involve protection of IP in the multilateral trading system, and combine the goods trading, service trading with protection of intellectual property.

The important contribution of this Uruguay negotiation is TRIPS which includes protection of intellectual property in the WTO dispute settlement proceedings. This means that international trading of intellectual property will be legally supported. However, TRIPS exclude the principle of exhaustion expressly from dispute settlement proceeding. Article 6 of 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.”⁴ According to Article 51 of TRIPS, “Members shall, in conformity

¹ *Id.*

² H. JEHO RAM, *Prohibition of Parallel Imports through Intellectual Property Rights* in 30 *IIC*, 497,499.

³ *Id.*

⁴ Article 6 of TRIPS.

with the provisions set out below, adopt procedures to enable a right holder, who has valid grounds for suspecting that the importation of counterfeit trademark or pirated copyright goods may take place, to lodge an application in writing with competent authorities, administrative or judicial, for the suspension by the customs authorities of the release into free circulation of such goods. Members may enable such an application to be made in respect of goods which involve other infringements of intellectual property rights, provided that the requirements of this Section are met. Members may also provide for corresponding procedures concerning the suspension by the customs authorities of the release of infringing goods destined for exportation from their territories.”¹ Some scholars insist this article should be regarded as a supporting for international exhaustion.² In article 51, “a right holder, who has valid grounds for suspecting that the importation of counterfeit trademark or pirated copyright goods may take place”³, this excludes the genuine goods, parallel importation sells genuine goods, so it is outside the scope of the suspension of custom.⁴ They also use article XI, XX of GATT as their strong basis⁵.

According to Article XI of GATT, paragraph (1), “No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licenses or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party.”⁶ Article XX, paragraph (d), “Subject to the requirement..... nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures.....(d) necessary to secure compliance with laws or regulations which are not inconsistent with the

¹ Article 51 of TRIPS.

² S.K. Verma, *Exhaustion of Intellectual Property Rights and Free Trade-Article 6 of the TRIPs Agreement*, 29 IIC 534,549.

³ Article 51 of TRIPS.

⁴ S.K. Verma, *Exhaustion of Intellectual Property Rights and Free Trade-Article 6 of the TRIPs Agreement*, 29 IIC 534,549.

⁵ *Id.*

⁶ Article XI of GATT.

provisions of this Agreement, including those relating to customs enforcement, the enforcement of monopolies operated under paragraph 4 of Article II and Article XVII, the protection of patents, trademarks and copyrights, and the prevention of deceptive practices.”¹

In my opinion, there are two questions should be considered firstly: whether the “other measures” mentioned in article XI, paragraph (1) of GATT includes the parallel importation, whether regulations to restrictions of parallel importation complies with “laws or regulations which are not inconsistent with the provisions of this Agreement” mentioned in article XX, paragraph (d) attract scholars’ attention. Frederiek M. Abbott thinks that “other measures” should include the restrictions to parallel importation, first of all, this is the necessary risk should be taken by the enterprises when taking price discrimination, restriction to parallel importation can’t restrict the unfair competition, on the contrary, it is helpful to fulfill legally control competition inside brands, which will further encourage the price discrimination and transfer into monopoly. Secondly, there is national treatment principle both in GATT and TRIPS, protection the domestic goods while prohibition the goods nearing the same brands from other countries will be the tariff barrier to freedom of trade and it is against the national treatment principle. Thirdly, TRIPS only provides that the issue of right of exhaustion is excluded from WTO dispute settlement proceeding, but not exclude to find the reasonable explanation from the frame of the WTO. The article XI and XX of GATT can be regarded as base to cancel regulation of restriction of parallel importation.²

I believe that TRIPS doesn’t give a clear attitude toward right of exhaustion. Firstly, according to the literally meaning of article 6 of TRIPS, it will be legislated according to national needs of different nations. Secondly, referring to the preparing documents for the treaties, each country has its own plans, so it is difficult to reach an agreement,

¹ Article XX of GATT.

² Frederiek M. Abbott: *First Report (Final) to the Community on International Trade Law on the Subject of Parallel Importation*, Journal of Economy Law 632 ,635(1998).

which makes this issue unresolved.¹ Last but not the least, though GATT and TRIPS all provide national treatment principle, TRIPS takes the exhaustion of right as a special issue in an independent article (article 6) which means that TRIPS regards this as a special situation independent from national treatment principle. Besides, it has expressly stipulated that “nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.”² TRIPS pursues to promote economic benefits through protection of intellectual property, however, there is no solution on how to distribute these benefits. Every nation seeks to find the most suitable way to distribute the economic benefits from protection of intellectual property, how to deal with right of exhaustion issue will be necessary step for seeking reasonable distribution.³ In Uruguay round, the debate under choice of right of exhaustion is very fierce, many developing countries, as IP importers, advocate international exhaustion in order to achieve global integration. EU approves regional exhaustion while US, as IP exporters takes conservative attitude and supports domestic exhaustion. As there were no unified opinions, TRIPS makes a reservation on that issue and leaves it to national legislation.⁴

3 Types of Exhaustion of Rights

According to the previous analysis, there are different positions taken by different jurisdictions according to different needs. Here I will focus on these three types of right of exhaustion on parallel importation concerning trademarks.

First of all, domestic exhaustion⁵ means that when the first sale occurs in domestic market, the right of trademark owner will be exhausted in internal market while when it is occurred in external market, the first sale will not exhaust the right of domestic

¹ Christopher Stothers, *Parallel Trade in Europe: Intellectual Property, Competition and Regulatory Law*, Hart Publishing, 2007, p.435.

² Article 6 of TRIPS.

³ Christopher Stothers, *Parallel Trade in Europe: Intellectual Property, Competition and Regulatory Law*, Hart Publishing, 2007, p.437.

⁴ Christopher Stothers, *Parallel Trade in Europe: Intellectual Property, Competition and Regulatory Law*, Hart Publishing, 2007, p.456.

⁵ Peter Ganeva, *Exhaustion of IP Rights: Reflections from Economic Theory*, Max Planck Institute for Intellectual Property, Competition and Tax Law, Institution of Innovation Research, Hitotsubashi University.

trademark owner to control the goods.¹ From this we can see that domestic exhaustion is against parallel importation which imported goods from their own country to other country

Secondly, international exhaustion² insists that when goods bearing trademark are put on the market including the international market, the trademark owner will lose the control of the goods, and if the third part imports the goods and resell it in another country, the trademark owner can't prohibit this resale and claim trademark right toward the goods. International exhaustion is the theoretical background supporting the parallel importation.³

Thirdly, according to the literally meaning of regional exhaustion⁴, the exhaustion of right will only occur in the specific region, which is adopted by EU in order to create an integrated community.⁵ Regional exhaustion of trademarks⁶ is stipulated in Directive 89/104 (the "Trademark Directive").⁷ Article 5 of the Trademark Directive provides that "1. The registered trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade: (a) any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered; 3. The following, inter alia, may be prohibited.....(c) importing or exporting the goods under the sign; (d) using the sign on business papers and in advertising...."⁸ However, Article 7 of the Trademark Directive stipulates that "1. The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the [European] Community under that trade mark by the proprietor or with his consent."⁹ The regional exhaustion of patent

¹ *Id.*

² *Id.*

³ Phillip Areeda & Louis Kaplaw, *Antitrust Analysis: Problems, Text, and Cases*, Fifth Edition, Aspen Publishers, 1997, 213.

⁴ Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002, 103.

⁵ *Id.*

⁶ European Economic Area ("EEA") Agreement (Article 65(2) and Annex XVII, point 4).

⁷ Council Directive 89/1094, 1989 O.J. (L 040) 1, amended by 392D0010 1992 O.J. (L006) 35 [hereinafter Trademark Directive].

⁸ Article 5 of Trademark Directive 89/1094.

⁹ Article 7 of Trademark Directive 89/1094.

right was first established in case law since *Deutsche Grammonphon v. Metro SB*¹ in EU, then after *Bristol-Myers Squibb v. Paranova*², *Eurim-Pharm Arzneimittel v. Beierdorf*³, it is applied in trademark right. In my opinion, under regional exhaustion, the trademark right is exhausted inside EU, but the trademark owner can use the license to limit the third party to resale the product bearing the trademark owned by him inside EU. The trademark right will not be exhausted outside EU.

The restriction through contract or license related to implied license theory which is also called “equitable estoppels”⁴ in US, which means that unless the right owner expressly reserves specific right, the trademark right is regarded as exhausted by consent of trademark proprietor since the goods bearing the trademark are sold, the trademark proprietor can’t claim the trademark right in the subsequent resale.⁵ US approves that the patentee can use patent license to restrict the third party resale of the patented product in order to exclude right of exhaustion. However, US Patent Law stipulates the restriction of the contract should be according to the scope approved by the Anti-Trust Act.⁶ In *Zenith Radio v. Hazeltine Research*⁷ in 1969, the judgment of *Zenith Radio v. Hazeltine Research* case held that the restriction in the contract shall not be against article 1 and article 2 of Anti-Trust Act.⁸ If one party of the contract is large multinational company which occupy enormous market share, regional restriction in exclusive license or distribution agreement may become a powerful way to cause monopoly, if it causes monopoly effect, it will be prohibited by Sherman Anti-Trust Act.⁹ As protection of trademark is less powerful than protection of patent and restriction of license will be more conducive to segmentation of market by enterprises which have dominant market positions and hinder free trade.¹⁰

¹ C-78/70, *Deutsche Grammonphon v. Metro SB* [1971] ECR 487.

² C-429/93, *Bristol-Myers Squibb and Others v. Paranova* [1996] ECR I-3515.

³ C-71/94, *Eurim-Pharm Arzneimittel v. Beierdorf* [1996] ECR I-3607.

⁴ K R Handley, *Estoppel by Conduct and Election*, Thomson, Sweet & Maxwell, London, 2006, 20–21.

⁵ *Id.*

⁶ *Id.*

⁷ Phillip Areeda & Louis Kaplaw, *Antitrust Analysis: Problems, Text, and Cases*, Fifth Edition, Aspen Publishers, Inc., 1997. 62, 164

⁸ *Id.*

⁹ *Id.*

¹⁰ Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002, 56.

4 Theoretical Background of Parallel Importation relating to Trademarks

There are two main theories supporting international exhaustion of rights, in other words, parallel importation: reward theory, implied license theory.¹

First of all, one theory believes that, trademark owners have got paid after first sale of goods bearing the trademark, so they shall not control the floating of the goods and continually gain benefit from that, which is called reward theory.² The reward theory reflects when solving the conflicts between the trademark owner and public interests, it is prone to protect the public interests,³ such public interest can be reflected well in the example of Chinese patent law. Though there are no stipulations towards parallel importation in trademark law, China approves parallel importation in patent law to adapt current economic status. As China is in a process of fast economic developing period, as an IP importer country, it is necessary to develop her own intellectual property to gain a position in a global world and transform into IP exporter country.⁴ Before the transformation, we experienced a long time to use patent licensed by U.S. or EU countries, which means we China will bear a huge amount of cost to buy get the license or to buy the patented goods from these countries. This huge amount of money will be transferred into price of the goods in the domestic market, consumers will be reluctant to afford them according to the average wages all over China.⁵ The choices for consumers will be less and if the patentees from US or European countries refuse to license or sell their product or raise their license fees, there will be no products in the market or the expense for buying it will be only affordable by a small part of citizens with high salaries.⁶ Under such condition, I doubt that how WTO can achieve the freedom of the trademark and global integration. In my opinion, more than that, on the pharmaceutical area, in Africa, a lot of people are now standing great pain because of inability of afford pharmaceuticals, the patent right of which is owned

¹ Phillip Areeda & Louis Kaplaw, *Antitrust Analysis: Problems, Text, and Cases*, Fifth Edition, Aspen Publishers, 1997, 79.

² Peter Ganeva, *Exhaustion of IP Rights: Reflections from Economic Theory*, Max Planck Institute for Intellectual Property, Competition and Tax Law, Institution of Innovation Research, Hitotsubashi University, 99.

³ *Id.*

⁴ Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002, 35.

⁵ Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002, 98.

⁶ Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002, 101.

by developed countries. On trademark field, parallel importation can be helpful for domestic consumers to have more choices and but much cheaper goods which will also increase the domestic revenue, it is very helpful for developing countries to promote their economy. As the huge difference in economy between the least developing countries and developed countries, obtaining the license or buying the products will be very difficult, that is why conflicts between IP protection and public health will be the focus of the scholar debate. From the attitude of Chinese patent law, I find Chinese government prone to support the rewarding theory and China approves parallel importation literally in legislation in Patent Law while still doesn't provide parallel importation concerning trademarks in Trademark Law of P.R.C.

The law grants the IP owner the exclusive right to against others, which let trademark owners benefit from market scarcity. However, legislations of protection of IP not only encourage creativity but also promote the spread of the IP product.¹Therefore, I believe, over-protection of trademark right will grant trademark owner too much economic benefits which will, to some extent, lead to the price monopoly. Rewarding theory advocates that the trademark owner get rewarded from the first sale, the after sale of his goods will not get rewarded any more, which divides the trademark right and property right and restriction the special treatment of the exclusive nature of the trademark.²

There are still doubts existing toward reward theory. Some scholars believe the first sale will not satisfy the value created by trademark.³ As multinational enterprises will carry out different prices in different countries according to different average income, consuming level, elasticity of demands, which determines different profit margins, trademark owner will be rewarded differently in different countries. Rewarding theory ignores the profit obtained by trademark owner after the first sale.⁴

¹ Xu Congyin, Intellectual Property Law, Citic Publishing House, 2002, 14.

² S.K. Verma, *Exhaustion of Intellectual Property Rights and Free Trade-Article 6 of the TRIPs Agreement*, 29 IIC 534,549.

³ Xu Congyin, Intellectual Property Law, Citic Publishing House, 2002,113.

⁴ Malueg,D.A.and M.Schwartz, *Parallel Imports, Demand Dispersion, and International Price Discrimination.*, Journal of International Economics 37(3-4),168,172(1994).

I agree with that point, the first sale shall not exhaust the right of the trademark owner on the product. The right owner invests a lot behind a trademark which can't be evaluated by the price of the product, for example, to establish a good will binding on the trademark, the manufacturer will invest a lot on the advertisement. Additionally, trademark represents the quality, the value of which can't be stimulated in a short time, but in a long period for enterprises with a long history, especially in Japan, some Saki factories were established one hundred years ago and the traditional and superb winemaking methods make the product more culturally representative. The time for vintage is very long and manual operation determines the quality of the wine. Parallel importation will benefit free-riders, who saves the expenses for advertisement and enjoy the market shares based on the good will established by trademark owners.

However, there are still a lot of countries insist and support the rewarding theory, as in the BBS¹ case of parallel importation of patented products, the court held that "if the right owner of intellectual property can choose prices freely.....the right should be exhausted."²From that, we can see that rewarding theory is supporting theoretical background of the international exhaustion of right.

Second theory is implied license theory³. This theory divided into two groups of opinions⁴: one group is in favor of that if there is no restriction in contract to region where to sell the goods bearing intellectual property right, it can be regarded as that the right holder has gave up the right toward the resale of the goods.⁵ In *Davidoff*,⁶ Laddie J believed that the third party can re-import the goods which bearing the trademarks by the domestic trademark owner into domestic market⁷; the other group is in favor of that the right holder can use license agreement to restrict the place where the other part to sell the products, therefore, they can still control the resale of the

¹ Supreme Court Case H7 (O) No.1988 (July 1, 1997).

² Keith E.Maskus. *Parallel Imports* .The World Economy 23(9):1276(2000) and Supreme Court Case H7 (O) No.1988 (July 1, 1997).

³ William Cornish and David Llewelyn and Tanya Aplin, *Intellectual Property: Patents, Copyrights, Trademarks & Allied Rights*, Sweet & Maxwell, 2010, 7th ed, 98.

⁴ *Id.*

⁵ *Id.*

⁶ C-414/00, *Zino Davidoff SA v A & G Imports Ltd*, [2001] ECR I-0000.

⁷ *Id.*

goods or right of exhaustion, this restriction will be effective to the third party.¹ As I mentioned above, in US, such restriction of the agreement should not be against Anti-Trust law, in case that the enterprise which have the dominate positions in the market use the exclusive license agreement to monopoly the market and divide the market. Generally speaking, I believe that the key idea of implied license theory is whether consent of trademark proprietors can stop the parallel importation by the third part. Through restriction in exclusive license expressly, parallel importation can be limited. It is by common law countries which emphasize spirit of contracts.²

Jurisprudence behind implied license theory is the property rights theory, once the products are sold by the right owner, the property right will be transferred to buyers, unless the right owner expressly remain the property right.³ In U.S. law, implied license theory bases on the “equitable estoppels”⁴. Under “equitable estoppels”⁵, the right holders have no right to deny the facts which have been implied admitted through their performances, which is prevalently applied in the parallel importation of patented goods,⁶ while there are still few countries applying this on trademark parallel importation.

