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Legality of Parallel Imports under Indian Trademark and Patent Laws.

Introduction

Intellectual property (IP) rights are rights which are granted for the purpose of giving exclusivity to a product or an invention which then helps in creating a competitive market environment. It helps in fostering research and also values the work or the business of the inventor, creator or owner by giving exclusivity to such products or inventions. This exclusivity also allows the right-holder to determine where they want to sell their goods or how they want to control the sale of such goods. The TRIPS (Trade-Related Aspects of Intellectual Property Rights) agreement is one such agreement which enables global cooperation and argues for intellectual property legislation in member nations. It also clarifies the rights of the right-holder by considering the needs of the consumer and the right-holder. Intellectual property laws enable global trade and enhance the economic opportunities for countries. Parallel imports are one such issue where the rights of the right holder and the consumer confront each other. To understand the legality of parallel imports we have to understand the doctrine of exhaustion of the intellectual property rights. Here we will discuss this with regards to patents and trademarks.

Intellectual property rights are territorial. It means that they are controlled and enforced under the national legislations of their respective countries[1]. Although, these national legislations have to be in line with international agreements like TRIPS, if the country is its member. A patent is an intellectual property right that grants exclusive rights to the right-holder

[1]J. Sai Deepak, *Section 107A(b) of the Patents Act: Why It May Not Refer to or Endorse Doctrine of International Exhaustion*, 4 INDIAN J. INTELL. PROP. L. 121, 122 (2011).

for a new invention or a new process of doing something[2]. It aims to give the owner the right to control distribution, marketing, selling, producing and importing the patent[3]. Also, it lasts only for a specific period of time. It is a way of rewarding research and development by giving exclusive rights to the owner in the market for producing a technical invention. Protection that comes with the patent, not only, provides for recognising individual effort but also stops infringement like copying, illegal usage and production of such products. A trademark is essentially a mark which recognises the source of its origin[4]. Its purpose is to be easily recognisable by the consumer, which would create less confusion for the buyer and will be a mark to recognise the good's quality on behalf of its brand.[5] For example, the SAMSUNG mark on Samsung products is a trademark to identify genuine products and also helps the company to create a brand of products on its goodwill that the consumer can easily recognise by seeing the SAMSUNG mark.

What is the doctrine of exhaustion of intellectual property rights?

The exclusivity that intellectual property rights guarantee can also create unfair market conditions if such rights are applied unconditionally. The doctrine of exhaustion of rights in concept ensures that the exclusivity or control of the right-holders does not let them take an unfair advantage over others in the market. The exhaustion doctrine simply implies that, once IP goods are sold in the market, the IP owners subsequently lose their right of distribution over that good[6]. It means that the right holder cannot control the sale or distribution of such goods after the first sale[7]. It does so, as the owner or the right-holder is already rewarded by the first sale and as such is restricted to further benefit from that good or the product.[8] These restrictions over the rights of the owners are present, as, in the absence of such a principle it could be possible for owners to further control the use of the product by the consumer, like it can come up with rules that limit the use of the product, even after its sale, as the owner would still have rights over the product. In any market, this would make it highly beneficial for entrepreneurs but would be at the cost of consumers' liberty. Hence, a doctrine of exhaustion is required to

[2]Rajnish Kumar Rai, *Does India Need to Harmonize the Law of Patent Exhaustion and Parallel Imports*, 19 INFO. & COMM. TECH. L. 115, 115 (2010).
[3]*Id.*
[4]Sneha Jain, *Parallel Imports and Trademark Law, 14* J. INTELL. PROP. RTS., 14,14 (2009).
[5]*Id.*
[6]Raman Mittal, *Whether Indian Law Allows Parallel Imports of Copyrighted Works: An Investigation*, 55 J. INDIAN L. INST., 504, 504 (2013).
[7]Deepak, *supra* note 1.
[8] Garima Budhiraja Arya & Tania Sebastian, *Exhaustion of Rights and Parallel Imports with Special Reference to Intellectual Property Laws in India*, 2 J. NAT'L L. U. DELHI 26, 30 (2014).

limit the scope of such intellectual property rights. It also curbs monopolistic tendencies in the market.[9] It must be made clear here, that the owner does not in any way, exhaust the right of making and producing the good and subsequently the buyer or the consumer too does not gain any rights for the production of that good or the sale of other goods that the consumer has not bought. The owner is only limited in his control over distribution of products he has sold and the consumer is given partial control (mainly related to the use and distribution) over the goods he has bought. If this were not the case then, every time a consumer would buy a product, then that consumer would have been able to manufacture that product, which is absurd.

