PARALLEL IMPORT

INTELLECTUAL PROPERTY RIGHTS

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INTRODUCTION

Parallel imports are one of the most iridescent and enigmatic phenomena of international trade. On the one hand, they strictly follow the laws of the market; yet on the other hand, the laws of the market are not the only ones that apply to this kind of activity. While industrial producers are pressing for general barriers in order to maintain price differences of goods among various countries, consumers find such differences puzzling in a world that is increasingly heading towards international trade and the removal of trade barriers. Easy resolution of the problem is not in sight[1].

The term "parallel importation" refers to goods produced and sold legally, and subsequently exported. In that sense, there is nothing "grey" about them, as the English Patents Court in the *Deltamethrin*[2] decision correctly pointed out. Grey and mysterious may only be the distribution channels by which these goods find their way to the importing country. In the importing country, such goods may create havoc particularly for entrepreneurs who sell the same goods, obtained via different distribution channels and perhaps more expensively. In order to exclude such unwelcome competition, intellectual property rights have sometimes been of help. If products sold or imported by third parties fall within the scope of patents, trademarks or copyrights valid in this particular country, such sale or importation by third parties is generally deemed infringing. Owners of products covered by intellectual property rights have the exclusive

[1] CORNISH, "Intellectual Property" 661 (3rd ed., London 1996).
[2] Roussel Uclaf v. Hockley International, decision of 9 October 1995, [1996] R.P.C. 441.

right to put such products on the market. On the other hand, there is little doubt that once the owner of an intellectual property right has put such goods on the market either himself or with his consent, there is little he can do about further acts of commercial exploitation, such as re-sale, etc., on the domestic market. Even if a car is covered by a number of patents, once the car maker has put that car on the market, there is a consensus that he cannot prevent that car from being re-sold, leased-out, etc. The reason for this has been answer differently in different jurisdictions[3].

INTELLECTUAL PROPERTY LAW: AN INTRODUCTION TO PARALLEL IMPORTATION

A parallel import is a non-counterfeit product imported from another country without the permission of the intellectual property owner. Parallel imports are often referred to as grey goods or grey-market goods (US: gray goods). The goods are authentic or genuine goods (as opposed to counterfeit goods), meaning that they have actually been manufactured by, for or under license from the brand owner. However, they may have been formulated or packaged for a particular jurisdiction, and then are imported into a different jurisdiction from that intended by the brand owner (eg a packet of cigarettes intended for sale in the Czech Republic being sold in Germany)[4].

Parallel importers usually purchase products in one country at a price that is cheaper than the price at which they are sold in a second

[3]Christopher Heath ,"Parallel Imports and International Trade", Max Planck Institute for Foreign and International Patent, Copyright and Competition Law, Munich, World Intellectual Property Organisation,2011

[4]Parallel Imports-An introduction to IP laws" available at http://www.translegal.com/exercise/6056 data retrieved on September 11,2014

country. They then import the products into the second country. The products are then sold at a price which is normally somewhere between the usual price found in the country of export and the country of import. Parallel importing is regulated differently in different jurisdictions; there is no consistency in laws dealing with parallel imports between countries. Neither the Berne Convention nor the Paris Convention explicitly prohibits parallel importation.

A related concept is the exhaustion of rights, or the doctrine of exhaustion. This is a concept in intellectual property law whereby an owner will lose or exhaust certain rights after the first use of the subject matter which is the subject of intellectual property rights. Exhaustion of IP rights refers to the extent to which IP owners can control the distribution of their products. For example, the ability of a trade mark owner to control further sales of a product bearing its mark are generally exhausted following the sale of that product. This concept typically arises in the context of parallel imports, and may therefore be relevant nationally, regionally or internationally. If a right becomes exhausted in one jurisdiction, an intellectual property owner may not be able to enforce its rights in another jurisdiction[5].

In this way of thinking parallel importations can harm the research capability of the enterprises, because this kind of capability needs a suitable exploitation of the patent and this utilization can be damaged by parallel importations from countries where the price' product is lower.