In China, regional restriction by contract to the resale of goods bearing trademarks by third party through license agreement is deemed as not encouraged, as the quantity of the trading of trademark goods is in a large amount and the trading is frequent, if this regional restriction is permitted against third party, it will block the free movement of goods which is against the spirit of WTO.⁷ Additionally, I believe, supervising such regional restriction will increase judicial costs. In patent law of PRC, the parallel importation has been approved by law according to the national conditions

¹ William Cornish and David Llewelyn and Tanya Aplin, *Intellectual Property: Patents, Copyrights, Trademarks & Allied Rights*, Sweet & Maxwell, 2010, 7th ed, 101.

² Amber Hatfield Rovner, *PRACTICAL GUIDE TO APPLICATION OF (OR DEFENSE AGAINST PRODUCT-BASED INFRINGEMENT IMMUNITIES UNDER THE DOCTRINES OF PATENT EXHAUSTION AND IMPLIED LICENSE*, 12 Tex. Intell. Prop. L.J. 227.

³ Steven H. Gifs, *Law Dictionary*, Third Edition, Barron's Educational Series, Inc.

⁴ Christopher Heath, *Parallel Imports in Asia*, Kluwer Law International, 2004, p.14.

⁵ *Id.*

⁶ *De Forest Radio Telephone Co. v. United States*, 273 U.S. 236(1927).

⁷ Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002, 56.

and economic development, international exhaustion of right is adopted in China in patent law while there are no stipulations toward that in trademark law. Chinese judges have to refer to foreign judicial experiences to decide in domestic cases.¹

¹ Xiang Yu, *The Regime of Exhaustion and Parallel Imports in China*, 26 EUR. INTELL. PROP. REV. 105, 106-07(2004).

Chapter Three Legislations and Judicial Practices of Parallel Importation concerning Trademarks in EU and U.S.

1 Legislations and Judicial Practices in EU

This part I will mainly focus on the interpretation of Article 7 of Trade Mark Directive in ECJ and combine the case studies to analyze the position of right of exhaustion of parallel importation in EU.

Trademark Directive (TMD) 89/104 entered into force the secondary law of EU. On the primary level of EU, Treaty on Functioning the European Union (TFEU) also stipulate some regulations concerning parallel importation. Article 34 and 35 of TFEU provides that “Quantitative restrictions on imports and all measures having equivalent effect shall, without prejudice to the following provisions, be prohibited between Member States.”¹This article indicates the spirit of promoting free movement of goods and eliminating the tariff barriers. Article 36 of Treaty on Functioning the European Union (TFEU) provides that “The provisions of Articles 34 to 35 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic historic or archaeological value; or the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.”²According to both articles, quantitative restriction on imports should be prohibited to encourage the free movement of goods and the integration of one single market, which to some extent will affect the interest of industrial and commercial property.³

In the case *Consten SARL & Grundig-Verkaufs-GmbH v. Commission*, Grundig GmbH wished to distribute its goods in France and authorized Consten SARL as an

¹ Article 34,35 Treaty in the Functioning of Europe Union

² Article 36 of Treaty in the Functioning of Europe Union

³ C-78/70 *DEUTSCHE GRAMMOPHON v METRO GmbH* [1971] ECR 487, para.11,12.

exclusive distributor in France to make sure that there are no other parties to sell their goods. In the judgment, paragraph 8 “an agreement between producer and distributor which might tend to restore the national divisions in trade between Member States might be such as to frustrate the most fundamental objectives of the Community.”¹ In paragraph 10 “Articles 36 (now Article 30), 222 (now Article 295) and 234 (now Article 307) of the EEC (European Economic Community) Treaty do not exclude any influence whatever of Community law on the exercise of national industrial property rights.”² ECJ (European Court of Justice) held that the exclusive distribution agreement is illegal as it established “the prohibition of the disputed agreement under Article 85 (1) on the restriction on competition created by the agreement in the sphere of the distribution of Grundig products alone.”³ The ECJ found that the Commission’s criticism of the contract concluded between the parties did not affect the existence of trademark rights but only their exercise.⁴

This principle was developed by *Deutsche Grammophon Gesellschaft v. Metro -SB-Großmärkte GmbH*⁵ after 5 years. In the judgment, paragraph 11:

“the Treaty does not affect the existence of rights recognized by the legislation of a Member State with regard to industrial and commercial property, the exercise of such rights may nevertheless fall within the prohibitions laid down by the Treaty. Although it permits prohibitions or restrictions on the free movement of products, Article 36(TFEU) only admits derogations from that freedom to the extent to which they are justified for the purpose of safeguarding rights which constitute the specific subject-matter of such property.”⁶

In this case, the distinction was clearly indicated in this judgment, the exercise of IPRs (intellectual property right) can only be justified “if it is for the purpose of safeguarding rights which constitute the specific subject-matter of such property”,

¹ C-56 and 15/64 *Consten SARL & Grundig-Verkaufs-GmbH v. Commission* [1966] ECR. 299.

² *Id.*

³ *Id.*

⁴ C.W. Bellamy and G.D. Child, *The Common Market Law of Competition*, Sweet & Maxwell, 1993, 491, n. 7.

⁵ C- 78/70 *Deutsche Grammophon Gesellschaft v. Metro -SB-Großmärkte GmbH* [1971] ECR 487.

⁶ *Id.*

however, ECJ didn't give a convincing definition of "specific subject-matter", which means whether parallel importation falls within the scope of prohibition by the treaty.¹

Gradually, the principle developed in case law by ECJ was coded into article 7 of Trade Mark Directive. When mentioned article 7, I have to talk about the famous case "*Silhouette*"², this case established the exception of exhaustion of right and foundation the principle of regional exhaustion in EU.

(1) First sale is outside EEA (European Economic Area)

(i) *Silhouette* case³ --- regional exhaustion

Facts: silhouette produces spectacles with high prices and sells spectacles in many countries around the world. It has registered the trademark "Silhouette" in many countries. In Austria, Silhouette itself supplies spectacles to opticians; in other States it has subsidiary companies or distributors. Hartlauer sells "*inter alia* spectacles through its numerous subsidiaries"⁴ in Austria with lower prices. Silhouette sold 21 000 out-of-fashion spectacle frames to a Bulgarian company. "It had directed its representative to instruct the purchasers to sell the spectacle frames in Bulgaria or the states of the former USSR only, and not to export them to other countries."⁵ Hartlauer bought those goods, and sold them in Austria. Silhouette, brought an action for interim relief before the Landesgericht Steyr, "seeking an injunction restraining Hartlauer from offering spectacles or spectacle frames for sale in Austria under its trade mark, where they had not been put on the market in the European Economic Area (EEA) by Silhouette itself or by third parties with its consent."⁶

This case is about the re-importation the goods produced in Austria into domestic market which falls within the scope of parallel importation. There are two statutes relevant here: one is Article 7 of the First Council Directive 89/104/EEC (Trade Mark Directive),

"The trade mark shall not entitle the proprietor to prohibit its use in relation to

¹ Thomas Hays, Parallel importation under European Union Law, Sweet & Maxwell, 2004, 289.

² C-355/96, *Silhouette International v. Hartlauer*, [1998] ECR I-4825.

³ *Id.*

⁴ *Id.*

⁵ C-355/96, *Silhouette International v. Hartlauer*, [1998] ECR I-4826.

⁶ *Id.*

goods which have been put on the market in the Community under that trademark by the proprietor or with his consent.

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 the goods is changed or impaired after they have been put on the market.”¹

the other is a national law of Austria. Article 7 of the Directive was transposed into Austrian law by Paragraph 10a of Law on the Protection of Trade Marks in Austria:

“The right conferred by the trade mark shall not entitle the proprietor to prohibit a third party from using it in relation to goods which have been put on the market in the European Economic Area under that trade mark by the proprietor or with his consent.”² When *Silhouette*’s action was dismissed by the Landesgericht Stey and, on appeal, by the Oberlandesgericht Linz. *Silhouette* appealed to the Oberster Gerichtshof on a point of law.³ Oberster Gerichtshof found that this case fell within the scope of parallel importation. According to paragraph 10a of Law on the Protection of Trade Marks in Austria, Austria took the position of international exhaustion of right toward this re-importation, which is transposed from article 7 of Trade Mark Directive.⁴ However, Oberster Gerichtshof decided to stay proceeding to request a preliminary ruling to ECJ for two questions, one is “Is Article 7(1) of the First Council Directive 89/104/EEC to be interpreted as meaning that the trade mark entitles its proprietor to prohibit a third party from using the mark for goods which have been put on the market under that mark in a State which is not a Contracting State?”⁵ This question relates to the position of EU law (Trademark Directive) toward exhaustion of right.

Finally, the ECJ gave the answer to the question raised by Oberster Gerichtshof that “that national rules providing for exhaustion of trade-mark rights in respect of products put on the market outside the EEA under that mark by the proprietor or with

¹ Article 7 of the First Council Directive 89/104/EEC (Trade Mark Directive)

² C-355/96, *Silhouette International v. Hartlauer*, [1998] ECR I-4826.

³ *Id.*

⁴ *Id.*

⁵ C-355/96, *Silhouette International v. Hartlauer*, [1998] ECR I-4828.

his consent are contrary to Article 7(1) of the Directive, as amended by the EEA Agreement.”¹ From the judgment of this case, I learn that ECJ believed that based on the spirit mentioned in the preface of Trade Mark Directive, the national laws which regulated the domestic market, should be integrated. If leaving the parallel importation to legislations in each member states, there will be different positions toward principle of exhaustion, some member would prefer to apply international exhaustion and some would apply domestic exhaustion. Different legislations will lead to different judicial practices, which is difficult to integrate the EU internal market according to spirit of preface of Trade Mark Directive. Therefore, In EU internal market, regional exhaustion will be applied and outside EU, right of trademark proprietor won't be exhausted. Eliminating trade barriers and reducing restrictions to free movements of goods are in order to establish a common market inside EU.²

From “*Silhouette*”³ case, I find that if the trademark proprietors sell or distribute their goods outside EU, the right won't be exhausted. While there is another issue we should consider---- under article 7 of Trademark Directive, the parallel importation can be restricted by trademark proprietor b the third party when reselling by the third party outside EU. If the answer is yes, then the article 7 grants an absolute right for trademark proprietor to protect their right against the third party. The judgment of “*Davidoff*”⁴ case challenged not only this idea but also regional exhaustion.⁵

(ii) *Zino Davidoff SA v. A&G Imports Ltd*⁶ ----challenge to the regional exhaustion

Facts: Z was the owner of UK registered trademarks in respect of certain toiletries. A bought these toiletries which are produced in the EEA, had been sent by Z to Singapore for distribution in the Far East market.⁷ “A purchased the toiletries in the

¹ C-355/96, *Silhouette International v. Hartlauer*, [1998] ECR I-4835.

² J. Kuilwijk, *Parallel Imports and WTO Law: Some thoughts after Silhouette*, European Competition Law Review [1995] 295.

³ C-355/96, *Silhouette International v. Hartlauer*, [1998] ECR I-4822.

⁴ C-414/99, *Zino Davidoff SA v. A&G Imports Ltd*, [2001] ECR I-8739.

⁵ I. STAMATOUDI – P. TORREMANS, *International Exhaustion in the European Union in the Light of “Zino Davidoff”*: Contract Versus Trade Mark Law? in 31 IIC, 2000, 123 ff.

⁶ C-414/99, *Zino Davidoff SA v. A&G Imports Ltd*, [2001] ECR I-8731.

⁷ C-414/99, *Zino Davidoff SA v. A&G Imports Ltd*, [2001] ECR I-8731.

Far East, intending to import them into the EEA.”¹ Z contended that it had not consented to such importation, and that A's actions infringed Z's trademarks.² This claim was refused, however, as “A succeeded in its argument that it had a defense to the claim, on the basis that Z had consented to the importation and sale of within the EEA by reason of the manner in which the goods had been put on the market in Singapore”³, in reliance upon Council Directive 89/104 Art.5(1) and Art.7(1). Z contended that “it had valid reasons under Art. 7(2) for opposing the sale and importation of the goods back into the EEA on the grounds that A had removed certain product code numbers from Z's packaging.”⁴

High Court of Justice of England and Wales, Chancery Division (Patent Court) held, dismissing the application of Davidoff. Laddie J of High court of UK took the view that “there was nothing in existing case law to support that a proprietor has the right to object to unfettered distribution of goods which had been sold on the open market outside the EEA unless he expressly consented to such further distribution.”⁵ Instead, Laddie J held that “if the goods were placed on the market in circumstances where the trade mark proprietor could have placed, but did not in fact place, an effective restraint on their further sale or movement, then purchasers of those goods were free to market the goods wherever they liked including within the EEA and the trade mark proprietor was to be treated as having consented to such marketing.”⁶ Though the application of Davidoff is dismissing, the high court of UK decided to stay the proceedings and wait for the preliminary ruling of ECJ on the interpretation of the meaning of ‘consent’ in Article 7(1) of Directive.⁷

However, ECJ’s ruling was mostly favored to trademark proprietors and totally contrary with Laddie J’s view. ECJ held that

“The consent of a trade mark proprietor to the marketing within the European Economic Area of products bearing that mark which have previously been placed on

¹ *Id.*

² *Id.*

³ C-414/99, *Zino Davidoff SA v. A&G Imports Ltd*, [2001] ECR I-8736.

⁴ C-414/99, *Zino Davidoff SA v. A&G Imports Ltd*, [2001] ECR I-8737

⁵ C-414/99 TO C-416/99, *ZINO DAVIDOFF AND LEVI STRAUSS*, [2001] ECR,I-8745.

⁶ <http://www.twobirds.com/en/news/articles/2001/ecj-rules>.

⁷ C-414/99 TO C-416/99, *ZINO DAVIDOFF AND LEVI STRAUSS*, [2001] ECR,I-8745.

the market outside the European Economic Area by that proprietor or with his consent may be implied, in the view of the national court, unequivocally demonstrate that the proprietor has renounced his right to oppose placing of the goods on the market within the European Economic Area.”¹

“Implied consent cannot be inferred:

— from the fact that the proprietor has not communicated to all purchasers of the goods placed outside the European Economic Area (EEA);

— from the fact that the goods carry no warning of a prohibition of their being placed on the market within the European Economic Area;

— from the fact that the trade mark proprietor has transferred the ownership of the products bearing the trade mark without imposing any contractual restrictions.”²

From the judgment, I see that the implied consent theory which Laddie J applied was totally rejected by the ECJ, *Davidoff*³ becomes an exception of implied consent. When the goods are sold outside EEA, the parallel importation will be restricted and the exclusive right of trademark proprietor is irrelevant with that “the importer of goods bearing the trade mark is not aware that the proprietor objects to their being placed on the market within EEA or sold by unauthorized traders, it is either irrelevant with that authorized retailers and wholesalers have not imposed on their own purchasers contractual reservations setting out such opposition.”⁴

(2) First sale is within EEA

Prior to article 7 of Trademark Directive entering into force, ECJ established the principle for parallel importation through case law. In famous *Centrafarm v Winthrop*⁵, ECJ held that “An obstacle to the free movement of goods may arise out of the existence, within a national legislation concerning industrial and commercial property, of provisions laying down that a trade mark owner's right is not exhausted when the product protected by the trade mark is marketed in another Member

¹ *Id.*

² C-414/99 TO C-416/99, *ZINO DAVIDOFF AND LEVI STRAUSS*, [2001] ECR I-8760.

³ C-414/99 TO C-416/99, *ZINO DAVIDOFF AND LEVI STRAUSS*, [2001] ECR, I-8745.

⁴ C-414/99 TO C-416/99, *ZINO DAVIDOFF AND LEVI STRAUSS*, [2001] ECR I-8761.

⁵ C-16/74 *Centrafarm BV and Others v Winthrop BV* [1974] ECR 1183.

State”¹. “The exercise, by the owner of a trade mark, of the right which he enjoys under the legislation of a Member State to prohibit the sale, in that State, of a product which has been marketed under the trade mark in another Member State by the trade mark owner or with his consent is incompatible with the rules of the EEC Treaty concerning the free movement of goods within the Common Market.”² I think this judgment emphasizes that inside EEA, the free movement of goods should be absolutely protected prior to exclusive right of trademark proprietor. When the goods bearing the trademark which is owned by trademark owner in one member state are first sold inside EEA, the trademark proprietor exhausted his trademark right on the goods.

This regional exhaustion was confirmed by the after case *Terrapin v Terranova*³, ECJ held that “the proprietor of an industrial or commercial property right protected by the law of a Member State cannot rely on that law to prevent the importation of a product which has lawfully been marketed in another Member State by the proprietor himself or with his consent.”⁴ Inside EEA, from my perspective, in order to promote the free movement of goods, regional exhaustion is applied here. The spirit of TFEU and TEU treaty prevails over the protection of exclusive right of trademark owner.

However, this privilege over rights of trademark proprietors doesn’t mean that proprietors can’t pursue his right and protect his trademark when parallel importation occurs. I will talk about in the following section.

(i) *Sebargo and Maison Dubois v G-B Unic*⁵---can consent prohibit parallel importation inside EEA?

The plaintiff Sebago is a US company manufacturing shoes with two registered trademarks named “Docksides” and three trademarks named “Sebago” in Benelux. Sebago granted exclusive distribution to Maison Dubois to sell their shoes.⁶ “The defendant, GB-Unic sold shoes bearing trademarks of ‘Sebago’ and ‘Docksides’ in its

¹ C-16/74 *Centrafarm BV and Others v Winthrop BV* [1974] ECR 1195.