What are parallel imports?

Parallel imports mean the importation of a product from one country to another without the permission of the product's IP owner.[10] The doctrine of exhaustion of rights is used to enable such an activity as the owner of the IP loses his rights over the distribution of that product after the first sale. Hence, any importation of such goods to another country would not infringe on the rights of the IP owner. It can be used to sell imported products at a cheaper rate due to difference in the rates of the product in different countries[11]. While this may benefit consumers and curb monopolistic trade practices, another problem that arises from this importation of goods is that the same product might be slightly different in the two countries. If the same product is slightly different for different countries or regions, it can potentially cause problems for the IP owner as most people might buy the product for the brand and hence, the goodwill of the company too is exploited in such ways[12]. Parallel imports do benefit the consumers more than the IP owners but services after the sale of the goods might not be available to a consumer who buys an imported product. Issues of servicing of goods and warranty too might arise. In such a scenario, the consumer is disadvantaged. Hence, the legality of parallel imports must be discussed keeping in mind a balance between intellectual property rights of the owner or right-holder and free trade in the economy. Also, consumer rights and protection must be considered in this discussion.

Any legal understanding or interpretation of the legality of parallel imports has to be in line with the doctrine of exhaustion of IP rights. In the TRIPS Agreement, the issue of exhaustion and parallel imports is still left open for member states to decide. As Article 6 of

[9]Jain, *supra* note 4 at 15.
[10]Jain, *supra* note 4 at 15.
[11]*Id.*
[12]*Id.* at 16.

the agreement, titled "Exhaustion", states 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."[13]. This article in essence leaves the decision over the issue of exhaustion of rights to the member nations, as long as it does not infringe on the rights of the right-holders mentioned in the agreement. Article 3 and 4 is about national treatment and most favoured nation treatment respectively in the agreement. The intention of Article 6 is to impart no meaning to exhaustion with respect to the agreement and to leave it on members nations to decide. This implies that there was no unanimity between countries over the issue of exhaustion.[14] Also, this Article does not mention which goods are legitimate goods and hence leaves the member nations to interpret this on their own[15]. In the Doha Declaration [paragraph 5(d)], the exhaustion principle is limited to public health thereby, falling in line with the broad understanding of Article 6.[16] While countries are allowed to formulate their own legislation about the issue of exhaustion, there are mainly three ways in which such laws can function, that is, international, national and regional exhaustion of intellectual property rights.

International Exhaustion

The principle of international exhaustion is wider than national and regional exhaustion. It implies that the owner of an IP, after the first sale in one country, also exhausts his rights in other countries too. It works on the notion that the world is a market and hence consent or sale in one country exhausts the rights in other countries as well[17]. This type of exhaustion leads to more liberalised trade practices which ultimately benefit both the consumer and the owner of IP. Though, this works on the principle of removing trade barriers and liberalisation, it also boosts parallel imports due to the way in which the doctrine of exhaustion of rights is applied. Also, firm intellectual property laws curb growth in the market and limit competition[18]. Parallel importation under the international exhaustion principle become great price-levellers of IP goods in different countries as consumers would prefer cheap imported goods.[19] At the same

[13]Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. **15,** 1994, Annexe **IC** to the Agreement Establishing the World Trade Organization 1994, **1869 U.N.T.S. 299,** Art. **6.**
[14] Arya and Sebastian, *supra* note 8 at 35.
[15]*Id.*
[16]*Id.* at 36.
[17]Jain, *supra* note 4 at 15.
[18]Arya and Sebastian, *supra* note 8 at 34.
[19] *Id.*

time producers or owners of such IP goods might decide to do their business in countries that do not follow international exhaustion of IP rights.[20]