The only exception in the U.S. legislation is the *common control exception* for trademarks, that allows gray market if the national trade

[5] ibid

mark holder coincide with the foreign trade mark holder or if both the holders are *affiliated corporations* or are submitted to *common ownership or control*[6]. It's possible to explain this exception because in case of trademarks it's really difficult to feel that need for protection of the research system that it's possible to find in the patent field.

The U.S. Government' position has a kind of confirmation in a study of the E.U. (NERA 1999). This study states that European Union exhaustion principle didn't remove prices' differences among European Union Countries[7]. This study seems to think that parallel importations coming from U.S.A. and Japan could only reduce enterprises' profits more than curtail consumers' prices[8].

In theory it seems to be preferable a system based on international exhaustion principle, because seems a good means to avoid market segmentations, favouring consumers by lowering prices. But it's also true that studies about parallel importations are based on little empirical evidence. A lot of studies about gray market are anecdotic[9].

From a little while we can see some attempts to justify prohibition of parallel importations, especially for drugs. The most important justification is that parallel importations can destroy research.

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[6] FINK CARSTEN, "Entering the jungle of intellectual property rights exhaustion and parallel importation, in Intellectual property and development*",* Lessons from recent economic research, ed. by Fink e Maskus, Washington, 2005:185.
[7] WATAL JAYASHREE,"Parallel imports and IPR-based dominant positiuons: where do India's interest lie?", in Intellectual property: trade, competition, and sustainable development,2003:206.
[8] IBID, 189-199.
[9] CONLEY," Parallel imports: the tired debate of the exhaustion of intellectual property rights and why the WTO should harmonize the haphazard laws of the international community", Tulane Journal of International and Comparative Law, 2007:189-210.

Probably this changing is linked to the recent economic crisis. Like in almost every difficult period for economy it's possible to see withdrawals of antitrust needs in favour of protectionist mechanisms aimed at defending enterprises and dynamic efficiency.

Parallel importations face the problem of moderating two kinds of economic efficiency: static (in which parallel importations produce a price reduction for consumers) and dynamic efficiency (that concerns the optimal capability of a system to produce innovations). It's clear that these kinds of efficiency are not always matchable. The only way to have a correct balance is to ensure a suitable remuneration to the intellectual property holder in the market of first admission of the product for research and development activity[10]. At the same time this doesn't involve an excessive possibility of exploitation of the market by the patent holder[11].

In the famous case *Syfait*[12] the European Court of Justice found a solution by not prohibiting parallel importations of drugs, but also allowing the manufacturer to refuse furnishing medicines to wholesalers when their orders are abnormal, that is excessive in respect to the normal amounts previously ordered.

PARALLEL IMPORTATION AND TRADEMARK LAWS

One of the earliest cases on the issue of parallel import is *Albert Bonnan vs. Imperial Tobacco Co* which was dealt with under the

[10] V. CORREA &CARLOS M., "Trade related aspects of intellectual property rights. A commentary on the TRIPS Agreement", Oxford-New York, 2007:89.
[11] DESOGUS, "Il commercio parallelo disincentiva la ricerca farmaceutica?", in Diritto industriale, 2008:341
[12] Court of Justice of the European Communities, May 31, 2005, C-53/03.

provisions of Indian Merchandise Marks Act, 1889. The issue of exhaustion of rights was not specifically dealt with in the Indian

Merchandise Marks Act, 1889. However Section 30(2) of the Trade and Merchandise Marks Act, 1958 provided that where the goods bearing a registered trade mark are lawfully acquired by a person, the sale of or other dealings in those goods by that person or by a person claiming under or through him is not an infringement of the trade mark by reason only of the trade mark having been assigned by the registered proprietor to some other person after the acquisition of those goods.

Similarly, in the Trademarks Act 1999 too Section 30 which deals with limits on effect of registered trade mark reads as follows:

(3) Where the goods bearing a registered trade mark are lawfully acquired by a person, the sale of the goods in the market or otherwise dealing in those goods by that person or by a person claiming under or through him is not infringement of a trade by reason only of −−

(a) the registered trade mark having been assigned by the registered proprietor to some other person, after the acquisition of those goods; or

(b) the goods having been put on the market under the registered trade mark by the proprietor or with his consent.