² Case 16/74 *Centrafarm BV and Others v Winthrop BV* [1974] ECR 1198.

³ Case 119/75, *Terrapin v Terranova*, [1976] ECR 1042.

⁴ Case 119/75, *Terrapin v Terranova*, [1976] ECR 1061.

⁵ C-173/98, *Sebargo and Maison Dubois v G-B Unic*, [1999] ECR I-4117.

⁶ *Id.*

Maxi-GB hypermarkets. The shoes are manufactured in El Salvador. GB-Unic bought from a company governed by Belgian law and the main business of the company is parallel importation.”¹ Sebago and Maison Dubois claimed before the Belgian courts that GB-Unic had infringed Sebago's trade-mark right by marketing those goods within the Community without their consent.² Article 7(1) of Trade Mark Directive had been transposed into 13A(8) of the Uniform Benelux Law on Trade Marks, “Belgian Cour d'Appel observed that there are two issues needing to be solved before the case: firstly, from the contention of the plaintiff, the interpretation of Article 13A(8) of Uniform law should be on the position of Community exhaustion while the other party, GB-Unic insisted that the interpretation of the provision should on the position of international exhaustion; Secondly, how to confirm whether the trademark proprietor had given the consent.”³ Finally, the Cour d'Appel decided to stay the proceedings and requested a preliminary ruling to ECJ for the questions under which condition the consent is deemed to be given.⁴

ECJ held according to *Silhouette*⁵ case that “rights conferred by the mark are exhausted only when the goods are put in the EEA and article 7 of Directive doesn't leave to the national laws of member states to stipulate exhaustion of rights of trademark proprietor when the goods bearing the trademark are put outside EEA.”⁶

Next, according to the question raised by Cour d'Appel that whether there is consent in article 7 of Directive for interpretation.⁷ ECJ transformed the question into whether consent should be given “relate to each individual item of the product in respect of which exhaustion is claimed. In article 7 of Directive, there is no clear answer to that question.”⁸ However, ECJ referred to “Article 7(2) of the Directive which, in its reference to the ‘further commercialization’ of goods, shows that the principle of exhaustion concerns only specific goods which have first been put on the

¹ C-173/98, *Sebargo and Maison Dubois v G-B Unic*, [1999] ECR I-4117.

² C-173/98, *Sebargo and Maison Dubois v G-B Unic*, [1999] ECR I-4117.

³ C-173/98, *Sebargo and Maison Dubois v G-B Unic*, [1999] ECR I-4123.

⁴ *Id.*

⁵ C-355/96, *Silhouette International v. Hartlauer*, [1998] ECR I-4825.

⁶ C- 173/98, *Sebargo and Maison Dubois v G-B Unic*, [1999] ECR I-4121.

⁷ *Id.*

⁸ *Id.*

market with the consent of the trade-mark proprietor.”¹ Finally ECJ held that “there to be consent within the meaning of Article 7(1) of that directive, such consent must relate to each individual item of the product in respect of which exhaustion is pleaded.”²

In my opinion, according to Article 7(1) of Directive, when the goods are first sold outside EEA, the right of trademark proprietors would not be exhausted, proprietors can still prohibit the resale or re-importation by the unauthorized third party. In *Davidoff*³ case, ECJ held that “consent must be expressed positively and that the factors taken into consideration in finding implied consent must unequivocally demonstrate that the trade mark proprietor has renounced any intention to enforce his exclusive rights.”⁴ Additionally, “it is for the trader alleging consent to prove it and not for the trademark proprietor to demonstrate its absence.”⁵ From that, I see that in order to protect the trademark owner against parallel importation within EEA, consent must be expressly and the burden of proof to the consent should owe to parallel importers who demonstrate consent has been given by the trademark proprietor, thereby, even within EEA, the proprietor of trademark can still restrict parallel importation through consent “each individual item of the product”.⁶

(ii)Article 7(2) of TMD-----a condition to prohibit parallel importation within EEA

Article 7(2) of TMD provides that “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 the goods is changed or impaired after they have been put on the market.”⁷ From that, I believe that if the trademark proprietor wants to process an action toward parallel importers after the first sale of the goods which bearing the trademark within EEA, there should be “legitimate reasons”⁸ for

¹ C- 173/98, *Sebargo and Maison Dubois v G-B Unic*, [1999] ECR I-4122.

² C-173/98, *Sebargo and Maison Dubois v G-B Unic*, [1999] ECR I-4123.

³ C-414/99 TO C-416/99, *ZINO DAVIDOFF AND LEVI STRAUSS*, [2001] ECR I-8754

⁴ C-414/99 TO C-416/99, *ZINO DAVIDOFF AND LEVI STRAUSS*, [2001] ECR I-8754, paragraph 53.

⁵ C-414/99 TO C-416/99, *ZINO DAVIDOFF AND LEVI STRAUSS*, [2001] ECR I-8754, paragraph 54.

⁶ C-173/98, *Sebargo and Maison Dubois v G-B Unic*, [1999] ECR I-4123.

⁷ C-355/96, *Silhouette International v. Hartlauer*, [1998] ECR I-4825.

⁸ Article 7(2) of Trade Mark Directive of European Union.

trademark proprietor to claim rights and Article 7(2) indicates a most special condition---changing of condition of goods. *Hackney London Borough Council v Cedar Trading Ltd*,¹ is a typical case for “legitimate reasons”.²

In that case, the plaintiff Hackney London Borough brought an action against the dismissal by magistrate of information against defendant, Cedar Trading Ltd, for breaching Food Labeling Regulations 44 (SI 1996 No 1499) before the Queen's Bench Divisional Court.³ “Cedar Trading Ltd had sold three cans of “Coca Cola” and three cans of ‘Sprite’, which were manufactured in Netherland imported into UK”,⁴ with similar cans with domestic ones while the ingredients were written in Dutch which made consumers unable to precisely get the information and tell from the goods which they were confused.⁵ However, there is a provision stipulated exemption of application of Food Labeling Regulation, Regulation 3 of the 1996 Regulations, as amended by the Food Labeling (Amendment) Regulations (SI 1998 No 1398) provides:

“(1) ... these regulations shall not apply in respect of ... (b) any food lawfully produced in another member state brought into Great Britain from a member state in which it was lawfully sold ... which is labeled with a name that is sufficiently precise to inform a purchaser of its true nature and to enable it to be distinguished from food with which it could be confused, the label being in a language easily understood by the purchaser.”⁶

Whether the defendant’s selling could fall with this scope was the center consideration of Lord Justice Kennedy. Finally, Lord Justice Kennedy ruled that “the cans were not labeled with a name sufficiently precise to inform a purchaser of their true nature and to enable them to be distinguished from food with which they could be confused, the label being in a language easily understood by the purchaser.”⁷ This

¹ *London Borough Council v Cedar Trading Ltd*. [1999] EMTR 801.

² Article 7(2) of Trade Mark Directive of European Union.

³ *London Borough Council v Cedar Trading Ltd*. [1999] EMTR 801.

⁴ *London Borough Council v Cedar Trading Ltd*. [1999] EMTR 801.

⁵ *London Borough Council v Cedar Trading Ltd*. [1999] EMTR 801.

⁶ Regulation 3 of the 1996 Regulations, as amended by the Food Labeling (Amendment) Regulations (SI 1998 No 1398).

⁷ *London Borough Council v Cedar Trading Ltd*. [1999] EMTR 801.

case showed that under a lawful reason, in EEA, the trademark owner can prohibit the parallel importation, especial when the conditions of goods are changed. Although article 7(2) stipulates a condition to prohibit parallel importation with EEA, there is no clear definition of “condition of the goods is changed or impaired”.¹

(iii) Judicial practices of Article 7(2) in EEA

*Hoffmann-La Roche v Centrafarm*²-----repackaged parallel imported goods

The plaintiff Roche-Germany, which is an independent company of Roche-SAPAC, was licensed by Roche-Basel to manufacture the pharmaceuticals-“Valium Roche” in the Federal Republic of Germany. A British subsidiary of the Roche-SAPAC also produced “Valium Roche” and sold in UK. The pharmaceuticals in UK are different with those in Germany, as the former is packaged in packets of 20 or 50 tablets for individual use while for hospital use, there were 5 packets ranging from 100 to 250 tablets, however, in UK, each contained 100 and 500 tablets and were cheaper than those in Germany.³ The defendant is a company in Germany belonging to Centrafarm B.V. in Netherland which ran the business of international pharmaceutical trade. The defendant imported “Valium Roche” from UK and sold them in Germany after repacking in Netherland with the notice of “marketed by Centrafarm”.⁴ The plaintiff brought a suit prohibiting Centrafarm: from using in the course of its business dealings in medicinal preparations the names Valium and/or Roche as a trademark, the defendant lodged an appeal to the Civil Senate of the Oberlandesgericht Karlsruhe sitting at Freiburg.⁵ However, the court decided to stay the proceeding to request a preliminary ruling to ECJ toward two questions: “Is the proprietor of a trademark entitled to prohibit the parallel importation which changed the package of its original and if this restriction causes restrictive effect to the market when the proprietor obtains the dominant position in the market of that country where re-importation occurs, is the proprietor still entitled to prohibit that?”⁶

¹ Article 7(2) of Trade Mark Directive of European Union.

² C- 102/77, *Hoffmann-La Roche v Centrafarm*, [1978] ECR I-1166.

³ *Id.*

⁴ *Id.*

⁵ *Id.*

⁶ C- 102/77, *Hoffmann-La Roche v Centrafarm*, [1978] ECR I-1166.

ECJ held according to those questions: “The proprietor of a trade-mark right can prevent a product to which the trade-mark has lawfully been applied in one of those States from being marketed in the other Member State after it has been repacked by a third party. However, such prevention can’t cause a disguised restriction on trade where

— It is established that the use of the trade-mark right by the proprietor will contribute to the artificial partitioning of the markets between Member States;

— It is shown that repackaging cannot adversely affect the original condition of the product;

— The proprietor of the mark receives prior notice of the marketing of the repackaged product; and

— It is stated on the new packaging by whom the product has been repackaged.”¹

Through this case, ECJ established the principle for Article 7(2) of Trade mark Directive--- “condition of the goods is changed or impaired”, which also based on article 36 of TFEU to prevent the monopoly of trademark proprietor of market in order to promote free movement inside EEA. In *Bristol Myers Squibb v Paranova*,² ECJ developed more concrete guidelines to apply Article 7(2)

(3) *Paranova* ³guidelines

The plaintiff, Bristol, Meyers, Squibb were all manufacturer of pharmaceuticals, the defendant, Paranova, was a parallel imported pharmaceutical distributor in Denmark with lower prices. In order to sell these pharmaceuticals in Denmark, Paranova repackaged these products bearing the registered trademarks of Bristol, Meyers, Squibb and changed the quantity of them, then registered the products as in Denmark using the same names as the manufacturers.⁴The plaintiffs brought a proceeding against the defendant before national court of Denmark claiming infringement of trademark right. The national court decided to stay a proceeding for a

¹ *Id.*

² Joined cases C-427/93, C-429/93 and C-436/93) *Bristol Myers Squibb v Paranova* [1996] ECR I-3457.

³ Joined cases C-427/93, C-429/93 and C-436/93) *Bristol Myers Squibb v Paranova* [1996] ECR I-3457.

⁴ *Id.*

preliminary ruling of ECJ. Finally, ECJ established a series guidelines for parallel importers to follow under which condition parallel importation wouldn't be prevented by the trademark proprietors in EEA.¹ These guidelines are similar with the judgment of *Hoffmann-La Roche v Centrafarm*², but more concrete than that one, it included more clear limitations on the requirement of labeling:

“the new packaging clearly states who repackaged the product and the name of the manufacturer in print such that a person with normal eyesight, exercising a normal degree of attentiveness, would be in a position to understand; the presentation of the repackaged product is not such as to be liable to damage the reputation of the trade mark and of its owner; the importer gives notice to the trade mark owner before the repackaged product is put on sale, and, on demand, supplies him with a specimen of the repackaged product.”³

These guidelines were well applied in *Sony v Tesco*.⁴ Sony, the plaintiff, is a company running business of advanced technological objects with registered trademark of “Playstation” in many countries in the world. Sony authorized distributors in UK to sell products and in EEA, they have also granted many distribution licenses to manufacture or sell their goods. Tesco, the defendant, which imported numbers of “Playstations” in France and wanted to resell them in UK, Tesco repackaged them and didn't bear a notice which showed the origin, and these changes made consumers confused them with domestic ones in UK.⁵ However, in this case, Lloyd J held that Tesco “clearly breached the trademark rights of Sony”⁶ which means such repackaging infringed Sony's trademark right. By following the Paranova guidelines, using the “Playstation” on UK adapter was an infringement to the trademark meanwhile the burden of proof should owe to the defendant to show

¹ Joined cases C-427/93, C-429/93 and C-436/93) *Bristol Myers Squibb v Paranova* [1996] ECR I-3458.

² C- 102/77, *Hoffmann-La Roche v Centrafarm*, [1978] ECR I-1166.

³ Joined cases C-427/93, C-429/93 and C-436/93) *Bristol Myers Squibb v Paranova* [1996] ECR I-3545.

⁴ No. MC1999 No. 3983, *Sony Computer Entertainments Inc. v Tesco Stores Ltd* [1999] High Court of Justice (Chancery Division).

⁵ No. MC1999 No. 3983, *Sony Computer Entertainments Inc. v Tesco Stores Ltd* [1999] High Court of Justice (Chancery Division).

⁶ *Id.*

complying with Paranova guidelines.¹ This case, to some extent I think, warns the parallel importers that if they couldn't carefully comply with Paranova guidelines, they might bear the risk of trademark infringement.

In the guidelines, it mentions another condition for prevention of parallel importation inside EEA-----repackaging of parallel importers causes damages to the reputation of trademark and its owner.² This principle latterly showed in *Dior*³ case. In that case ECJ held that "The proprietor of a trade mark may not rely on Article 7(2) of Directive 89/104 to oppose the use of the trade mark by a parallel importer when the use of the trade mark using his trade mark for advertising in a manner which could damage the reputation of the trade mark. In the case of prestigious, luxury goods, the reseller must not act unfairly in relation to the legitimate interests of the proprietor of the trade mark."⁴

Generally speaking, from above case studies, I find that inside EEA, without causing consumer confusion, parallel importation is permitted, as it is helpful to promote the free movement of goods and integration one single market, while ECJ also established some principles and limits to protect trademark owners against parallel importer in case of the damage of good will of trademark. However, outside EEA, according to ECJ, parallel importation is not permitted. Regional exhaustion of rights is adopted by EU toward parallel importation.

2 Legislations and Judicial Practices in U.S.

In this part I will start from analyzing some typical cases then come to the principles established from these cases to analyze the attitude of U.S. toward parallel importation concerning trademarks, finally, I will combine the written legislations to find out the measures US take for protecting the trademark in parallel importation.

(1) Protective function of trademarks--- *Apollinaris v. Scherer*⁵

From the previous analysis of EU's position toward parallel importation, I learn

¹ *Id.*

² Joined cases C-427/93, C-429/93 and C-436/93) *Bristol Myers Squibb v Paranova* [1996] ECR I-3458.

³ C-337/95, *Parfums Christian Dior v. Evora* [1998] ECR, I-6014, para, 43.

⁴ *Id.*

⁵ *Apollinaris Co. v. Scherer*, 27 F. 18 (C.C.S.D.N.Y.1886)

that EU would permit parallel importation according to different local condition while U.S. would permit parallel importation whenever necessary. After experiencing totally prevention of parallel importation, U.S. entered into period of partially permitting parallel importation. From now on, with the development of trading condition and legal consciousness, case laws are continually updated, thus the attitude of international exhaustion principle and parallel importation in US is changing as well.¹As what Americans called parallel importation: grey market, the position of U.S. toward parallel importation is in the grey area as well.²

The first case of parallel importation in U.S. is *Apollinaris v Scherer*³, the plaintiff is the proprietor of the trademark “Hunyadi Janos” which is a European mineral water brand, Saxlehner is the exclusive distributor of Apollinaris in America. In order to prevent parallel importations from Europe into U.S., Apollinaris labeled a notice close to trademark which indicated that all the mineral water sold in Europe is not for export and informed the public in US not to buy such mineral water if this kind of water appeared in U.S. Although it was very clear in the notice that parallel importation is prohibited by the trademark proprietor, it was occurred in U.S., the defendant Scherer imported these products from Germany into U.S. As the labeling in the imported products were different from domestic ones, the plaintiff brought a proceeding before US Federal Circuit Court claiming the classic infringement of trademark by the defendant.⁴

Judge William Wallace’s opinion in this case inspired the consideration of protective function of trademark. He believed that, the primary function of trademark is to protect the consumers from buying counterfeit products, the secondary function is to protect the interest of trademark proprietor.⁵ In this case, according to the primary function, Judge William believed that mineral water that U.S. consumers purchased were still Hunyadi Janos mineral water, there was no confusion on source

¹ W. CORNISH, *Cases and Materials on Intellectual Property*, Sweet and Maxwell, 2006, 90.

² Thomas Hays, *Parallel importation under European Union Law*, Sweet &Maxwell, 2004, 26.

