A recent decision by the UK’s Supreme Court serves as a warning to UK importers and distributors who trade in parallel imports or “grey goods”. By rejecting certain grounds of defence commonly used by parallel importers in the UK, the judgment has made it quicker and cheaper for intellectual property (“IP”) rights holders to bring infringement actions against importers or distributors of parallel imports in the UK courts.

This article recaps the law on parallel imports into the European Economic Area (“EEA”), and suggests some practical tips for brand owners, importers and distributors in the light of this latest judgment.

WHAT ARE “PARALLEL IMPORTS”? Parallel imports are goods which have been manufactured by or with the authority of the intellectual property owners in one region, but imported into another country without their consent.

Importers stand to make significant profits from parallel imports, as supply and demand differences between regions often leads to differences in retail pricing. The parallel importer is also able to take advantage of the “goodwill” in the brand that will be generated by marketing campaigns of the manufacturer or authorised distributor.

For example, the parallel importer might purchase Prada handbags in Turkey where retail prices are perhaps lower and import them into the UK where retail prices are perhaps higher. By selling the goods for more than the Turkish purchase price while undercutting the UK recommended retail price, the parallel importer can expect to make a healthy profit.

Intellectual property rights holders can generally prevent parallel importers from importing IP protected goods into the EEA without their permission.

PARALLEL IMPORTS AND INTELLECTUAL PROPERTY
Parallel imports into Europe may trigger infringements of the various forms of intellectual property rights, including design rights, copyright, patents and trade marks. However, the most common parallel import claims heard by courts relate to trade mark infringements, as in the Prada handbag example above.

HOW DO TRADE MARKS WORK? Trade marks, like all forms of intellectual property, are territorial by their nature. For instance, US registered trade marks can only be used to prevent infringing acts which affect the US and have no bearing on, say, goods manufactured in Australia and then exported to and retailed in Japan, even if those goods bear an identical trade mark. The same is generally true of European countries, but it should be noted that in Europe we have the EU-wide Community Trade Mark, which may be infringed in any EU country.

The owner of a trade mark has the exclusive right to use that trade mark in respect of the goods or services for which it is registered. Any unauthorised use of the mark, which would include selling or importing goods bearing the mark, is potentially an infringement of that right.

The owner of a registered EEA national or Community trade mark can take action to prevent a parallel importer from bringing goods bearing that trade mark into the EEA without their consent.

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1 Oracle America Inc (Formerly Sun Microsystems Inc) (Appellant) v M-Tech Data Limited (Respondent) [2012] UKSC 27.
2 That is, currently, all Member States of the EU plus Iceland, Liechtenstein and Norway.
3 The scope of this article is limited to UK and EU law. When importing goods into countries outside the EEA, national or regional laws may place separate restrictions on importation.
4 Take care though, there may be similar trade marks registered in Australia or Japan!
TRADING WITHIN EUROPE

It is important to note that, consistent with the objective of EU law to eliminate barriers to trade within Europe, the right to prevent unauthorised parallel imports extends to imports into the EEA, and not to parallel imports within the EEA (ie between different EEA countries).

Where a brand owner (or a licensee with the brand owner’s consent) puts branded goods on the market in any EEA Member State, he generally cannot use his trade mark to prevent a purchaser of those goods from further parallel importing them into another EEA Member State.

Once the goods are first put on the market in the EEA, the trade mark owner is said to have “exhausted” his rights.

On the other hand, the fact that goods may be widely available on markets outside EEA countries does not cause rights to be exhausted in the EEA; the key question is whether the particular goods have been put on the market within the EEA.

The rules on European parallel imports create a “fortress Europe”. They prevent unauthorised imports entering the EEA, but generally cannot be used to prevent products being circulated within the EEA once they have been legitimately put on the market there.

For example:
- If Prada handbags (which were not already sold in the EEA) were imported into the UK from the USA without Prada’s consent, then the trade mark owners would be able to take action to prevent them being sold in the EEA.
- If Prada handbags had already been put on the market in Germany with Prada’s consent, then Prada would not be able to prevent the subsequent import of such trainers from Germany into the UK.

GOODS OUTSIDE THE EEA

If trade marked goods are imported into an EEA country without the trade mark owner’s consent, then the trade mark owner would be able to bring a claim for infringement against the parallel importer.

This occurred in the case of Oracle v M-Tech which was recently considered by the UK Supreme Court. This case concerned American computer hardware bearing the trade marks of Sun Microsystems, which was parallel imported into the UK when it had not previously been placed on the market in the EEA.

The parallel importer sought to defend itself on the basis that enforcing the claimant’s trade mark to prevent the importer from bringing the goods into Europe would be contrary to (i) the principle of the free movement of goods in Europe, and (ii) EU competition law. The Supreme Court rejected both of these defences. Similar defences (which have traditionally been often relied on by defendants to parallel importing IP infringement claims) are now unlikely to succeed in the future.

There is a limitation to the principle of exhaustion where there are legitimate reasons for a trade mark owner to oppose further dealings in goods put on the market in the EEA.
TIPS FOR BRAND OWNERS SEEKING TO COMBAT PARALLEL IMPORTING

Register applicable rights: copyright will arise automatically; this will offer protection for books, music, software and so on. Technical inventions or designs can be registered as patents or as registered design rights. Brands and logos can be registered as trade marks; registration should be considered not just in the country of origin, but also in all countries considered to be current or future markets. Businesses operating in more than one EU country may wish to register an EU-wide Community Trade Mark.

Make sure your products are traceable: if you want to stop parallel imports, you will need to first prove where the particular products were first sold. A typical way to do this is to have a unique serial number on each product, and a reliable database which enables you to match up the serial number with the party to whom it was first sold.

Don’t accidentally authorise sale into Europe: parallel importers usually seek to defend themselves by alleging the brand owner has impliedly consented to the goods being marketed in Europe. The risks of this can be minimised by:

- marking goods “Not for sale in the EU” or similar;
- ensuring your distribution agreements clearly set out (within the bounds of applicable competition law) into which territories and to whom products may and may not be resold;
- ensuring other distribution-related documentation (eg invoices, product instructions, etc) is consistent with the distribution agreements in this regard; and
- having and enforcing a company policy that does not allow employees to operate contrary to the territorial restrictions in your distribution agreements.

Take action: Keep an eye out for any potentially infringing imports, and encourage your authorised distribution network to report them to you. If you need to take action, gather and retain evidence, and get legal advice as soon as possible.

TIPS FOR IMPORTERS AND DISTRIBUTORS

Be diligent: When dealing in goods that may not already have been legitimately placed on the market within the EEA it is advisable to check the history of those goods. If they have already been legitimately placed on the market within the EEA, then you are likely to be free to import them into any other EEA country. Consider seeking written confirmation direct from the trade mark owner.

Heed warnings: If there is anything to suggest that the goods are intended only for sale elsewhere or were first sold outside the EEA (such as the location of the seller, or labelling or warnings on the packaging), then you should take extra care before importing them into the EEA.

Obtain indemnities from the seller: You can pass the risk by requiring the party from whom you acquire the products to indemnify you against any loss you might suffer as a result of the products turning out to be unauthorised parallel imports.

Keep records: Ensure that you keep a good audit trail of where your goods have come from and any authorisations or licences you may have. If any questions are raised, you should be able to show quickly and effectively that your parallel imports are legitimate.

ANY QUESTIONS?

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