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

The object of Section 30(2)(c)(i) is to prevent the owner of the trade mark claiming infringement in respect of a product which he has produced and to which he has attached the trade mark. It has been held that where a parent company (or a group of companies) chooses to manufacture and sell wholly or partly through subsidiary companies in different parts of the world products which bear the same trade mark, neither the parent company nor any member of the group nor any subsidiary can complain in any country if those products are sold or resold under that trade mark[13]. The legal ownership of the mark does not go further and enable the owner or registered user that products manufactured elsewhere (e.g. U.K or U.S.A) are not sold within the territory of any country[14].

However, Section 30(4) seeks to protect the rights of the trademark holder by giving him the right to oppose any further commercial in trademark goods where there exists legitimate reasons for the proprietor to oppose further dealings in the goods in particular, where the condition of the goods, has been changed or impaired after they have been put on the market[15].

In the case of *Xerox Corporation Vs. Shailesh Patel* the plaintiff submitted before the court that certain defendants were importing or selling xerox second hand machines which is not permissible, irrespective of the fact that they have requisite documents for import. This plea is based interalia, on the provisions of Section 30(3) and (4) of the Trade Marks Act, 1999.The plaintiffs also pointed out that they

[13] P. Narayanan, "*Law of trade Marks and Passing Off*", Eastern Law House Pvt Ltd, Kolkata, 6th Edition 2004:570
[14] Winthrop v Sun ocean (1988) FSR 430 at 437
[15] Supra note 13

have arrangements in the U.S.A whereby they sell second−hand machines with the stipulation that the user of such machines can only be in U.S.A. On the other hand the defendants submitted before the court that there were more than the said source for obtaining second hand machines since it is possible that a party, who purchases a machine of xerox, decides to sell the same to a third party without entering into any written agreement or exchange scheme with the plaintiff. It was further ubmitted that the interest of the plaintiffs is taken care of Sub−section (4) of Section 30 of the said Act since the defendants undertake that in case the goods are changed or impaired, they will not put the same into market. Thus it is stated that only such of the machines be permitted to be imported, which have proper documentation and there is no change or impairment. In case after importation, there is any change or impairment, the condition of removal of the xerox sticker would have to apply to those machines. The court held that "*I am of the considered view that it will be appropriate to permit import of such xerox machines, which have proper documentation provided there is no change or impairment in the machine. Such prohibition of change or impairment is not to be confined only to the physical characteristics, but also in respect of the working systems and the software to be used for the said purpose. In case after importation, there are any changes, the sticker of xerox must be removed so as to indicate to the purchaser that the machine is not being sold as a xerox machine*."

The surprising fact that although in the earlier Indian Merchandising Marks Act of 1898 the provisions dealing with the exhaustion of rights were not specifically spelt out, the courts did not hold parallel imports to be infringing goods. In sharp contrast, the Trademarks Act, 1999 through Section 30 contain specific provisions dealing with the exhaustion of rights; the courts have granted injunctions preventing parallel imports of trademark goods. A common feature of these suits have been not the violation of the trademark act but the allegation that the importers were passing off the parallel imports as goods imported by or on authorization of the original trademark holders, leading to confusion in the minds of the public and also damaging the reputation of the plaintiffs[16].

Legal Issues in Parallel Import: Take Of The Delhi High Court

Authorisation of parallel imports as held by the Division Bench of Delhi High Court in the recent judgement of *Samsung Electronics Co. Ltd. v. Champion Computers* has begun the process of 'editing and altering' the shape of trademark law in India. The Indian courts are now in a problematic situation in which they have to strike a balance between the conflicting interests of the parties in question. On the other hand, for the developing countries like India, parallel imports are not less than a boon for the distributors and consumers. However, in this due process, the trademark law in India is trying to find its true preamble.The Indian trademark law has witnessed notable changes over the past decade. The recent Samsung Case, which was judged by the division bench of Hon'ble Delhi High Court, has flashed some more changes in the trademark law. The bench overruled the findings of a single bench, which clearly stated that parallel imports are not authorised under the Indian trademark law.