³ *Id.*

⁴ *Apollinaris Co. v. Scherer*, 27 F. 18 (C.C.S.D.N.Y.1886).

⁵ *Id.*

of products, therefore, the primary function of trademark wasn't damaged.¹ However, when referring to the secondary function of trademark, Judge William believed that parallel importation didn't affect the plaintiff's interests, Judge William held that the profit has been obtained after the first sale in U.S., parallel importation of such mineral water from Germany just made the plaintiff didn't get the expecting profit. Parallel importer had purchased these products, they had the freedom to disposal these products by self-wills,² it was obvious that Judge William prefer to principle of international exhaustion of rights. This case established "Universality"³ doctrine, the court ruled that though plaintiff had the territorial right of trademark, it shall not restrict the function of trademark which shows the sources of goods.⁴ The court held that:

"[T]he defendant is selling the genuine water, and therefore the trade-mark is not infringed. The name has no office except to vouch for the genuineness of the things which it distinguished from all counterfeits; and until it is sought to be used as false token to denote that the product or commodity to which it is applied is the product of commodity which it property authenticates, the law of trademark cannot be invoked."⁵

At its heart, "the 'universality' doctrine represented the victory of consumer interests over the 'property' interests of trademark owners."⁶ In upholding the universal authenticating function of marks, courts focused on their role as source designators. They made little or no reference to the role of the owner's goodwill, or to his investment in developing the mark's reputation.⁷

(2) Protection of independent good will--- *A. Bourjois & Co., Inc. v. Katzel*⁸

With the increasing of parallel importation cases, more and more domestic trademark proprietors were invaded by parallel importers, which caused a big lost to

¹ *Id.*

² *Apollinaris Co. v. Scherer*, 27 F. 18 (C.C.S.D.N.Y.1886)

³ W. CORNISH, *Cases and Materials on Intellectual Property*, Sweet and Maxwell, 2006, 102.

⁴ W. CORNISH, *Cases and Materials on Intellectual Property*, Sweet and Maxwell, 2006, 102.

⁵ *A. Bourjois & Co., Inc. v. Katzel* 260 U.S. 689, 691 (1923).

⁶ Doris Estelle Long, "Unitorial" Marks and the Global Economy, *John Marshall Review of Intellectual Property Law* 1:191, 197(2001).

⁷ Doris Estelle Long, "Unitorial" Marks and the Global Economy, *John Marshall Review of Intellectual Property Law* 1:191, 197(2001).

⁸ *A. Bourjois & Co., Inc. v. Katzel* 260 U.S. 689, 691 (1923).

them.¹ The court found that just depending on the “universality doctrine”² couldn’t deal with increasingly acute contradictions, therefore, the court review the *Apollinaris* case,³ and reassess the interests beneath the case, and got the value behind the trademark: goods will⁴. The good will of trademark can’t be divided from investment of trademark proprietor, such good will is established through huge investment during the advertisement and maintain of products by trademark proprietor in order to affect consumers’ purchasing choices. If parallel importation is permitted, free-ride of these importers on the investment of such previous advertisement and maintenance would lead to a huge lost to the trademark owner which is unjustified.⁵ In other words, I believe, parallel importers steal the outcome of the precious investment of trademark proprietors, even some parallel imported goods have the quality problems which damage the good will of trademark proprietor.

In the famous case *A Bourjois & Co. v. Katzel*,⁶ the plaintiff, A Bourjois is a cosmetic company in France which sold Poudre Java, a kind of powder. A Bourjois U.S., an independent company of A Bourjois in France which paid more than four hundred thousand U.S. dollars to the France company to obtain the exclusive distribution license and trademark right of Poudre Java powder and formed an independent distribution system.⁷ Besides, in order to better sell these products within US, U.S. Bourjois implemented new packaging and new advertisements. The defendant, Katzel imported such powder from France and sold them into U.S. market

¹ W. CORNISH, Cases and Materials on Intellectual Property, Sweet and Maxwell, 2006, 102.

² W. CORNISH, Cases and Materials on Intellectual Property, Sweet and Maxwell, 2006, 102.

³ *Apollinaris Co. v. Scherer*, 27 F. 18 (C.C.S.D.N.Y.1886)

⁴ “Good will may be defined as the favorable consideration shown by the purchasing public to goods known to emanate from a particular source.” *White Tower Sys. v. White Castle Sys. of Eating Houses Corp.*, 90 F.2d 67, 69 (6th Cir.), cert. denied, 302 U.S.720 (1937).

“Good will” is “that which makes tomorrow's business more than an accident.” Another definition holds that the basis of [trademark] protection consists of an effort to safeguard a person trading under a certain mark or name against any attempted “interference with his reasonable expectation of future patronage.”

⁵ *White Tower Sys. v. White Castle Sys. of Eating Houses Corp.*, 90 F.2d 67, 69 (6th Cir.), cert. denied, 302 U.S.720 (1937).

⁶ *A Bourjois & Co. v. Katzel*, 274 F. 856(S.D.N.Y.1920).

⁷ *Id.*

and competed with the plaintiff's products. The plaintiff brought a proceeding before District Court.¹In this case, the defendant cited *Apollinaris* case believing that parallel imported goods are genuine which couldn't cause consumer confusion. However, the court didn't support what the defendant argued, the court held that the present case was different with the previous case, while in *Apollinaris* case, the plaintiff never had their independent market, they were authorized by the foreign trademark proprietor to distribute their products. Under such condition, they could easily open US market based on the good will which was established by the foreign trademark proprietor. The plaintiff in that case was just the beneficiary of the authorization relationship.² While in the present case, the plaintiff, U.S. Bourjois had buyout distribution right and trademark right in U.S., and spent a huge amount of money to advertise and expend the market in U.S. In the package of the product, it clearly notified that the powder was originally imported and newly packaged, which made US public believe that this brand had close connection with U.S. Bourjois Company.³From the judgment of district court, it is easy to find that the explanation toward origin of goods of the court was not only based on the geographical location--- French manufacturer, but also based on the consumers' mental awareness. In the present case, U.S. Bourjois had established independent good will of the trademark in U.S. through huge investment to advertise and propaganda, U.S. consumers would connect the powder with U.S. Bourjois when they purchased imported ones, not what French company manufactured.⁴ Therefore, the court ruled that parallel importation of the defendant had caused the consumer confusion that "the public would be confused with the origin of the imported goods and domestic ones".⁵

However, such judgment was overturned in the second trial. In the second trial, Judge Ward provided most of opinions⁶, he advocated to "universality doctrine"

¹ *Id.*

² *Id.*

³ *A Bourjois & Co. v. Katzel*, 274 F. 856(S.D.N.Y.1920).

⁴ *Id.*

⁵ *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675, 44 S. Ct. 4,68 L. Ed. 501 (1923).

⁶ *A Bourjois & Co. v. Katzel*, 275 F.539.

which was established by *Apollinaris* case, should be applied here.¹ He insisted that origins of goods were only could be geographical location, the awareness of consumers should be excluded from the consideration. Meanwhile, he believed that trademark protection should be weaker than patent protection. Judge Hough held opposite opinions to Judge Ward, he believed that parallel importation which damaged the independent good will of trademark proprietor was an unfair-competition.² The case was not only under heated debate in court but also among consumers because of the wide recognition of the brand of Poudre Java powder, yet, the case was still far from reaching a final conclusion until the second year when Section 526 of Tariff Act of 1930 was given birth. In the final trial, the Supreme Court consequently supported district court judgment of the first trial.³ The court held that *Katzel* case was different from *Apollinaris* case, as the plaintiff firstly buyout distribution and trademark right in US from French company in a expense of more than \$400,000, secondly invested heavily in the promotion process which included packaging and marketing and established the good will among consumers, thereby, in this case, the trademark right of the plaintiff should be protected preferentially.⁴ Supreme Court held that though the face powder was not manufactured by the plaintiff, on one hand, U.S. consumers could only buy such powder from the plaintiff, on the other hand, from the packaging of the powder, consumers would connect with the plaintiff, thence, the plaintiff had established an independent good will in U.S.⁵ Through twists and turns of *Katzel* case, I find that it is clear that the position of U.S. toward parallel importation is changing whenever is necessary.

I believe that the special idea of independent good will proposed by US which complies with function of trademarks and also reflects the characters of trademarks, makes the regulatory of parallel importation relating to trademarks more targeted, and separate trademark from other intellectual property objects. U.S. trademark protection more focuses on the good will of trademark. Because of promoting freedom of trade,

¹ *A Bourjois & Co. v. Katzel*, 275 F.539.

² *Id.*

³ *Id.*

⁴ *A. Bourjois & Co., Inc. v. Katzel*, 260 U.S. 689 (1923).

⁵ *Id.*

protection of trademark is less stronger than of patent right, good will of trademark is the final shield for trademark proprietor against parallel importation. Protection of independent good will seeks to balance the interests of consumers and interests of trademark proprietor. In U.S., parallel importation infringing independent good will of trademark will cause consumer confusion to the origin of goods.

(3) Legislations of parallel importation in U.S.

Legislations regulating parallel importation in U.S. mainly are Tariff Act, Customs Law, and Lanham Act. The most important one among them is Section 526 of Tariff Act of US and its interpretation. It provides that:

“(a) That it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise or the label.....bears a trade--mark owned by a citizen of, or by a corporation...unless written consent of the owner of such trade--mark is produced at the time of making entry. (b) Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws. (c) Any person dealing in any such merchandise may be enjoined from dealing therein within the United States.....shall be liable for the same damages and profits provided for wrongful use of a trade—mark.”¹

This provision can be summarized as that importation of goods bearing trademarks which registered by US companies or citizens is prohibited. However, this is only a general provision, it implementing depends on matching-set of by-laws.

In 1923, relevant customs regulations were given birth with introduction of Section 526 of Tariff Act, though through three amendments from 1923 to 1931, in the final version of 1999, it allows owners of United States trademark to prevent imports where marks on goods are confusingly similar to those owned by United States owner or where marks are owned by United States companies,² it also establishes “affiliate

¹ Section 526 of Tariff Act.

² *International Armament Corp. v Matra Manurhin International, Inc.* (1986, ED Va) 630 F Supp 741, 229 USPQ 450.

exception”¹ rules and “physical and material differences”² against such exception.

The previous exception includes two situations: one is that the proprietor trademark in the US is the same with the foreign one; another is U.S. company is in a parent and subsidiary relationship with foreign trademark right proprietor or both of them are subsidiary company of the same parent company.

When referring to “affiliate exception”³ and “physical and material differences”⁴, we have to mention *Lever Bros v. United States*⁵, the plaintiff Lever is a US company which has a affiliate relationship with Lever in UK, Both Lever US and Lever UK manufacture a deodorant soap under a “Shield” trademark and a liquid dishwashing detergent under a “Sunlight trademark”.⁶ There was a parallel importer imported those two products into U.S. and sell in the domestic market and sold them in the domestic market. Lever U.S. required U.S. customs to detain these goods while the customs rejected their request as the reason of “affiliate exception”.⁷ The Lever claimed that U.S. customs should detain the goods based on § 42 of the Lanham Act of 1946, which provides that

“no article of imported merchandise which shall copy or simulate the name of the [sic] any domestic manufacture, or manufacturer, or trader, . . . or which shall *copy or simulate a trademark* registered in accordance with the provisions of this chapter 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 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. . . .”⁸

However the defendant argued for affiliate exception based on 19 C.F.R. § 133.21(c) (1988) at that time provided that

“(c) *Restrictions not applicable.* The restrictions set forth in paragraphs (a) and (b)

¹ *Lever Bros. Co. v United States* (1989, App DC) 278 US App DC 166, 877 F2d 101

² *Id.*

³ *Lever Bros. Co. v United States* (1989, App DC) 278 US App DC 166, 877 F2d 101

⁴ *Id.*

⁵ *Id.*

⁶ *Id.*

⁷ *Id.*

⁸ Section 42 of Lanham Act of 1946.

of this section do not apply to imported articles when: (1).....(2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control (see §§ 133.2(d) and 133.12(d))”¹.

In the first trial, Columbia District Court supported U.S. Customs, the plaintiff appealed to Circuit Court of Appeals and was supported by the appeal court.² The Circuit Court of Appeal supported the existence of “physically and material differences”³ raised by the plaintiff. The soaps sold by Lever U.S. bearing “Shield” trademark were different with ones manufactured in UK as they had additional function of deodorizing and were with special stains in their ingredients. Differences were more obvious between dishwashing detergents under a “Sunlight trademark” manufactured in UK and U.S. The dishwashing manufactured by U.S. Lever produced enough foams according to soft water in U.S. while the one manufactured in UK was made according to British hard water environment.⁴ With such huge differences, parallel importation had inevitably caused consumer confusion.⁵ This case established the famous “Lever-Rule” which is now stipulated in 19 CFR 133.23 (a) (3) and (b): “*Labeling of physically and materially different goods. Goods determined by the Customs Service to be physically and materially different under the procedures.....subject to common ownership or control with the U.S. owner shall not be detained... But the label must be in close proximity to the trademark as it appears in its most prominent location on the article itself or the retail package or container. Other information designed to dispel consumer confusion may also be added.*”⁶

In practices of U.S. customs, if trademark right proprietors claim for the infringement of their trademark rights by parallel imported products, they need to provide a specify instruction of physical and material differences meanwhile add evidences to prove that.⁷ After the Customs receive the application, they will compare

¹ 19 C.F.R. § 133.21(b) (1988) Articles suspected of bearing counterfeit marks.

² *Lever Bros. Co. v United States* (1989, App DC) 278 US App DC 166, 877 F2d 101.

³ *Lever Bros. Co. v United States* (1989, App DC) 278 US App DC 166, 877 F2d 101.

⁴ *Id.*

⁵ *Id.*

⁶ 19 CFR 133.23 (a) (3) and (b), Restrictions on importation of gray market articles.

⁷ *Vivitar Corp. v United States* (1985) 3 Fed Cir Trade Cas 124, 761 F2d 1552, 225 USPQ 990, 1985-1

domestic products to imported ones according to standards such as construction, ingredients, recipes, official documents other elements which may cause material differences leading to consumer confusion. Once domestic products obtain the protection from parallel imported ones, the customs will published it.¹

Under 19 USCS § 1526, a test of infringement is whether defendant's use of name is likely to cause confusion, or to cause mistake, or to deceive.² Remedies available under 19 USCS § 1526 are not exclusive remedies available against foreign manufacturer or importer who infringes United States registered trademarks in United States.³ While it also offers solutions for parallel importers against trademark proprietors in U.S. Importer may determine whether domestic trademark is entitled to registration by suit against its owner and collector to have goods admitted. In *Holland v C. & A. Import Corp.*,⁴ with result that importer of wine was denied injunctive relief against interference with importation of wine labeled with English translation of Latin words as to which wine importer erroneously claimed exclusive trademark; too, plaintiff was denied injunction to cancel invalid trademark of Latin words of rival importer.⁵

Except Section 526 of Tariff Act, section 337 also can be the base to prevent parallel importations. Any U.S. enterprises that importation of products causes unfair competition or infringe their trademark rights, they can request to USITC (United States International Trade Commission) to temporarily or permanently bar the importation of such products.⁶ When judging whether such importation causes unfair competition, “material differences”⁷ are also the standard for USITC to apply. From that, we can see that Section 337 offers quick remedies form domestic trademark

CCH Trade Cases P 66597, cert den (1986) 474 US 1055, 88 L Ed 2d 769, 106 S Ct 791.

¹ 21 C.F.R. § 701.3 (1988).

² 19 USCS § 1526

³ *Menendez v Faber, Coe & Gregg, Inc.* (1972, SD NY) 345 F Supp 527, 174 USPQ 80, mod on other grounds (1973, CA2 NY) 485 F2d 1355, 179 USPQ 513, revd on other grounds (1976) 425 US 682, 48 L Ed 2d 301, 96 S Ct 1854.

⁴ *Holland v C. & A. Import Corp.* (1934, DC NY) 8 F Supp 259.

⁵ *Id.*

⁶ Section 337 of Tariff Act.

⁷ *Lever Bros. Co. v United States* (1989, App DC) 278 US App DC 166, 877 F2d 101.

owner and also makes USITC become fast relief channels for trademark owners.

Besides Tariff Act and Customs regulations, Lanham Act is the most important sources for trademark owner to seek remedies and prevention parallel importation. Section 32 provides that “use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive.”¹Section 42 stipulates that imported goods shall not copy or imitate trademarks registered in US², from the literal meaning, if there are no copy and imitation, the parallel importation can be permitted. However, in *Lever* case, judges held that when imported products which have physical and material differences with domestic ones bear the same trademark with domestic ones, such product are not “genuine”. According to Section 43 (a) “Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word....or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which is likely to cause confusion.....shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.”³

From the three provisions above, if the trademark owner can prove physical and material differences which cause a likelihood of confusion, they can seek remedies under Lanham Act.

Generally speaking, likelihood of confusion is the basic key element for US to consider in parallel importation cases concerning trademark. Beside, whether trademark owners (plaintiffs) have independent good will of trademark in domestic market is another element for courts to recognize that whether parallel importation cause an infringement to the trademark owner. US provides regulations in Lanham and Tariff Act, implemented by Custom Regulations--19 CFR 133.23 (a) (3) and (b), however, the most important link to interpretation and establish different principles in different cases is the court. U.S. case law establishes clear principles for judges to decide when parallel importation is permitted, when it is not permitted. As I have

¹ Section 32 of Lanham Act.