National Exhaustion

This principle of exhaustion applies over the territory of a country. It means that the first sale of goods by an owner in a country exhausts his rights over distribution in that country and that owner subsequently cannot control the movement of his goods in the same country[21]. This exhaustion doctrine is applied on the national jurisdiction of a country, so as to create a market where such goods can be re-distributed within that jurisdiction itself. Hence, after the first sale of goods, within the jurisdiction of a country, the owner of the IP cannot create a cause for infringement over the distribution of those goods in that country. Though, an owner having the IP registered in another domestic market can stop the movement of imports to other countries on the grounds that such exhaustion is limited to the national jurisdiction of the registered country. For example, let us assume that a trademarked good (or any other IP) is registered in countries X and Y, both following the doctrine of national exhaustion of IP rights. The sale of the said trademarked good, after the first sale in their respective markets or countries, will not cause any infringement on IP rights but, an import, of the trademarked good, into X from Y, would amount to infringement of the rights of the owner in Y. This is based on the fact, that the owner's IP rights were exhausted in country Y and not in country X and hence, the import into country X was an infringement of such rights in country Y. Though, parallel imports are not restricted to a great degree but, a system of such rights registered in various countries can enable the owners of IP to significantly restrict parallel imports of their goods[22]. This is possible, as the IP remains the same in most countries, just the territory changes. In the above situation, had country Y not followed doctrine of national exhaustion, then the owner of the trademarked good would not have been able to stop such imports into country X over infringement of his rights in country Y. Hence, this allows free movement of trade within the country while subsequently addresses the concerns of the owners and right-holders of intellectual property, by considering such imports as an infringement on those intellectual property rights.

[20]Rai, *supra* note 2 at 120.
[21]Deepak, *supra* note 1 at 123.
[22] Rai, *supra* note 2 at 119.

Regional Exhaustion

This principle of exhaustion applies over a region, which can consist of several countries. This exhaustion principle is similar to the national exhaustion principle. The difference largely lies on the territory. It implies that the sale of IP goods in one country, part of a larger group of countries forming a regional jurisdiction or territory, exhausts the rights of the owner or the right-holder in all the other countries part of that regional jurisdiction. This means that the importation of genuine goods between such countries will not cause infringement of IP rights of the owner. For example, let us assume countries X and Y together follow regional exhaustion of IP rights and hence, form a regional jurisdiction and country Z follows national exhaustion principle. If an IP good is sold in country X, then it is possible for a consumer to import into country Y and not infringe on the right of the IP owner but at the same time, if a consumer imports the good into country Z from country X, then such an importation of goods would infringe on the rights of the owner as the rights over distribution and importation or exportation were not exhausted for country Z.

The doctrine of exhaustion of intellectual property rights not only applies differently in different countries on the conditions set by legislation but, it can also change with the specific IP, as different intellectual properties are governed by different and separate legislations. Hence, an analysis of the Patents Act and Trade Marks Act is done below to understand the position of parallel imports of patents and trademarked goods and the doctrine of exhaustion of rights in India.

Parallel imports and the doctrine of exhaustion under the Patents Act, 1970.

The Patents Act, 1970 does not mention anywhere parallel imports or exhaustion. Though Section 107A (b) is widely understood to highlight the doctrine of exhaustion for patents. Section 107A (b) states that: "For the purposes of this Act, — (b) importation of patented products by any person from a person who is duly authorised under the law to produce and sell or distribute the product, shall not be considered as an infringement of patent rights."[23] It makes it clear that after the first sale of product in any country, a further import of the patent will not be infringement provided, it is authorised under the law. This provision also assumes that the country through which such imports are coming from follows a system of national exhaustion [24].

[23]The Patents Act, 1970, §107A(b).
[24]Rai, *supra* note 2 at 125.