[16] Mubasher Hussain Ansari, "*Indian Trademark Law and Parallel Imports*",2011 available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1832702 data retrieved on September 13,2014

Parallel imports in general terms signify the importation of a non-counterfeit product from another country without the permission of the owner, who owns the intellectual property attached with it. The division bench has clearly upheld that parallel importation is permitted under the Trademarks Act, 1999 and it does not violate the rights of the proprietor. The division bench has highlighted that Champion Computers has been rightful enough to import the original Samsung printers through a parallel chain. The core concerns, which arose in this case, may be highlighted as under.

- “**Genuine Products at Cheaper Rates**” (Section 30 (3) of the Trademarks Act, 1999)

The first issue which came up was whether it is entirely justified to buy genuine products from the so called grey markets or places where such products are available at cheaper rates. From consumer’s view point it’s a heartening scenario but for a manufacturer/producer view point is taken, it is a discouraging prospect. As discussed by division bench, the preamble of trademark law does not guarantee any regulation on sale of goods; it simply highlights how the registered trademarks can be used.

The division bench clearly stated that Section 30 (3) of the Act does not guarantee any monopoly right to the proprietor on the notion that he can claim infringement if some other person, within the same market segment, acquires the goods legally (becomes the owner of the said goods by buying them) and sells them. This section recognises only national exhaustion and hence, restricts the registered proprietor to control the commercial exploitation of goods put on the domestic market.

- “**Evasion of Product Surplus**” (Authorisation of parallel imports under the Trademark Act, 1999)

As Champion Computers won the case against Samsung, the judgment was well supported by the All Delhi Computer Traders Association or ADCTA. The legitimacy behind the parallel imports has disturbed the international companies such as Samsung Electronics Co. Ltd. not only on the lines of trademark infringement, but also due to high evasion of the product surplus.

Product surplus, as per the economic terms, means the surplus which the manufacturer or producer acquires on the selling and distribution of goods through the authorised route. The mechanism of product surplus is worked out by the owner in a way where he increases or decreases the price per product as per the expected consumer participation for products so launched. The surplus is created on the foothold of a highly demanded consumer segment that is willing to pay more for the genuine and gorgeous gadgets. The prices in Africa will be higher as compared to the product pricing in countries like India due to the hyper-active participation of consumers.

However, when parallel imports are authorised, the market is flooded by two types of distribution chains, legally – the registered proprietor distribution chain and the parallel imports chain. When the parallel imports chain runs, it distributes the authentic products of the registered proprietor at a cheaper rate and so the very process of acquiring a high amount of product surplus is evaded. It could be thus analysed that the economic impact of legalising the parallel imports has a deterrent effect over the registered proprietor‘s sales and distributions. A consumer, who is well aware of such imports chain, becomes highly active on buying the goods through this cheaper route.

One of the added advantages of being a consumer of the parallel imports chain is that despite being low in value as compared to the original chain, it is also non -counterfeiting in nature. Parallel imports are having entirely opposite impacts on two ends of the business – the consumer and the owner.

As per the United States Trademark jurisprudence, the true significance of trademark law is to signify the goodwill of the local business of the domestic owner. The trademark law does not act upon stating the origin of the manufacturing of the goods or services so involved in the process. In case of Indian trademark law jurisprudence, one of the important cases in the regard was *Bose Corporation v. S Mehta*[17] where the defendants were restrained from selling the digital audio music systems of the plaintiff. At the earliest, parallel imports were held unauthorised and it was assumed that the Indian trademark law had a perfect picture. However, as the cases went, recent one being the multiple trademark infringement suits by Samsung initiated the process of 'editing and altering' the shape of trademark law in India. It could be seen that the Indian courts are finding difficulties in making a striking balance between the interest of the trademark owners and the consumers. The core concern in this issue is that with a developing economy like India, parallel imports tend to be favoured on the notion of 'best suit' for the nation's interest – since it reduces the buying price per product per consumer. On the other hand, if the disadvantages or deterrent effects of parallel

[17] CS (OS) No. 337 of 2006

imports are taken, they cause consumer confusion with regard to the trademark so associated with the goods in the chain.