² Section 42 of Lanham Act.

³ Section 43 of Lanham Act.

mentioned in the beginning of this part, US accepts international exhaustion of right when it is necessary.

3 Comparative Analysis on Judicial Practice of Parallel Importation relating to Trademarks in EU and U.S.

In this part, according to the above research, I will compare the attitude exhaustion of rights on trademarks in EU and US, based on that I will combine analyzing the similarities and differences on legislation and judicial practices on the trademark protection on parallel importation in both jurisdictions. I will stretch my findings from following aspects:

(1) Objective of balancing interests

In article 6 of TRIPS, each station has the freedom to legislate toward parallel importation according to its national situation, in other words, conflicts and balances of each party's interests determines the position of each nation toward parallel importation. Conflicts of interests are various including conflicts between trademark right and ownership, territorial principle and free trade policy, domestic consumers and relevant trademark proprietors, intellectual property importing countries and intellectual property exporting countries and so on.

From my previous empirical study, I find that EU takes the position of regional exhaustion of trademark right inside EU which aims at unifying the member states legislation, and eliminating trade barriers among nations while outside EU, trademark right is not exhausted¹; U.S. will more emphasize the protection of good will of trademark, propose the "physical and material differences"² to prevent parallel importation. Through twists and turns of *Katzel*³ case, 19 USCS § 1526 and 19 C.F.R. § 133 were given birth.

Balancing interest requires each nation takes position of exhaustion of rights according whenever is necessary or suitable for local condition. The more important interests prior to the less one, in order to make the overall interest reached the best.

¹ According to the previous empirical studies in this paper.

² *A Bourjois & Co. v. Katzel*, 274 F. 856(S.D.N.Y. 1920).

³ *A Bourjois & Co. v. Katzel*, 274 F. 856(S.D.N.Y. 1920).

Balancing interest requires clear and comprehensive recognition of the domestic policy and the status of a nation in international trade which includes the quantity of parallel importation relating to trademark in domestic market, the loss of the trademark proprietor because of parallel importation, profits that the consumers obtain from parallel importation and development and trend of current international trade. Only through that, each nation can choose the most suitable position of exhaustion of right and legislation of parallel importation. Besides, it also requires each nation to seize the main interest contradiction. For example, EU focuses on regional integration, U.S. emphasize the good will established by trademark owner.¹

On the legislations of parallel importation relating to trademarks, from my previous empirical studies, I find that case laws are applied more than statutes. Even though in EU, article 7 of Trademark Directive doesn't give clear provision when first sale of goods is outside EU, ECJ gives the clear interpretation through case laws and gradually defines the unified rules.² Lack of legislations while complement through case laws is the character of parallel importation relating to trademarks, such circumstances is determined by various types of parallel importation, complexity of conflicts of interest and changing of international trade situation. Under such comprehensive condition, certain legislation will tie the hands and feet of judges and prevent the judicial initiative. Although in Tariff act, US doesn't mention the regulation toward parallel importation, Customs Laws complete the gap of implementation of Section 526 of Tariff Act. Customs are the checkpoint of whether goods can be parallel imported into U.S., Customs Laws promote the quickly solutions for trademark owners protecting their rights against parallel importations. Generally speaking, balancing interests are the key element for the ECJ and U.S. courts to consider whether parallel importation is permitted and whether principle of international exhaustion of right is applied.

(2) Trend of international exhaustion of rights

Though EU and US take different positions toward exhaustion of rights and have

¹ From the previous empirical studies of part 1,2 of Chapter 3 of this paper.

² *Id.*

different legislations, from overall situation, there is no shortage of supporting international exhaustion of trademark right in both EU and US. In *Davidoff*¹ case, Laddie J shows her preference of international exhaustion, and I believe that the free movement of goods inside EU will consequently make EU open its market to non-member states.² “Affiliate exception”³ stipulated in 19 CFR 133.23 can be regarded as measures for parallel importers against domestic trademark proprietors. From previous case studies, I believe that though both EU and U.S. are easily to attract parallel importation because of developed countries with high price of intellectual property goods and such importation will decrease status of domestic right holder’s market position, according to uniqueness of trademark and from the perspective of prevention of monopoly of trademark owner and protection of consumers, EU and US still take weaker protection toward trademark right and to individually cases, they will take international exhaustion principle to open their domestic market.

(3) Material differences

In EU, article 7, paragraph 2 of Trade Mark Directive provides that “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 the goods is changed or impaired after they have been put on the market.”⁴ In US, through *Katzel* case, “physical and material differences”⁵ becomes the shield for trademark proprietor against “affiliate exception”.⁶

In my opinion, material differences are the last and the most important defense for protection of trademark right against parallel importation. Though protection of trademark is weaker than patent right, the investment of trademark owner can’t be ignored before parallel importation. In order to prevent free-rider and protect

¹ C-414/99 TO C-416/99, *ZINO DAVIDOFF AND LEVI STRAUSS*, [2001] ECR I-8754

² C-414/99 TO C-416/99, *ZINO DAVIDOFF AND LEVI STRAUSS*, [2001] ECR I-8757.

³ *A Bourjois & Co. v. Katzel*, 274 F. 856(S.D.N.Y. 1920).

⁴ Article 7 of Trade Mark Directive of EU

⁵ *A Bourjois & Co. v. Katzel*, 274 F. 856(S.D.N.Y. 1920).

⁶ E. Dugan, *United States of America, Home of the Cheap and the Gray: A Comparison of Recent Court decisions affecting the U.S. and European Gray Markets*, (2001) 33 Geo. Wash. INT.L Rev.,397.

consumers from confusion, material difference is the last defense to be carefully guarded.

Generally speaking, from my perspective and previous empirical studies, if the imported goods may cause a likelihood of confusion, the goods shall be barred from importation. Outside EU, parallel importation is prohibited according to Article 7 of TMD, inside EU, repackaging or relabeling of imported goods which makes consumers hard to tell them from domestic ones will be prohibited. In US, if material differences exist in imported goods and may cause consumers confusing with domestic ones or damaging the independent good will of domestic trademark owners, the importation and selling in domestic market will be prohibited. Some goods for example, cosmetic, food or pharmaceuticals will be differed in ingredients to adjust to local environment or use body constitution of local people, parallel importation will make consumers confused with domestic ones and may cause serious consequences after they use them which may lead to serious damages to the good will of domestic trademark owner. Under such condition, both EU and U.S. stipulate material differences in statue and established the principle in case law.

Chapter Four Parallel Importation Concerning Trademarks in China

1 Status Quo of Parallel Importation and Legislation Background of Trademark Law in China

In this part, I will firstly introduce the current status of parallel importation in China including economic and political background, then I will move to the trademark law amendment during China's interaction in international trade (entering WTO), based on which I will show the convergence and divergence China's reception of international intellectual property treaties in Chinese trademark law.

(1) Status Quo of parallel importation in China

Before China entered WTO, with low labor costs in domestic market, the prices of goods were lower than foreign ones, coupled with high import duties imposed, parallel importation cases were very few and they didn't catch the attention of businessmen and consumers. After entering WTO, things were changed. In order to comply with the requirement of WTO, surely, China made some policy and regulatory changes: first of all, reduce the trade barrier including tariff barriers and non-tariff barriers. On 22, April, 2015, China and Indonesia reached an agreement to induce the tariff and non-tariff barriers to promote the free movement of goods between two countries.¹ After the conclusion of free trade area negotiation between China and South Korea, both countries agreed to eliminate or greatly reduce the trade and investment barrier.² Secondly, expand the introducing of foreign investment and reduce the access restrictions for foreign companies, for example, China reduced the access restrictions of foreign banks through cancelling restrictions of foreign currency business to Chinese citizens³; Finally, with RMB going strong and the price differences gradually enlarging, parallel importation came into being in China.⁴ With

¹ <http://www.chinanews.com/gn/2015/04-22/7227142.shtml>, assessed on 12 June 2015.

² <http://cn.reuters.com/article/2014/11/10/china-sk-deal-done-idCNKCS0IU05120141110>, visited on 12, June, 2015.

³ <http://www.people.com.cn/GB/paper81/10995/997034.html>, assessed on 12 June 2015.

⁴ XIANG GAO, *Major Changes to PRC Trademark Law*, World Intellectual Property Review, 70

that reason, parallel importation becomes more and more popular in China as a way to make huge profit and increase domestic consuming capacity.

(2) Amendment of trademark law in China

Since China's reform and opening up¹, economic development has always been the primary issue for the central government to take into account, forced by the policy, many aspects of the society had to be transformed to comply with the economic policy. Especially in legal system, at first, we transplanted some legal systems from western countries, however, this kind of transplant needed a long time to adapt to the special situation and political background in PRC, in this period, it needed to be revised and amended by men to follow the change of the socialist society.²

Gradually, our country carried out internalized reform forced by the external power, such as globalization. ³Introducing enough investment was necessary, so entry into WTO was a wise choice. No matter how difficult the process was, we, China, finally became a member of WTO accompanying with a rapidly increasing of our domestic revenue. However, we also saw the insufficiency of our legal system, which had to be consistent with the globalization and international norms such as TRIPS⁴.

“TRIPS was negotiated at the end of the Uruguay of General Agreement on Tariffs and Trade treaty on 1994.”⁵This document offers the minimum standard for the protection of IP right, the members of TRIPS have the obligation to comply with the stipulations and provisions of that.⁶ It aims at “promoting the efficient and sufficient protection of intellectual property meanwhile guaranteeing that the procedure and measures of IP protection can't be the legal barrier for freedom of global trade, so as to reduce the distortions and barriers.”⁷This goal gives a guiding principle for members to learn the attitude of WTO toward intellectual property. According to that,

(2011).

¹ Guo Wei, 'The trial of the TRIPS Agreement in the Chinese IP law' (2007) Canadian Social Science 43.

² *Id.*

³ *Id.*

⁴ <http://www.wto.org/english/tratop_e/trips_e/trips_e.htm> assessed 3 June 2015.

⁵ Guo Wei, 'The trial of the TRIPS Agreement in the Chinese IP law' (2007) Canadian Social Science 43.

⁶ <http://www.wto.org/english/tratop_e/trips_e/tripfq_e.htm> assessed 3 June 2015.

⁷ <http://www.wto.org/english/tratop_e/trips_e/t_agm2_e.htm> assessed 3 June 2015.

it is necessary for each member to amend their legislation to fulfill the requirements of TRIPS, this process, is also can be regarded as a digestion of the international rules and integrate into the domestic legal system. The international norms first needed to be learned by the government combining with the domestic political and economic status, then transformed into the domestic legal system.¹ China also is involved in such a process.

Our first Trademark law was implemented in 1983 when were not a member of WTO, the content of this law was very simple, and incomplete, and cases of trademark were in a small number and the market then was still in a large extent regulated by the government, trademark was only a term to Chinese businessmen and there were few people who could come into mind that trademark also could bring plentiful economic interest.² With the development of the flexibility of the policy, Chinese government saw the advantages of opening the market, so they reduced the control of the market, while, more and more new problems arose, which the old legal system would not be sufficient to cope with. To make the market more regulated, the law had to be amended.³In 1993, the first amended Trade mark law was implemented, though it mentioned some specific protections of the trademark it did not cover the protection of well-know trademark or the definition of well-known trademark,⁴ just symbolically mentioned in article 27 “if a trademark is registered through a deceiving or other illegal ways, then the Trademark Office can cancel the registered mark.”⁵The first amendment contained the implementation of the following aspects: add the provision of the service trademark; add the provision of the cancellation of the improperly registered trademark and enhance of the crackdown of the infringement of trademark.⁶However these aspects were only the basic level of the protection. This legislation couldn’t handle all kinds of trademark suitcases, while, on the hand,

¹ XIANG GAO, *Major Changes to PRC Trademark Law*, World Intellectual Property Review, 70 (2011).

² *Id.*

³ *Id.*

⁴ *Id.*

⁵ Article 27 of Trademark law in PRC 1993

⁶ XIANG GAO, *Major Changes to PRC Trademark Law*, World Intellectual Property Review, 70 (2011).

hardships of economic development forced China to reconsider the choice of being a member of WTO.¹

In October 2001, before China entered WTO, the trademark law was amended again, this was the second amendment, in the amendment outlined the protection of the well-known trademark, this was the first time that the “well-known trademark”² appeared in Chinese IP legislation, the rational behind this was to follow the requirements of TRIPS. Now let’s take a look at the provision of protection of the well-know trademark in TRIPS. The relevant provision is article 16 of TRIPS, in the paragraph 2, it clearly emphasizes the definition and recognition of the trademark: “In determining whether a trademark is well-known, Members shall take account of the knowledge of the trademark in the relevant sector of the public, including knowledge in the Member concerned which has been obtained as a result of the promotion of the trademark.”³ In the third paragraph, it expands the scope of the well-known trademark, “extend to the service trademark protection of well-know trademark, and to the dissimilar good or services which connects the owner of a trademark include the well-know trademark.”⁴ Based on Paris Convention, it promotes the protection of the well-known trademark.⁵ Compared to the second amendment of Trademark Law, it added the provision of the well-know trade mark and very similar to the article 16 of TRIPS, it expanded the subject and object of the trademark law which complied with the article 15 of TRIPS⁶, and involved more types of trademark and made the protection wider than before. I only list one aspect of the amendment. There are many other area in trademark law amendment showing that the consistency with the requirements of TRIPS, such as the provision of geographical indications⁷, before

¹ XIANG GAO, *Major Changes to PRC Trademark Law*, World Intellectual Property Review, 70 (2011).

² XIANG GAO, *Major Changes to PRC Trademark Law*, World Intellectual Property Review, 70 (2011).

³ <http://www.wto.org/english/tratop_e/trips_e/t_agm3_e.htm#2> assessed 3 June 2015.

⁴ <http://www.wto.org/english/tratop_e/trips_e/t_agm3_e.htm#2> assessed 3 June 2015.

⁵ Brandon Barker, *The Power of the Well-known Trademark: Courts Should Consider Article 6bis of the Paris Convention an Integrated Part of Section 44 of the Lanham Act* (2006) Washington Law Review, 363.

⁶ <http://www.wto.org/english/tratop_e/trips_e/t_agm3_e.htm#2> assessed 3 June 2015.

⁷ United States Patent and Trademark Office, ‘Geographical Indication Protection in the United States’< http://www.uspto.gov/web/offices/dcom/olia/globalip/pdf/gi_system.pdf> assessed 3 June

entry into WTO, there were no relevant stipulations or regulations about geographical indications, in the second amendment, for keeping the convergence with the TRIPS(article 22), provided the geographical indications¹. At the moment when we entered WTO, domestic legal system was different from before, I think that as we wanted to open the market, so the legislation should be modernized as well which requires to fulfill the international standards, there is no doubt that TRIPS offers such minimum standards for our IP legal regime.

In 2013, the trademark law experienced the third amendment which shows the trend to comply with TRIPS meanwhile it shows that our IP legal system is gradually mature and more and more globalized.² More domestic political and economic elements are involved, we have formed a distinctive IP legal regime during past years, I believe that this process reflects the interaction between international rules and domestic legal system, in order to illustrate my opinion, I present the example of the well-known trademark. The new trademark law promotes the protection of the well-know trademark,³ TRIPS requires the definition and recognition of the well-know trademark, in the end of article 14 of the new trademark law, it provides that the sign of ‘well-known’ can’t be put on the goods or the package, or other commercial advertising.”⁴This provision, I believe, to some extent, is to make the “well-known trademark” as a legal label, not used for advertising of the reputation and to return right of the recognition of well-know mark to the court, and to prevent the abuse of the term “well-known”.⁵ “Likelihood of confusion”⁶ stipulated in the article 16 of TRIPS also is introduced into new trademark law, which has been a long time for the western countries such as US and UK to apply as a standard to determine

2015.

¹ Article 16 of Trademark law in PRC 2001

² XIANG GAO, *Major Changes to PRC Trademark Law*, World Intellectual Property Review, 70 (2011).

³ *Id.*

⁴ Article 14 of Trademark law of PRC 2013

⁵ Brandon Barker, *The Power of the Well-known Trademark: Courts Should Consider Article 6bis of the Paris Convention an Integrated Part of Section 44 of the Lanham Act* Washington Law Review,363(2006).

⁶ Article 16 of TRIPS.

trademark infringement.¹ Such example I think has shown that TRIPS had affected our domestic IP legislation, and China also complies with the requirement of TRIPS in order to follow the international standard. Not only in trademark law, more evidences are showed in the process of patent law and copy right law as well.² Since we enter WTO, we have to make ourselves adapt to the development of the international legislation status, at first it was forced by the international rules to accept the change, but now we are willing to make a change. Though we make a lot of change on our trademark law to meet the requirements of TRIPS, we still don't have clear provisions toward parallel importation in our trademark law which would leave to the court to find the solutions in different cases.