It must also be noted that the above Section is an amendment to the 2002 Amendment Act. The earlier 2002 version of the Section used the words "who is duly authorised by the patentee to sell or distribute the product"[25]. This gave the Section a restrictive characteristic as, it implied that imports were allowed after the first sale, if such imports were a product from a source having the consent to distribute the product from the patentee. Hence, under this version of the Section, it made consent an important element for the exhaustion of rights of the patentee or owner. For example, let us assume that a buyer from India buys a product in country Y and then imports it into India to sell the product. Under the above 2002 legislation, this would have been possible only if, the seller in country Y was allowed by the patentee to sell the product. After such a consent would the concept of exhaustion be applicable for the import of the product, before that, it would infringement on the patentee's right. This position of the law requiring the consent made it possible for the patent owners to apply their rights and to control the movement or distribution of such imports. The 2005 amendment to Section 107A (b), however, recognises this limitation in the area of parallel imports and hence, the 2005 amendment is a more liberalised version, which is mostly understood for undertaking the principle of international exhaustion. It can be said that the 2005 version was introduced to correct the faults recognised under the 2002 legislation.

This Section howsoever, liberal is still vague on few points of law which have been critically examined. It is argued that the vague language of the law might make it possible for sellers to exploit certain imports patents which are from a country which lacks patent protection laws[26]. Another contention is that this Section can be in contravention of the rights or diminishes the rights of the patentees under Section 48 of the same Act[27]. Section 48 grants the patentee the right to prevent third-parties from selling, making, using or importing patented products in India without the consent of the patentee. The diminishing effect on these rights takes away the logic for protecting patents and simply rewards creative and innovative achievements.

These critiques too have to be examined along with balancing the rights of the patentees and the consumers. Mostly, developing nations support international exhaustion as they act as

[25]The Patents (Amendment) Act, 2002, §107A(b).
[26]Rai, *supra* note 2 at 126.
[27]Rai, *supra* note 2 at 127.

great price levellers. This type of parallel importation is especially helpful in the supply of pharmaceutical products but at the same time increasing the availability of say, cheap drugs will hinder the investment in research and development of such drugs[28]. Hence, patent protection is not only for enhancing business needs but also is a way of giving guarantee to protect the investment in such endeavours, thereby encouraging further development. Section 107A(b) does speak for international exhaustion but key points in this Section still have to be determined. An interpretation from the court can then help shed some light over this situation and clarify this vagueness.

Parallel imports and the doctrine of exhaustion under the Trade Marks Act, 1999.

The Trade Marks Act, 1999 (hereinafter referred to as the "Act") too, does not expressly mention parallel imports or the doctrine of exhaustion. Section 29 of the Act talks about the infringement of registered trademarks.[29] Section 30 of the Act talks about the limits of the effects under Section 29.[30] Read together they might argue for an exhaustion doctrine. The issue of whether the Indian trademark laws follow international or national exhaustion is extensively examined in the case Samsung Electronics Company Ltd. vs Kapil Wadhwa & Ors.[31] and then in the appeal in the Kapil Wadhwa and Ors. Vs. Samsung Electronics Co. Ltd.[32] In the former case, the defendants were importing printers from foreign markets in India which were produced by the plaintiffs and subsequently sold them under the brand of the plaintiff 'Samsung' in India. The plaintiff accused the defendants of infringing on the rights of their registered trademark in India. The defendants on the other hand, contended that the import and sale of product was legal. In this case, the court examined Section 29 and Section 30 of the Trade Marks Act, 1999 extensively.

The court examined Section 29(1) and 29(6) and held that these Sections together imply that the act of importing and exporting trademarked goods was infringement.[33] The reasoning given was that such importation, under the Sections provided, was to be seen as use of the trademark. The judgement then goes on to state that the legislative intent was to put barriers on such importation[34]. The court then questioned whether the importation of genuine goods was

[28]Arya and Sebastian, *supra* note 8 at 46.
[29]The Trade Marks Act, 1999, §29.
[30]The Trade Marks Act, 1999, §30.
[31]Samsung Electronics Co. Ltd. & Anr v. Kapil Wadhwa & Ors., LNIND 2012 DEL 198 (India).
[32]Kapil Wadhwa & Ors. v. Samsung Electronics Co. Ltd. & Anr., LNIND 2012 DEL 1444 (India).
[33]Samsung Electronics Co. Ltd. & Anr v. Kapil Wadhwa & Ors., LNIND 2012 DEL 198 (India) at para. 19.
[34]*Id.* at para. 26.

also infringement against proprietor (the plaintiff here). It is to be noted that the Section 29 does not mention anything about the difference between genuine or counterfeit imports of goods. The court realising this, analyses the above Section to consider all imports of goods in the course of trade as an infringement against the proprietor due to a lack of difference between the two[35]. Though, parallel imports are a trade in genuine goods still the word "importation" in the above Section was understood as infringement.