It could be effectively concluded that the trademark law in India will be shaping itself through the turns of the cases as come by. Samsung case against Champion Computers is another witness in the regard. The Indian courts are now responsible to view trademark law on the notion of striking a balance between the interests of the parties, which are involved in such cases.

However Contrary to a Delhi High Court judgment prohibiting parallel importation of trade mark protected goods into India, the Government of India, through a circular issued by the Central Board of Excise and Customs, has clarified that the statutory wording of the trade mark law of India recognizes the doctrine of international exhaustion, as discussed later in this paper

PARALLEL IMPORTS AND EXHAUSTION: A PRIMER TO PATENT LAW IN INDIA

A patent is a bundle of exclusive rights granted to an inventor whose invention satisfies certain pre-requisitive such as novelty, non-obviousness and utility[18]. Such exclusive rights include the right to make, use, sell and import the patented goods into such country[19].

The doctrine of exhaustion imposes certain limits on the patentee's exclusive rights. According to this doctrine, 'a patented item's initial

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[18] Agreement on the Trade – Related Aspects of Intellectual Property Rights arts. 27.1, 65, 70.9, Apr.14, 1994, 33 I.L.M 1125

[19] Article 28(1) of the TRIPS Agreement which states in pertinent part that "a patent owner shall have the exclusive right to prevent third parties not having the owner's consent from the acts of: making, using, offering for sale, selling, or importing for these purposes that product."

authorised sale terminates all patent rights to that item. In other words, she cannot control the resale or re-distribution of the particular good that had already been sold once. Were it not for such 'exhaustion, of rights, a purchaser of a patented article or even 'using' it since such 'sale' or 'use' implicates the exclusive rights of patentee[20].

The rationale behind the theory of exhaustion and the doctrine of first sale is that the patentee has already been rewarded through the first sale and should not be allowed to profit repeatedly on the same good by controlling its use, resale or distribution.However,the doctrine has been circumscribed by the following factors:-

I. 'Exhaustion' kicks in only if the 'first sale' is made by or with the authorisation of the patentee
II. 'Exhaustion' in relation to a particular patented article does not impact any of the exclusive rights of the patentee with respect to her other patented articles. In other words, a buyer of a patented article does not acquire any rights over such other patented articles[21].

Legitimate 'parallel imports' are but a natural corollary of the doctrine of exhaustion and imply the following:

1. An export of a patented good from country X (such as Bangladesh)
2. Import of such patented good into country Y (such as India)

[20] Quanta Computer, Inc. v. LG Electronics Inc., (No. 06-937) 453 F. 3d 1364, reversed (Supreme Court June 9, 2008).
[21] US v. Moore 604 F. 2d 1228

A parallel importer essentially engages in price arbitrage and exploits the price difference between the exporting country and the importing country. Several countries therefore encourage such imports to ensure lower priced patented goods for their consumers.

It bears noting that third parties, who may or may not be related to the intellectual property owner. Are the ones that essentially effectuate 'parallel imports'? As to whether or not the import of such goods into India can be stopped by the patentee by recourse to an Indian court will depend on the laws of India. Illustratively, since the laws of India provide for 'international exhaustion', such imports into India are legal[22]. Contrast this with the US and EU, which do not provide for international exhaustion: any import of patented goods for Bangladesh to the US or any of the EU countries can therefore be prevented by the patentee, even if the patentee herself and placed the goods in the Bangladeshi market.

The Indian Legal Regime

As already mentioned, the Indian Patents Act explicitly recognises the principle of International exhaustion. The first statutory provision on parallel imports was introduced by the Patents (Amendment) Act, 2002.This section provided that the

"*Importation of the patented products by any person who is duly authorised by the patentee to sell or distribute the product, shall not be considered as an infringement of patent rights*"

[22] Indian copyright regime, although a buyer of a literary work (such a book) is free to sell or distribute her copy, a buyer of a computer program cannot sell or distribute the copy. Indian Copyright Act, (Act No. 14 of 1957)

However the above provision was considered restrictive in scope.