From my perspective, as harmonization of intellectual property law in the world is the trend of today's global IP legal regime,³ China is now also involved in such a process. Every coin has two sides, with the benefits brought by such a process, some negative effects also began to reflect. Some Chinese scholars believe that with the globalization and the influence from the developed countries, Chinese IP legal system will increasingly converge to the IP legal system of western countries and more and more scholars would like to compare our IP legal system to the developed countries and find the shortcomings or advocate to introduce the legislation from US or UK to our legislation⁴, will it be more appropriate and helpful for our country? I think the answer will be very complex.

2 Legislations and Judicial Practices of Parallel Importation relating to Trademarks in China

When referring to parallel importation, it is clearly regulated and permitted in Patent law of PRC. In the amendment of Patent law in 2009, article 69 provides that

¹ Brandon Barker, *The Power of the Well-known Trademark: Courts Should Consider Article 6bis of the Paris Convention an Integrated Part of Section 44 of the Lanham Act* (2006) Washington Law Review, 363.

² XIANG GAO, *Major Changes to PRC Trademark Law*, World Intellectual Property Review, 70 (2011).

³ James B. Kobak, Jr., *Exhaustion of Intellectual Property Rights and International Trade*, 5 GLOBAL ECON. J. Issue 1, Article 5 (2005).

⁴ Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002, 174,189.

“The following shall not be deemed to be patent right infringement: (1) After a patented product or a product directly obtained by using the patented method is sold by the patentee or sold by any unit or individual with the permission of the patentee, any other person uses, offers to sell, sells or imports that product.”¹ According to that parallel importation of patented goods is approved by law, on trademark issue, there is no law providing this issue clearly, including trademark law of PRC and anti-unfair competition law of PRC. Though there are no clear regulation toward parallel importation relating to trademarks in China, it doesn’t mean the court can’t rule such cases. Through following typical cases, we can see the position of parallel importation and rights of exhaustion in China.

(1) “LUX”² case---infringement to the exclusive license of a trademark

This case was the first parallel importation case concerning trademarks happened in China. In this case, the plaintiff, Shanghai Li Hua Company, was a joint venture company with Dutch Unilever and it was established in China. Dutch Unilever signed an exclusive license to Shanghai Li Hua which indicated expressly that the plaintiff had the exclusive distribution right of goods bearing the trademark of “LUX”, this exclusive distribution also was put on a record by the plaintiff in Trademark Office and General Customs. Coincided with Asian Financial Crisis in 1998, Thai baht devaluated while RMB went strong, there was obvious price differences between these two nations, which attracted the parallel importers’ attention.³ They bought soaps manufactured in Thailand bearing trademark of “LUX”, then imported them to China. Such performance squeezed the plaintiff’s market and caused huge loss to the plaintiff of almost 30 million.⁴ In 1999, Foshan Customs discovered that and seized such patch of soaps. These soaps were imported by the defendant, Guangzhou Import and Export Ltd, Co. The plaintiff brought a proceeding before Guangzhou

¹ Article 69, paragraph 1 of Patent law of PRC

² Xiang Yu, *The Regime of Exhaustion and Parallel Imports in China*, 26 EUR. INTELL. PROP. REV. 105, 106-07(2004).

³ Xiang Yu, *The Regime of Exhaustion and Parallel Imports in China*, 26 EUR. INTELL. PROP. REV. 105, 106-07(2004).

⁴ *Id.*

Intermediate People's Court against the defendant asking for prohibiting such import.¹

The court supported the plaintiff's claim as defendant didn't offer enough evidences to prove that parallel imported goods were permitted to be manufactured by the trademark proprietor and the plaintiff had the exclusive distribution right which was authorized by Dutch Unilever, the plaintiff's exclusive right to use the trademark "LUX" shall be protected in China. The defendant imported and sold soaps bearing the same trademark with the plaintiff without consent of the plaintiff or trademark proprietor, which had infringed the exclusive right of the plaintiff to use the trademark "LUX" in China.² According to that, the court ordered the defendant to cease such infringement immediately and compensate the loss of the plaintiff.³

However, it was the first parallel importation concerning trademarks case in P.R.C., I believe that there are many interesting aspects to analyze. From my perspective, the plaintiff didn't mention identification of the authenticity of sources while claiming the infringement of exclusive distribution right and asking for protection of exclusive right to use, through which we can assume that the plaintiff knew that these soaps were "genuine"⁴, yet, the court proposed in the judgment that the defendant didn't have enough evidences to prove these soaps were authorized to manufacture. The court had obviously breach the neutral position of court meanwhile breach "who advocate who proof"⁵. As this was the first case of parallel importation concerning trademarks and there were no provision provided about that in relevant law, on that time, internet was not advanced, Chinese judges couldn't refer to foreign judicial practices to solve such issue,⁶ therefore, the court simply denied the existence of genuine and didn't classify this case as parallel importation case.

¹ *Id.*

² *Id.*

³ Xiang Yu, *The Regime of Exhaustion and Parallel Imports in China*, 26 EUR. INTELL. PROP. REV. 105, 106-07(2004).

⁴ Takamatsu, *Parallel Importation of Trademarked Goods: A Comparative Analysis*, 57 Wash. L. Rev. 433, 434 (1982)

⁵ Mo Zang, Paul Zwier, *Burden of Proof—Developments in Modern Chinese Evidence Rules*, Tulsa Journal of Comparative & International Law, Vol. 10 217,270(2003).

⁶ Xia Fan, *Cross the grey market—how enterprises escape from damages in parallel importation* <http://www.unitalen.com.cn/html/report/25424-1.htm> assessed on June 20.

Even though it was new to Chinese court, the judgment still had some conflicts with legislations at that time. From my perspective, the judgment ruled that the defendant infringed the exclusive right to use the trademark “LUX” of the plaintiff, to some extent, this was equal to admit that regional restriction clause in distribution license agreement can break the relativity of the contract and oppose to apply right of international exhaustion. As I mentioned before, there were no regulation provided in Trademark Law of P.R.C. and Anti-Unfair Competition law of P.R.C., even legislations didn’t grant to break the relativity of the contract, not to mention contract. Besides, according to the relativity of contracts, it only binds to two parties who engaged in the contract while can’t extend to the third party unless it is provided by law that in some specific scopes such as US patent law permitted licensee and licensor to sign an exclusive license agreement to restrict the exhaustion of patent right. In Shanghai Li Hua case, there were no statute laws or regulations providing whether regional agreement can break the relativity of contract, thereby, according to general rules of Contract law of PRC, the exclusive distribution agreement can’t prevent the “genuine goods”¹ which were imported by the third unauthorized party. “LUX”² case was the first parallel importation case concerning trademarks happened in China, though it escaped from the definition of parallel importation concerning trademarks, it still attracted Chinese judicial scholars’ attention to discuss and research.

(2) AN’GE ³case-----unfair competition performance

Since “LUX”⁴ case, there was hot debate toward parallel importation concerning trademarks among scholars and judges. Shortly after that case, another similar case was trialed before Beijing Second Intermediate Court.

The Plaintiff in this case was Fa Hua Yi Lin Trading Company established in

¹ Takamatsu, *Parallel Importation of Trademarked Goods: A Comparative Analysis*, 57 Wash. L. Rev. 433, 434 (1982)

² Xiang Yu, *The Regime of Exhaustion and Parallel Imports in China*, 26 EUR. INTELL. PROP. REV. 105, 106-07(2004).

³ Xia Fan, *Cross the grey market—how enterprises escape from damages in parallel importation* <http://www.unitalen.com.cn/html/report/25424-1.htm> assessed on June 20.

⁴ Xiang Yu, *The Regime of Exhaustion and Parallel Imports in China*, 26 EUR. INTELL. PROP. REV. 105, 106-07(2004).

Beijing, who signed a license agreement with French “AN’GE” company which grant the plaintiff the exclusive right to distribute clothes bearing registered trademark “AN’GE” in some big cities in China such as Chongqing. One of defendants, Shi Ji Heng Yuan Company sold the same products bearing trademark “AN’GE” in the counter of “AN’GE” of Chongqing Pacific Department Store.¹ According to investigation, these products were imported from Hong Kong distributor of French “AN’GE” Company. The plaintiff brought a proceeding against Beijing Shi Ji Heng Yuan Company and Chongqing Pacific Department Store claiming they had infringed plaintiff’s exclusive license distribution right of trademark “AN’GE”.² At first, Chongqing Pacific Department Store argued that they only offered place to Shi Ji Heng Yuan for selling and check the sources of these clothes confirming that they were “genuine”³ goods, they had performed duty of care. However, I believe whether Chongqing Pacific should be considered as the co-defendant is determined by whether Shi Ji Heng Yuan infringed trademark right of the plaintiff, if it was, Chongqing Pacific would be regarded as helping Shi Ji Heng Yuan to such infringement. In the first trial, the court didn’t support the plaintiff’s claim and held that Beijing Fa Hua Yi Lin Company can’t exclude the third part from selling the legally authorized manufactured “AN’GE” clothes in the same market.⁴

After failed by claiming infringement of exclusive distribute right, the plaintiff appealed by the reason of defendant’s unfair competition. In the second trial, the court held that the defendant imported such goods through legal channel and legally went through clearance, there were no material differences between plaintiff’s goods and defendant’s goods, labeling was clear on the defendant’s goods, there was no consumer confusion likely to be happened, thereby, selling and importing of goods bearing “AN’GE” was not unfair competition performance.⁵

¹ *Id.*

² *Id.*

³ Takamatsu, *Parallel Importation of Trademarked Goods: A Comparative Analysis*, 57 Wash. L. Rev. 433, 434 (1982)

⁴ *Id.*

⁵ *Id.*

According to the judgment, I find that the “material differences”¹ were introduced into the judgment, to some extent, I think, it meant that Chinese court was affected by the foreign judicial experiences such as EU and US, this can be deemed as a great progress for Chinese judges to “fill in the gaps”² in the legislation and use their discretion. However, I believe that applying Anti-Unfair competition law is still in doubt here. The imported goods by the defendant in this case were genuine while Anti-Unfair Competition law focuses on counterfeit goods, passing-off, fraudulent using of trademark, thereby, I believe that defendant’s performance shall not be regulated by Anti-Unfair Competition Law. Though the defendant was escaped from being responsible for infringement of trademark, it can be regarded as, to some extent I believe, a free-rider of the investment of the plaintiff and may lead to the damage of reputation of the plaintiff. The reasons are: firstly, in order to sign the exclusive distribution license, the plaintiff had paid a lot of money to French “AN’GE” company to exchange the distribution right, if the court didn’t support this, there was no one would like to pay high license fees, which will also damage the trademark right of French “AN’GE”. It is a vicious circle; secondly, different distributor has different after-sale service, perhaps the after-sale service of the defendant would not be in a unified standard with the plaintiff, If some consumers buy such product and don’t satisfy with its quality, they complains about the after-service. As the plaintiff has a huge selling net in domestic market, perhaps it is well-known by most of the consumers. From that perspective, the consumers may confuse the defendant and plaintiff, and believe that these goods are distributed by the plaintiff, therefore the plaintiff’s business reputation would be damaged.

(3) *French Michelin v. HU Yaping*³-----protection of good will of trademarks

From “LUX”⁴case to “AN’GE”⁵case, trials toward parallel importation concerning

¹ *A. Bourjois & Co., Inc. v. Katzel* 260 U.S. 689, 691 (1923).

² Ronald Dworkin, *Law’s Empire*, Harvard University Press, 1986, 65.

³ *French Michelin v. HU Yaping*, <http://ip.people.com.cn/GB/9244136.html>, assessed on June 20..

⁴ Xiang Yu, *The Regime of Exhaustion and Parallel Imports in China*, 26 EUR. INTELL. PROP. REV. 105, 106-07(2004).

⁵ Xia Fan, *Cross the grey market—how enterprises escape from damages in parallel importation* <http://www.unitalen.com.cn/html/report/25424-1.htm> assessed on June 20.

trademarks were turning to be more and more mature. Based on the previous two cases, we began to touch the essence of principle of exhaustion---good will.¹ The plaintiff of this case sues two defendants for infringing its exclusive right of trademark, as two cases were similar with each other, and the idea of two judgment were almost same with each other², I will only focus one of them---“*MICHELIN v. HU Yaping*”³ as a example to discuss.

In this case, the plaintiff was the French MICHELIN Group which manufactures tires, the group registered its famous trademark “MICHELIN” in China. The defendant, is the representative of a self-employed households in Changsha also sold tires with the trademark “MICHELIN”, besides, the products also bearing “95Y” representing technical specification. The products which the self-employed households sold were imported from Japan, and these products were al bearing “3C” certification mark identical with products manufactured in France. According to the investigation of the plaintiff, these products were manufactured by the Japanese factory licensed by the plaintiff, but the factory was not authorized to manufacture tires on Y-speed level. The plaintiff brought a proceeding against the defendant before Changsha Intermediate Court claiming for infringement of its exclusive right.⁴

The court finally supported the plaintiff’s claim, the court held that labeling non-Y-level tires as Y-level ones will cause consumer confusion. On one hand, Consumers will confuse with the origins of these two kinds of tires. Such relabeling had damaged the true link among trademark owner, registered trademark and products. On the other hand, such relabeling will meanwhile endanger the good will of the trademark proprietor which guarantees quality of products, therefore, defendant’s relabeling had infringed the trademark right of the plaintiff.⁵ I find that this judgment

¹ “Good will may be defined as the favorable consideration shown by the purchasing public to goods known to emanate from a particular source.” *White Tower Sys. v. White Castle Sys. of Eating Houses Corp.*, 90 F.2d 67, 69 (6th Cir.), *cert. denied*, 302 U.S.720 (1937).

² *French Michelin v. HU Yaping* , <http://ip.people.com.cn/GB/9244136.html>,assessed on June 20..

³ *French Michelin v. HU Yaping* , <http://ip.people.com.cn/GB/9244136.html>,assessed on June 20..

⁴ *Id.*

⁵ *Id.*

was very familiar with US judgment of *A. Bourjois & Co., Inc. v. Katzel*¹, in the judgment of this “MICHELIN” case, the judge used “physical and material differences”² which was affected by US judicial practice (*A. Bourjois & Co., Inc. v. Katze*³) and ECJ interpretation of Article 7(2). The defendant relabeled non-Y-level tires with “95Y” which had caused material difference with French manufactures ones. According to the court, such difference will not only affect consumers’ choices but also make consumers confuse with the origins of products, even cause security risks which will damage the good will of the trademark proprietor—French Michelin Group, thus the court ruled that the defendant had infringed the trademark right of the plaintiff.⁴

I find that in the whole judgment, the court didn’t mention anything about parallel importation and right of exhaustion while focused on the protection of good will of the trademark and origin of the products, plus applying foreign judicial practices by introducing “material differences”⁵ into the judgment, such judgment really made a progress on Chinese judicial practices concerning parallel importation, which also provides valuable references for later trials.

3 Comparative Analysis on Judicial Practice of Parallel Importation concerning Trademarks in China, EU and U.S.

From above three typical cases, we can see that U.S. and EU’s judicial practice deeply affected Chinese court, though there were no provisions clearly stipulated concerning regulation parallel importations concerning trademarks, Chinese judges make their judgments by referring EU and US judicial practices and transforming them into domestic judgments according to the current legislations and economic status. Such transformation didn’t mean simply to copy from others, it needs the judges’ discretion to make the judgments adapt to the current status of Chinese economy and acceptable for Chinese public.⁶ When parallel importations firstly

¹ *A. Bourjois & Co., Inc. v. Katzel* 260 U.S. 689, 691 (1923).

² *Id.*

³ *Id.*

⁴ *Id.*

⁵ *A Bourjois & Co. v. Katzel*, 274 F. 856(S.D.N.Y. 1920).

⁶ Harold Hongju Koh, *Why Do Nations Obey International law?*, The Yale Law

introduced into Chinese jurisdiction, they were new to the judges, therefore, Chinese judges only referred to existing laws at that time. In “*LUX*”¹ case, the judge recognized the parallel imported goods were not authorized by the proprietor which was contrary to the definition of parallel importation (“*LUX*” case²). However, such judgment was determined by the situation when China didn’t enter WTO, economic situation was relatively blocking and legal regime was under reform. In the 1990s China started to implement open and reform policy, this political strategy was under improving phase, foreign legal idea especially US and Europe was rarely introduced into domestic legal regime meanwhile judges in China had little discretion to determine the judgment, therefore they could only refer to current legislations.³ Therefore, in “*LUX*”⁴ case, the judge made judgments according to his own knowledge and current legislation⁵, which was difficult for him to get appropriate conclusion.

Fortunately, because of “*LUX*”⁶ case, Chinese judges become aware that parallel importation had led to some legal issues in domestic market. In *AN’GE* case⁷, the judgment mentioned “there were no material differences between plaintiff’s goods and defendant’s goods, labeling was clear on the defendant’s goods, there was no consumer confusion likely to be happened”⁸. “Material differences”⁹ can be showed in Article 7(2) of Trade Mark Directive in EU law; in US, *Kazel* case, “physical and material differences”¹⁰ becomes the shield for trademark proprietor against “affiliate

Journal, Vol.106.2599,2641.

¹ Xiang Yu, *The Regime of Exhaustion and Parallel Imports in China*, 26 EUR. INTELL. PROP. REV. 105, 106-07(2004).

² *Id.*

³ Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002,121.