The court then tries to interpret Section 30(3) and Section 30(4) of the Act. The court first examines section 30(3) and comes to a conclusion that the lawful acquisition of the trademarked good must be from the same market as his proprietor or assignee. The court observes that the word "market" must be the domestic market and that nowhere does section 30(3) refers to an international exhaustion principle[36]. Finally, after analysing the UK law, the court interprets that the Indian law envisages national exhaustion and not international exhaustion principles. The judgement held that Section 30(4) puts a control over further sale of goods even in the national market, thus limiting exhaustion of the proprietor's right.[37] In view of the above reasons, the court held in favour of the plaintiff.

In the appeal of the above case, that is the Kapil Wadhwa & Ors. v. Samsung Electronics Co. Ltd, the court finds that that the Indian law follows international exhaustion principle and subsequently gives reasons for it. Firstly, the court finds that Section 30 (1) and 30 (2) puts the conditions on the use of trademark by a person which will not cause infringement against the proprietor. Hence, the court finds that single judge bench erred on assuming that there were barriers enforced on importation of goods by the legislature. Secondly, the court also found that the conclusion that the buyer, proprietor and the assignee must be in the same market is an incorrect conclusion[38]. The reasons given behind this is that section 30 (3)(a) and section 30 (3)(b) function in mutually exclusive places and hence, must be interpreted accordingly. Also, such an interpretation will not make them futile.

Lastly, the court also finds that the confusion over the word "market" either meaning the domestic market or the international market in sections 29 and 30 could be resolved by relying on the Statement of Objects and Reasons to The Trade Marks Bill, 1999. The court

[35] *Id.* at para. 38.
[36] *Id.* at para. 68.
[37] *Id.* at para. 88.
[38] *Id.* at para. 43.

comes to the conclusion that the use of the phrase any geographical area meant that the legislative intent was that of the international market.[39] The court also recognises that the Indian position in the Uruguay Rounds of the General Agreement on Trade and Tariffs (GATT) was to allow parallel imports[40]. The court thus held that the word "market" in section 30 (3) meant the international market and hence, the legislation in India implements the doctrine of international exhaustion of rights. [41]

Conclusion

Parallel imports are important for international trade and globalisation. They are a key feature of such ideas as free international trade can only happen if consumers are allowed to purchase whatever they want from wherever they like. Trade practices like enforcing intellectual property rights too are a part of free trade. Without IP laws industries would be in havoc and consumer protection too would be impossible. It is with this intent that IP laws must be enforced but the doctrine of exhaustion of intellectual property rights ensured a balance is maintained between the two. As mentioned earlier, though parallel imports benefit consumers and might seem unfair towards IP owners but the exhaustion doctrine also helps in protecting the rights of the intellectual property owner. This can be understood, by examining the doctrines of regional and national exhaustion of rights, which to some extent maintain the owner right over movement of his goods. At the same time, international exhaustion of intellectual property rights promotes free trade. analysing these different exhaustion doctrines, a need however is felt for harmonising these exhaustion doctrines in the spirit of globalisation, if not fully then at least partially. In India the Patents Act, 1970, as examined above, argues for international exhaustion principles but at the same time, critiques of Section 107A(b) being compatible with Section 48 of the same Act must be looked into. Also, the vague language of the Section must be made clearer by the legislature. As for the Trades Mark Act, 1999, the judgement in Kapil Wadhwa & Ors. v. Samsung Electronics Co. Ltd., clearly lays down that the Indian law follows international exhaustion principle for trademarks.

[39] *Id.* at para. 58.
[40] *Id.* at para. 61.
[41] *Id.* at para. 71.