Owing to the same Section 107(A) (b) was amended by the Patents (Amendment) Act, 2005 to provide that there would be no infringement if there has been an "*importation of patented products by any person from person who is duly authorised under the law to produce and sell or distribute the product*"

In *Xerox Corporation v. Puneet Suri*[23] the plaintiff owned the trademark "Xerox" and claimed that the defendant's act of importing and selling second hand Xerox machines constituted trademark infringement. The defendants argued that their acts were covered under Section 30(3), which recognized the principle of international exhaustion[24].Justice Sanjay Kishen Kaul of the Delhi High Court agreed with the defendants, holding that the "import of [second hand] Xerox machines that have proper documentation" is permissible under the Trademarks Act, provided that "there is no change or impairment in the machine

Therefore, in contrast to the earlier provision in 2002, once the first sale of any product had been authorised by the patentee, a parallel importer could buy that product from any reseller and not necessarily from the one that had the express permission of the patentee to resell or distribute. In other words, such importer did not need to ensure

[23] C.S. (OS) No. 2285/2006; (Feb 20, 2007).

[24] To this extent, the defendants relied on the Notes on Clauses under the Trademarks Bill, 1999 (Bill No. XXXIII of 1999) which, in relation to sections 30(3) and 30(4), states: "Sub-clauses (3) and (4) recognize the principle of 'exhaustion of rights' by preventing the trade mark owner from prohibiting on ground of trade mark rights, the marketing of goods in any geographical area, once the goods under the registered trade mark are lawfully acquired by a person. However, when the conditions of goods are changed or impaired after they have been put on the market, the provision will not apply." Interview with counsel for defendant, Sai Krishna of Saikrishna Associates, New Delhi (Jul. 3, 2008).

that any of the subsequent sellers from whom she buys goods were expressly o impliedly authorised 'national exhaustion' and therefore the second or third seller was duly authorized under the Bangladeshi law to produce and sell the product. To this extent, the 2005 amendments implement the principle of international exhaustion in its true spirit.

Another amendment in Section 107A (b), which bears noting is the addition of the word 'produce' the..., '*importation of patented products by any person from a person who is duly authorised by the patentee to sell or distribute the product*...'was amended in 2005 to 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'.

This addition of the word 'produce' appears redundant, since a parallel importer, in the normal course of events, is likely to purchase goods from a person who is authorised to sell or distribute the patentees' goods. It ought not to make a difference to such importer whether this person additionally had the right to produce those goods as well. Conversely, a mere right to produce without the right to sell would be meaningless in the context of exhaustion. One can envisage a situation where a patentee outsources manufacturing of a patented product to a third party who is authorised only to manufacture the goods for the patentee but not to sell or distribute the same to others. Therefore, unless such third party has authorisation to also sell or distribute goods, she cannot sell to the parallel importer.

Exploring The Ambiguities

As stated section 107A (b), this provisions plugs a loophole in the earlier provision and implements the principle of international exhaustion in its true spirit. However, it also results in another, probably unintended consequence. A literal reading of the section suggests that even the 'first sale' need not to be authorised by the patentee. Such a reading virtually obliterates the exclusive right to import and runs the risk of contravening TRIPS

Section 107 stresses in pertinent part that any importation of a patented product 'from a person who is duly authorised under the law to produce and sell or to distribute the product is legal'.

If law is read to mean Indian law, one is faced with a logical inconsistently. A parallel import involves an 'exporting country' (e.g. Bangladesh) and an 'importing country' (e.g. India). The producer of the goods or the seller/producer as referred in Section 107 is more likely to be based in Bangladesh and the importer (e.g. Cipla) is more likely to be based in India. Subjecting the legality of production or sale in Bangladesh to Indian law is therefore absurd, particularly when there is no patent in Bangladesh. In other words, was one to interpret 'law' as Indian law, the ridiculous question that one is faced with is the: under Indian law, can Beximo produce and distribute the drug in Bangladesh? This could have been intention of the Parliament when it amended the law in 2005 to widen the parallel import provision

The term 'law' has to mean the law of the exporting country i.e. Bangladesh in our hypothetical. And this leads to a question raised earlier: Would a mere drug authorization to sell, distribute and export from the drug authority in Bangladesh suffice to constitute 'due authorization' in so far as Section 107A (b) is concerned? Such a literal interpretation makes the Indian parallel importing provision one of the most liberal in the world and is likely to hit at very essence of the exclusive right to import.