⁴ Xiang Yu, *The Regime of Exhaustion and Parallel Imports in China*, 26 EUR. INTELL. PROP. REV. 105, 106-07(2004).

⁵ *Id.*

⁶ *Id.*

⁷ Xia Fan, *Cross the grey market—how enterprises escape from damages in parallel importation* <http://www.unitalen.com.cn/html/report/25424-1.htm> assessed on June 20 2015

⁸ Xia Fan, *Cross the grey market—how enterprises escape from damages in parallel importation* <http://www.unitalen.com.cn/html/report/25424-1.htm> assessed on June 20 2015

⁹ Article 7(2) of Trade Mark Directive in European Union.

¹⁰ *A Bourjois & Co. v. Katzel*, 274 F. 856(S.D.N.Y. 1920).

exception”.¹ After entering WTO, under the situation of globalization, forces from overseas forced the legal reform in domestic China to comply with the standard of international treaties. With the open of market and access of the knowledge, Chinese judges had more channel to know the legal regime of foreign countries and legal transplant the advanced judicial practices into domestic court to fill in the gaps in the current statute law. In the “AN’GE”² case, it was a typical example to prove during the development of trial of parallel importation concerning trademarks in China, when determining whether such parallel importation infringes the trademark right of a trademark proprietor, “material differences”³ standard which established in EU and US had been transplanted into Chinese court to judge whether such parallel importation had infringed the right of trademark proprietor. However, such transplant didn’t mean that it was totally accepted in domestic court. In EU, Article 7(2) Trade Mark Directive offered the condition for trademark proprietors within EU to prevent parallel importation inside EU, at the same time, as the requirement of free movement of goods and integration of market of TFEU and TEU, ECJ established *Paranova*⁴ guidelines for parallel importer against trademark proprietors inside EU when it causes the result of “artificial partitioning of the markets”⁵ This reflected that inside EU, on one hand, trademark right was highly protected, on the other hand, monopoly was prohibited inside EU to fulfill the goal of TFEU, meanwhile the ECJ emphasized in *Paranova*⁶ guidelines that when “repackaging of the product damages the reputation of trademark proprietor”⁷, the parallel importer would take the risk of infringement of trademark right. In this judgment, reputation of trademark was mentioned, it was similar with US judicial practice in *A. Bourjois & Co., Inc. v. Katzel*⁸, if repackaging

¹ *A Bourjois & Co. v. Katzel*, 274 F. 856(S.D.N.Y. 1920).

² Xia Fan, *Cross the grey market—how enterprises escape from damages in parallel importation* <http://www.unitalen.com.cn/html/report/25424-1.htm> assessed on June 20 2015

³ *Lever Bros. Co. v United States* (1989, App DC) 278 US App DC 166, 877 F2d 101.

⁴ Joined cases C-427/93, C-429/93 and C-436/93) *Bristol Myers Squibb v Paranova* [1996] ECR I-3457.

⁵ Joined cases C-427/93, C-429/93 and C-436/93) *Bristol Myers Squibb v Paranova* [1996] ECR I-3457.

⁶ Joined cases C-427/93, C-429/93 and C-436/93) *Bristol Myers Squibb v Paranova* [1996] ECR I-3457.

⁷ C-337/95, *Parfums Christian Dior v. Evora* [1998] ECR, I-6014, para, 43.

⁸ *A. Bourjois & Co., Inc. v. Katzel* 260 U.S. 689, 691 (1923).

of parallel imported goods damaged the independent good will of domestic trademark, parallel importation was prohibited by trademark proprietor. Such similarity of EU and US led to Chinese judicial practice on parallel importation not only similar with US but also similar with EU. However, good will of trademark was not introduced into Chinese trademark legislation at that time, as at that time, the policy focus more on fast development of economy, over protection of trademark would bar such progress. The reputation of trademark was latterly introduced into domestic IP legal regime in a form of “well-known”¹ trademark, this showed that after economy obtained some achievements and tended to be stable, the national legislators would improve the legal reform to follow the global standard, Chinese government didn’t open its market completely at the beginning of open and reform policy, but in a gradually speed to open, which was the same on the legal reform. Sometimes, law fell behind the development of economy to leave the society a period to adapt to the international standard,² I believe that only when the society itself needed to improve the legislation to protect its own market, the legal reform would be further internalized in domestic society and converged in international level, while sometimes it would still need to remain its own characteristics to adapt to its own regime.

This process successfully was shown in *French Michelin v. HU Yaping*³, in this case, the judge bravely introduced good will of trademark into the judgment which was not stipulated in the trademark law and anti-unfair competition law at that time. In domestic court, judges have little discretion which determines that judges could only rule according to the statute. However, it doesn’t mean that Chinese judges don’t learn from foreign countries. In order to get their own judgments which comply with the current legislations and economic situation, they will use the foreign judicial practices to help them reason and think, till get the judgment, though such process will not be reflected in the final judgment.⁴ After analyzing the judgment of the above

¹ In the previous study of China’s Trademark amendment in Chapter 4.

² Peter de Cruz, *Comparative Law in a Changing World*, Routledge. Cavendish Press, 3rd edition, 200 , 298.

³ *French Michelin v. HU Yaping* ,<http://ip.people.com.cn/GB/9244136.html>, assessed on June 20, 2015.

⁴ Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002, 113.

cases, we can see the creativity of judge and the effect of foreign judicial practices in domestic courts. In this case, the judge successfully used his discretion through referring to EU and US judicial practices to fill in the ‘gaps’¹ in the statute. During that time, China had entered WTO, many aspects tended to open including judicial practice and the judge also applied the consumer confusion in US judicial practice in this case to determine whether the parallel importation damaged the good will of the trademark. Such successful combination also because that the similarity of judicial practice in EU and US dealing with repackaging in parallel importation.

While ECJ stipulates relevant conditions to prevent market monopoly in parallel importations in specific cases, and US also offered Custom Law to implement Tariff Act and Lanham Act.² Both of them offered the possibility of parallel importation. In China, there were no stipulations in trademark law on parallel importation neither in anti-unfair competition law which deals with counterfeits. In China, from previous case studies, I find that if trademark proprietors or distributors don’t explicitly restrict in distribute license contract or domestic distributors don’t establish independent good will in domestic market, the parallel importations are permitted in China. Besides, in China, there are no related ancillary regulations to help preventing parallel importations, such as Custom regulations like US or principles established by case law like EU.³ Chinese court didn’t show the clear attitude of principle of exhaustion in parallel importation concerning trademarks.

Generally speaking, from the previous case studies, we can see that with the development of economy and mature of China’s legal regime, EU and US judicial practices affected a lot in China’s domestic court, consumer confusion, good will of trademark are key factors for the court to consider in the trial concerning parallel importation. The Three cases reflect that foreign judicial practices affect Chinese court and also reflect that under globalization and open and reform policy in China, foreign judicial practices are more and more accepted by the domestic judges for helping reason and judging when there are no clear stipulations in the trademark law.

¹ Ronald Dworkin, *Law’s Empire*, Harvard University Press, 1986, 65.

² According to the previous empirical study of this paper.

³ *Id.*

I believe that the vacancy of regulation of parallel importation concerning trademarks in domestic China is because that on one hand price competition in parallel importation is helpful to promote the freedom of trade and prevent the monopoly in market, on the other hand, it is helpful to reduce the control of multinational companies in domestic marketing share, and narrow the profit of trademark proprietor, therefore, the domestic consumers will access to more luxury foreign brand. From the other perspective, according to legislations and practices of member states of WTO, such US and some EU members, it is easy to find that parallel importation is gradually permitted in some countries from the totally prohibition to partly permitted. Additionally, as I mentioned above, China gradually opened its market, patent law has permitted parallel importation concerning patented products, if trademark law also open its access, I believe current legal regime would not handle the disadvantages brought by parallel importation. From my perspective, it is more appropriate to leave this issue to judges using discretion to regulate in specific cases in China. I believe it is not necessary to stipulate clearly in legislation, as law sometimes falls behind the development of economy, law can't predict everything. The contradiction attitude which on one hand prefers to protect the trademark right while on the other hand, would not like this protection bar the free movement of trade and development of domestic economy lead to the ambiguous attitude of exhaustion of right in domestic China.

From Peter de Cruz in his *Comparative Law in a Changing World*¹, “civil law judges have, therefore, had to create new legal rules to cope with situations that could not have been envisaged by the legislators of the codes. The French law on torts is therefore, primarily found in widely published and cited decisions of the court. Common law judges have always had a high profile and have resorted to judicial law making whenever a ‘gap’ has appeared in the statute, or in cases in which the statute has been ambiguous or could produce a manifestly absurd or unjust result.”² From EU’s experience, ECJ plays a very important role in unification national laws in each member states, when national courts have doubt on some questions of the interpretation of EU treaty, according to ECJ’s preliminary ruling, national court would rule in specific cases to comply with the goal of primary laws according to ECJ’s judgment, though that way, domestic law of each member state can tend to guard the implement of EU treaty.³ In American, case law established principles, with the arising of new cases, judges use their discretion to fill in the ‘gaps’.⁴ In China, judges have little discretion, statutes are the only references for judges to rule.⁵

In IP legal regime, before reform and open policy, trademark protection was not the core issue included in the direction of development.⁶ After entering WTO, with the development of international trade, treaty compliance issue forced domestic China to process legal reform including reception of EU and US law. More and more new issues came into people’s eyes, such as parallel importation concerning trademarks.⁷ At the beginning, such issue did really gave difficulties to domestic court, with the

¹ Peter de Cruz, *Comparative Law in a Changing World*, Routledge. Cavendish Press, 3rd edition, 200 , 298.

² *Id.*

³ Thomas Hays, *Parallel importation under European Union Law*, Sweet &Maxwell, 2004, 45.

⁴ Ronald Dworkin, *Law’s Empire*, Harvard University Press, 1986, 65.

⁵ Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002,113.

⁶ *Id.*

⁷ Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002, 74.

development of economy, foreign legal ideas was introduced in.¹ Though Chinese judges don't have much discretion, in some specific cases, judges were left to make judgments when there are no stipulations in statute, under such condition, judges have to refer to foreign practices to deal with issues while these reference couldn't be shown in the final judgment as only supreme court can have the right to interpret law.² With the fast development of domestic market in China, I believe, trademark law can't predict every forthcoming issues, therefore, in China, in specific cases, Chinese judges can use their discretion by referring to foreign judicial practice. In this paper, I compare China with EU and US on the position of principle of exhaustion and judicial practice on parallel importation concerning trademarks. After comparative analysis of EU, U.S. and China, I find the similarity among them. Between EU and U.S., though there are some differences existing in the position of right of exhaustion, in EU, parallel importation is not permitted outside EU while permitted within EU, in U.S., parallel importation is permitted according to individual cases. Such differences don't bar the similar method between them on trademark protection against parallel importation. "Material differences"³ and reputation of trademarks (in U.S., it is regarded as good will of trademark) are both applied in the judicial practices in U.S. and EU on protection of trademark against repackaging in parallel importation. Such common determines that China's judicial practices on parallel importation concerning trademark is similar with EU and U.S. In china, though there are no related stipulations existed, foreign experience can be transplanted in domestic court and transformed into forms which comply with domestic law and be acceptable to public and current economic status. However, as there are different cultural, historical, and political background in China, according to my empirical study in this paper, foreign experience can't be directly accepted in domestic court. China is a socialist country with market economy, after entering WTO, under the condition of globalization, domestic legal regime, especially IP regime, tends to be unified with international

¹ *Id.*

² Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002,113.

³ *Lever Bros. Co. v United States* (1989, App DC) 278 US App DC 166, 877 F2d 101.

standard.¹ However, with China's different historical development and gradual open and reform policy, foreign legal idea was gradually accepted at the beginning, this can be well shown in my previous empirical study on the comparative study on the parallel importation concerning trademarks in EU, US and P.R.C., "*LUX*"² case indicates the first recognition of parallel importation, with the development of economic development, EU and US judicial practices gradually affected Chinese domestic court in parallel importation concerning trademarks case, from the judgment of *French Michelin v. HU Yaping*³, we can see clearly that foreign legal ideas had affected domestic judicial practices meanwhile we can see that Chinese judges become more and more internationalized. From that example, I believe that since market economy tends to be stable and relevant administrative measures are complete, foreign idea may be transplanted into domestic court while whether such transplant can be successful is determined by whether this idea is against development of economy and political goal.⁴

Inside European Union, from my previous empirical studies, I find that EU law aims at eliminating the tariff barriers between member states in order to fulfill the integration of one single market. When there are some questions of treaty interpretation, ECJ will play a role of unify national laws to comply with the goal of EU law. Under such condition, borders between member states tend to disappear, the legal regime tends to be convergence as well. "Since the Second World War, another development if some considerable consequence has been taking place in Europe----the reception of 'American Law', with regard to jurisprudence, nearly all fundamental and far-reaching changes in European law, during the post-war era, have started from America. The needs of a post-industrial era and service-dominated society have also been readily addressed by American law, so that European law has been quick to

¹ Peter de Cruz, *Comparative Law in a Changing World*, Routledge Cavendish Press, 3rd edition, 2007,300.

² Xiang Yu, *The Regime of Exhaustion and Parallel Imports in China*, 26 EUR. INTELL. PROP. REV. 105, 106-07(2004).

³ *French Michelin v. HU Yaping*, <http://ip.people.com.cn/GB/9244136.html>, assessed on June 20, 2015.

⁴ Harold Hongju Koh, *Why Do Nations Obey International law?*, The Yale Law Journal, Vol.106.2599,2641.

draw upon the American solutions to deal with similar need.”¹ This was reflected in parallel importation concerning trademarks as well. On the repackaging issue, U.S. and EU took the same position---whether “material differences”² exist. U.S. emphasized the good will of the trademark when “material differences”³ damage the independent good will of the trademark in *Lever Bros v. United States*⁴ On the same way, in *Dior*⁵ case, the ECJ ruled that “the proprietor can oppose the use of the trade mark by a parallel importer when the use of the trade mark using his trade mark for advertising in a manner which could damage the reputation of the trade mark.”⁶ On the issue of repackaging, EU and U.S. took the same principle which was settled by case law. Though EU took different positions on principle of exhaustion inside and outside EU while U.S. would permit parallel importation whenever necessary, and even within EEA, the proprietor of trademark can still restrict parallel importation through consent “each individual item of the product”⁷; U.S. would care more about whether such parallel importation would cause consumer confusion which would lead to the damage of good will of trademark, with globalization(U.S. and many member states of EU engaged in TRIPS and interacted with each other international trade) and legal evolution, legal regime on parallel importation concerning trademarks in both of them tends to be similar for the reception of legal ideas between each other, both of them tend to be relaxing previous harsh attitude, international principle of exhaustion is gradually accepted in US and EU when there are complete protection measures for trademark proprietors.

From my previous empirical studies, with the stronger of China’s international trading power and the convergence of protection of trademark right in parallel importation between EU and US, China’s judicial practice on the same issue tends to

¹ Peter de Cruz, *Comparative Law in a Changing World*, Routledge Cavendish Press. 3rd edition, 2007,289.

² *Lever Bros. Co. v United States* (1989, App DC) 278 US App DC 166, 877 F2d 101.

³ *Lever Bros. Co. v United States* (1989, App DC) 278 US App DC 166, 877 F2d 101.

⁴ *Lever Bros. Co. v United States* (1989, App DC) 278 US App DC 166, 877 F2d 101.

⁵ C-337/95, *Parfums Christian Dior v. Evora* [1998] ECR, I-6014, para,43.

⁶ *Id.*

⁷ C-173/98, *Sebargo and Maison Dubois v G-B Unic*, [1999] ECR I-4123.

be similar with both EU and US.¹ After entering WTO, since China's gradual open market policy, some experience of them would be accepted partly to adapt to local economy. I think China may want to develop her economy as fast as she can, parallel importation can encourage consumers' average purchasing capacity and increasing national revenue and it can also offer more channels for consumers to choose with lower price.² However, China also has many her own famous trademarks which have been successfully occupy global market share such as "HUA WEI", "Lenovo", I believe that permitting parallel importation on trademarks in legislation would to some extent reduce the profit of such company which also would affect of process of development of her own economy, therefore, under such conflicting situation, parallel importations on trademarks are not regulated in relevant statues while leaving such vacancy to domestic court by referring to foreign experience when it is not against current policy and legislations to judge, I believe this is also learnt from EU and US that both of them establish principles of protection of trademark right in parallel importation through case law. As laws should be stable, judges could fill in the 'gaps' of the statue,³ even though in China judges have little discretion, it is still the best way to adjust to the fast changing economic status and keep the stability of law.

With globalization, China has more chances to interact with other countries in the world. To convenient such global trade, some aspects of trade dispute settlement have been unified in the international level.⁴ Under such convergence, I believe differences between nations can't be simply eliminated, some differences are determined by national different conditions, such as China, we go on a Socialist road with our own characteristics that is why we can survive after failure of many other socialist countries. Local earth determines successful legal transplanting of advanced legal regime or judicial practices, the reception of foreign law in China is comprehensive and sometimes needs to experience a long time to internalize, even sometimes it is

¹ Peter de Cruz, *Comparative Law in a Changing World*, Routledge Cavendish Press. 3rd edition, 2007,300.

² Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002, 42.

³ Ronald Dworkin, *Law's Empire*, Harvard University Press, 1986, 65.

⁴ Peter de Cruz, *Comparative Law in a Changing World*, Routledge Cavendish Press. 3rd edition, 2007,300.

totally rejected,¹ China still tries her best to comply with the international standard in order to better engage in the international trade.

¹ Harold Hongju Koh, *Why Do Nations Obey International law?*, The Yale Law Journal, Vol.106,2599,2641.

Bibliography:

Books:

- 1 Christopher Stothers, *Parallel Trade in Europe: Intellectual Property, Competition and Regulatory Law*, Hart Publishing, 2007.
- 2 Thomas Hays, *Parallel importation under European Union Law*, Sweet & Maxwell, 2004.
- 3 Timothy H. Hiebert, *Parallel importation in U.S. trademark law*, Greenwood Press, 1994.
- 4 William Cornish and David Llewelyn and Tanya Aplin, *Intellectual Property: Patents, Copyrights, Trademarks & Allied Rights*, Sweet & Maxwell, 2010, 7th ed.
- 5 George R. Stewart, Myra J. Tawfik, Maureen Irish, *International trade and intellectual property : the search for a balanced system*, Westview Press, 1994.
- 6 Thomas Cottier and Petros C. Mavroidis, editors, Marion Panizzon and Simon Lacey, associate editors, *Intellectual property: trade, competition, and sustainable development*, University of Michigan Press, 2003.
- 7 Phillip Areeda & Louis Kaplaw, *Antitrust Analysis: Problems, Text, and Cases*, Fifth Edition, Aspen Publishers, 1997.
- 8 Govaere, *The Use and Abuse of Intellectual Property Rights in EC Law*, Sweet & Maxwell, 1996.
- 9 W. CORNISH, *Cases and Materials on Intellectual Property*, Sweet and Maxwell, 2006.
- 10 F. ABBOTT – T. COTTIER – F. GURRY, *International Intellectual Property in an Integrated Economy*, Aspen Publishers, 2007.
- 11 Peter de Cruz, *Comparative Law in a Changing World*, Routledge Cavendish Press. 3rd edition, 2007.
- 12 Ronald Dworkin, *Law's Empire*, Harvard University Press, 1986.
- 13 Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002.

Journals

- 1 Michel Waelbroeck, *Trademark Problems in the European Common Market*, 54 TRADEMARK REP. 333, 351(1964).

- 2 Richard M. Andrade, *The Parallel Importation of Unauthorized Genuine Goods: Analysis and Observations of the Gray Market*, Journal of International Law, Vol. 14, Iss. 3 , Art. 4(1993).
- 3 S.K. Verma, *Exhaustion of Intellectual Property Rights and Free Trade-Article 6 of the TRIPs Agreement*, 29 IIC 534,549.
- 4 Ekaterina Shekhirman and Evgeniy Sesitsky, *Exhaustion of Parallel Importation in the field of Trademarks*,
<http://www.turin-ip.com/research-papers/papers-2008/shekhtman-sesitsky-final-pdf>.
- 5 H. JEHORAM, *Prohibition of Parallel Imports Through Intellectual Property Rights* in 30 IIC, 497,499.
- 6 Frederiek M. Abbott: *First Report (Final) to the Community on International Trade Law on the Subject of Parallel Importation*, Journal of Economy Law 632 ,635(1998).
- 7 Malueg, D.A. and M. Schwartz, *Parallel Imports, Demand Dispersion, and International Price Discrimination*, Journal of International Economics, 37(3-4),168,172(1998).
- 8 Keith E.Maskus. *Parallel Imports* .The World Economy, 23(9):1276(2000).
- 9 Lina Wang, *Intellectual Property Protection in China*, 36 THE INT'L INFO. & LIBR. REV. 253 (2004).
- 10 James B. Kobak, Jr., *Exhaustion of Intellectual Property Rights and International Trade*, 5 GLOBAL ECON. J. Issue 1, Article 5 (2005).
- 11 T. Mylly, *A Silhouette of Fortress Europe? International Exhaustion of Trademark rights in the EU*, 7 Maastricht Journal 51.
- 12 J. Kuilwijk, *Parallel Imports and WTO Law: Some thoughts after Silhouette*, European Competition Law Review 295(1995).
- 13 E. Dugan, *United States of America, Home of the Cheap and the Gray: A Comparison of Recent Court decisions affecting the U.S. and European Gray Markets*, 33 Geo. Wash. INT.L Rev., 397(2001).
- 14 D. REIMER, *Principle of Exhaustion of the Rights* in 3 NIR 1982, 362 ff.
- 15 I. STAMATOUDI – P. TORREMANS, *International Exhaustion in the European Union in the Light of “Zino Davidoff”: Contract Versus Trade Mark Law?* in 31 IIC,

2000, 123 ff.

16 T. HEIDE, *Trade Marks and Competition Law after Davidoff* in 25 *EIPR* 2003, 163 ff.

17 Xia Fan, *Cross the grey market—how enterprises escape from damages in parallel importation* <http://www.unitalen.com.cn/html/report/25424-1.htm> assessed on June 20.

18 Harold Hongju Koh, *Why Do Nations Obey International law?*, *The Yale Law Journal*, Vol.106.2599,2641.

19 Takamatsu, *Parallel Importation of Trademarked Goods: A Comparative Analysis*, 57 *Wash. L. Rev.* 433, 434 (1982)

20 Doris Estelle Long, “*Unitorial*” *Marks and the Global Economy*, *John Marshall Review of Intellectual Property Law* 1:191, 197 (2001).

21 Xiang Yu, *The Regime of Exhaustion and Parallel Imports in China*, 26 *EUR. INTEL. PROP. REV.* 105, 106-07(2004).

22 XIANG GAO, *Major Changes to PRC Trademark Law*, *World Intellectual Property Review*, 70 (2011).

23 Brandon Barker, *The Power of the Well-known Trademark: Courts Should Consider Article 6bis of the Paris Convention an Integrated Part of Section 44 of the Lanham Act* *Washington Law Review*,363(2006).

Cases:

1 *A Bourjois & Co. v. Katzel* 260 U.S.689 (1923)..

2 *Lever Brothers Co. v. United States of America, et al.*981 F.2d 1330(D.C.Cir 1993).

3 *Iberia Foods Corp. v. Federal Trade Commission* 150 F.3d 298(3d.Cir.1998).

4 *Bell Howell: Mamiya Co v. Masel Supply Co Corp* 719 F. 2d 42(2d.Cir.1983).

5 *Baldwin Bracelet Corporation v. Federal Trade Commission* 325 F. 2d 1012(D.C.Cir.1963).

6 *Case 56 & 58/64, Consten SARL & Grundig-Verkaufs-GmbH v.Commission* [1966] ECR 299

7 *C-355/96, Silhouette International v. Hartlauer*, [1998] ECR 593.

8 *C-173/98, Sebago Inc & Ancienne Maison Dubois et fils v. G.B Unic SA*, [1999] ECR 1-4103.

9 *C-306/96 Javico International v. Yves Saint Laurent Parfums* [1998] ECR 1-1983.

- 10 Zino Davidoff SA v. A&G Imports Ltd, [1999] ECR 711.
- 11 Case C-415/99, Levi Strauss & Co. v. Tesco Stores Ltd [2001] ECR. I-8691.
- 12 [1987] ECR 1139.
- 13 Parfums Christian Dior v. Evora [1998] ECR 737.
- 14 Changsha Municipal Intermediate People's Court (2009) No.0073.
- 15 Lihua v. Business Trading Co.
- 16 Fahuayilin Inc. v. Shijihengyuan Inc. & Taipingyang Department Store.

Legislation:

- 1 TRIPS (article 6,11,20,51)
- 2 GATT (article XI, XX ,XVII)
- 3 Treaty on Functioning European Union, Treaty on European Union
- 4 Section 526 of Tariffs Act,
- 5 Section 42 of Lanham Act
- 6 Council Directive 89/1094 (article 5, 7) of EU
- 7 Trademark law of PRC

Zusammenfassung

Unter dem Einfluss der Globalisierung und der Entwicklung des weltweiten Handels wächst der Umfang der gehandelten Güter und Leistungen. Die WTO fördert durch den Abbau von Zöllen und anderer Handelsbarrieren sowie der Umsetzung des Grundsatzes der Inländerbehandlung die Integration der Weltwirtschaft. Unter diesen Bedingungen werden verschiedene neue Methoden zur Profiterzielung entwickelt; unter denen die Paralleleinfuhr besonders bedeutend ist. Paralleleinfuhr wird auch als Import im "grauen Markt"¹ bezeichnet. Der graue Markt ist eine Innovation des unternehmerischen Arbitrageurs, der zu niedrigen Preisen Markenartikel in einem Markt einkauft um diese in einem hochpreisigen Markt weiterzuverkaufen.²

Da China lange ein niedriges Preisniveau hatte war Paralleleinfuhr zu Beginn der Ära wirtschaftlicher Reformen selten und erfuhr wenig Aufmerksamkeit. Das Erstarken der Chinesischen Wirtschaft und der Ausbruch der Wirtschaftskrise, in deren Folge Währungen von Nachbarländern im Gegensatz zum RMB abwerteten, führten in Chinas Inlandsmarkt zu einem relativ höheren Preisniveau. Unter diesen Bedingungen erhielten Parallelimporte erhöhte Aufmerksamkeit. In diesem Zusammenhang bekannt ist der Fall *Shanghai LI HUA Limited Co. v. Guangzhou exportandimporttrading Limited Co.*³ der zum ersten Mal die Aufmerksamkeit der chin. Öffentlichkeit auf diese Phänomene und die erzielbaren Gewinne lenkte.

Der Parallelimport von Markenartikeln ist ein komplexes Thema das Konflikte zwischen dem Rechtsschutz für Inhaber der Markenrechte und der Marktfreiheit umfasst, wobei es noch keinen wissenschaftlichen Konsens bezüglich der Rechtmäßigkeit von Parallelimporten gibt.⁴ Zusätzlich können Parallelimporte in

¹Michel Waelbroeck, *Trademark Problems in the European Common Market*, 54 TRADEMARK REP. 333, 351(1964).

²Richard M. Andrade, *The Parallel Importation of Unauthorized Genuine Goods: Analysis and Observations of the Gray Market*, Journal of International Law, Vol. 14, Iss. 3 Art.4(1993).

³Xiang Yu, *The Regime of Exhaustion and Parallel Imports in China*, 26 EUR. INTEL. PROP. REV. 105, 106-07 (2004).

⁴William Cornish and David Llewelyn and Tanya Aplin, *Intellectual Property: Patents, Copyrights,*

gewissem Umfang aus Sicht der Rechteinhaber deren exklusive Rechte und Verteilungsnetzwerk beeinträchtigen. Auf internationaler Ebene gibt Artikel 6 TRIPS¹ keine klaren Hinweise wie mit Parallelimporten auf nationaler Ebene umgegangen werden soll, sodass jeder Staat sich bei diesem kontroversen Thema auf eigene Regelungen stützen muss. Die Ansätze der Staaten sind durchaus unterschiedlich und betreffen jeweils mehrere Akteure in unterschiedlichen Ländern, was den Konflikt zwischen Marktfreiheit und Schutz des Markeninhabers widerspiegelt.

Die Arbeit konzentriert sich auf die unterschiedlichen Rechtsvorschriften und gerichtliche Verfahrensweisen in mehreren Rechtsordnungen (US, EU, China) bezüglich Parallelimporte in Verbindung mit der Erschöpfung des Rechts aus der Marke.

In Kapitel 1 wird das Konzept und die Charakteristika von Parallelimporten, sowie das Verhältnis zwischen Parallelimport und Markenschutz eingeführt.

Kapitel 2 behandelt das Verhältnis zwischen dem Erschöpfungsgrundsatz und Parallelimporten betreffend Marken.

Der Hauptteil der Arbeit (Kapitel 3 und 4) erforscht und analysiert Ähnlichkeiten und Unterschiede in der Rezeption dieses Grundsatzes durch die Gerichtsbarkeit aus vergleichender Perspektive. Aufgrund dieses Vergleichs werden Überlegungen zur Entwicklung eines eigenen chin. Rechtsregimes für diese Thematiken angestellt und eine Analyse chinesischer Regelungen im Verhältnis zu den Erfahrungen der EU und der USA in der gerichtlichen Praxis vorgenommen, insbesondere in Hinsicht auf die Einflüsse der gerichtlichen Praxis in EU und USA auf chinesische Richter in nicht explizit gesetzlich geregelten Bereichen des Parallelimports und Konsumentenschutzes (incl. Täuschung von Konsumenten, Umverpackung, Markenrechtsverletzung).

Trademarks & Allied Rights, Sweet & Maxwell published, 2010, 7thed, 60.

¹Article 6 of TRIPS, https://www.wto.org/english/docs_e/legal_e/27-trips_03_e.htm.

Zusätzlich werden Ähnlichkeiten und Unterschiede in der Rechtsprechungspraxis der EU, der USA und Chinas aufgezeigt und Gründe bzw. Ursachen dieser Unterschiede analysiert.

Schlüsselbegriffe: paralleleinführen, grundsatz der erschöpfung, der markenschutz, vergleichende studie

Abstract

With the development of trade and globalization, the scope of trade becomes wider than before, ranging from simple goods to service, technology and so on. Thanks to WTO, with the decreasing of tariff barriers and non-tariff barriers, and implementation of national treatment principle, it helps to promote the integration of global economy. Under such condition, there are more and more merchants pursuing various new methods to make profits. Parallel importation becomes popular among them. Parallel importation is also called “gray market”¹ importation. “The gray market is the innovation of the entrepreneurial arbitrageur who purchases legitimately trademarked goods at a low price in one market and then resells the same good in a higher-priced market.”²

As China has a market with lower price for a long time, few parallel importations occurred in domestic market at the beginning of implementation of open and reform policy,³ thus it didn't attract many people's attention at that time. However, with the stronger of China's international trading power and outbreak of economic crisis, the currency of neighboring countries devaluates while RMB still goes strongly, which makes prices of China's domestic market higher than before.⁴ Under such condition, parallel importations catch people's attention. The famous case *Shanghai LI HUA Limited Co. v. Guangzhou export and import trading Limited Co.*⁵ was the first time for Chinese people to recognize that parallel importation and realize the huge benefit behind this.

¹ Michel Waelbroeck, *Trademark Problems in the European Common Market*, 54 TRADEMARK REP. 333, 351 (1964).

² Richard M. Andrade, *The Parallel Importation of Unauthorized Genuine Goods: Analysis and Observations of the Gray Market*, Journal of International Law, Vol. 14, Iss. 3 Art. 4(1993).

³ Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002, 25.

⁴ Xu Congyin, *Intellectual Property Law*, Citic Publishing House, 2002, 57.

⁵ Xiang Yu, *The Regime of Exhaustion and Parallel Imports in China*, 26 EUR. INTELL. PROP. REV. 105, 106-07 (2004).

Parallel importation concerning trademark is a comprehensive issue, involving the conflicts between protection of rights of trademark proprietor and freedom of the markets. Except for that, the legality of parallel importation is still under debate in global scholar circle.¹ Additionally, from perspective of proprietors of trademarks and exclusive distributors, parallel importation can, to some extent, do harm to their exclusive right of them. As parallel importation relates to the exhaustion of intellectual property rights, while when referring to that issue, even article 6 of TRIPS which 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.”²

doesn't give us a clear clue for each nation to deal with parallel importations, TRIPS leaves such issue to domestic legislations of each member states. However, national laws of each member states take different attitude towards parallel importations, such differences also affect protection of trademark proprietors and freedom of the market.

This paper will focus on the different legislations and judicial practices in courts in different jurisdictions (US, EU, China) on the issue of parallel importation relating to trademarks based on principle of exhaustion.

First of all, in Chapter One, I will introduce the concept and characteristic of parallel importation and introduce the relationship between parallel importation and trademark protection.

Next, in Chapter Two, I will introduce the relationship between principle of exhaustion (Exhaustion Doctrine) and parallel importation relating to trademarks.

Last, in the main part of my paper (Chapter 3, Chapter 4), I will analyze and investigate similarities and differences of reception in court of this principle from comparative perspective. From the conclusion of that, I can further rethink on the one hand, how china forms its own legal regime on parallel importation concerning

¹ William Cornish and David Llewelyn and Tanya Aplin, *Intellectual Property: Patents, Copyrights, Trademarks & Allied Rights*, Sweet & Maxwell published, 2010, 7th ed, 60.

² Article 6 of TRIPS, https://www.wto.org/english/docs_e/legal_e/27-trips_03_e.htm assessed on May 27.

trademarks meanwhile on the other hand, based on the previous comparative study, I will analyze how China regulates parallel importation on the protection of trademarks compared to experiences of the court in America and EU on the issue of parallel importation and trademark proprietor and consumer protection(including consumer confusion and repackaging), especially focusing on how EU and US judicial practices affect Chinese judges when there are no provisions in legislation.

Through the above research, I want to show the similarities and differences on judicial practices among EU, U.S., China and further analyze why these differences exist under globalization.

Key Words: parallel importation, principle of exhaustion, trademark protection, comparative study