Exclusive Right to Import under Section 48

By permitting the import of goods manufactured in Bangladesh and other countries (where there are no patents and where the goods are not placed in the market by the patentee), the very essence of the exclusive right. to import is eviscerated. In fact, some might even argue that this comes very close to rendering the very patent grant itself a nullity: a third party who cannot manufacture or sell a patented good in India has only to relocate to Bangladesh, manufacture the said good, and import it to India.

One may argue that the above consequence is not as severe as it seems. For one, a literal reading of section 107A would suggest that it is a defence only in so far as the exclusive right to "import" is concerned. In other words, the other exclusive rights guaranteed under section 48, such as the right to sell and distribute are not covered by the section 107A (b) exemption. If therefore, after importing, the good is distributed or sold in India, this could be prevented by the patentee. Such interpretation gains credence when one compares the Patents Act with the Trademarks Act, which endorses the right to "sell" by the parallel importer, once the rights have been exhausted internationally.

However, given the legislative history of section 107A(b)(that makes it clear that the section was introduced with a view to introduce parallel imports of patented products and to ensure availability of the patented product in the Indian market at minimum international market price), it is likely that a judge will likely construe the term "import" in this section to include subsequent sales as well. Particularly when the absence of the word "sale" appears more as an oversight than a deliberate attempt to curtail the scope of the international exhaustion principle envisaged under section 107A(b)[25]. If so interpreted, section 107A would result in a drastic impairment of the exclusive rights guaranteed to a patentee under section 48.

In short, any interpretation of section 107A (b) that legalises generic supplies from Bangladesh in our hypothetical is likely to hit at the very essence of the right to import under section 48. Further, such a construction also has serious TRIPS implications

TRIPS Compliance

Article 28 of TRIPS mandates that every patentee shall have the exclusive right to make, use, offer for sale, sell, or import the patented product or process in question. However, footnote (6) to Article 28 adds a small caveat to the exclusive right to import, by clarifying that "This right [i.e. the right of importation], like all other rights conferred under this Agreement in respect of the use, sale, importation or other distribution of goods, is subject to the provisions of Article 6."

Article 6 in turn states that "nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights. "The meaning of Article 6 is made clear by Article 5(d) of the Doha

[25] In State Bank of Travancore v. Mohammad, AIR 1981 SC 1744, the words "any debt due before the commencement of this Act to any banking company"

Declaration which states that "the effect of the provisions in the TRIPS Agreement that are relevant to the exhaustion of intellectual property rights is to leave each member free to establish its own regime for such exhaustion without challenge ..."

It is therefore clear that TRIPs permits Member States to limit the exclusive right to import guaranteed by Article 28 to the extent that such limitation relates in some way to the concept of "exhaustion". It is important to note that in our hypothetical example of Cipla producing generic versions of Tarceva in Bangladesh and exporting to India, there is no first sale by the patentee (Roche) and consequently, no "exhaustion" of Roche's rights. This lack of "exhaustion" means that Article 6 (which only confers flexibilities around determining the scope and extent of "exhaustion") cannot apply in the case of the Indian provision. And since Article 6 does not apply, it is likely that section 107A(b) will be held to violate the exclusive right to import under Article 28. Further, such a provision virtually eviscerates the patentee's exclusive right to import.

Therefore it might be very difficult to argue that it is a "limited exception" to a patent right falling within the scope of Article 30 of the TRIPS Agreement, which provides that "*Members may provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties*."

Interpreting Section 107A(b)

From the discussions above, it is clear that a plain literal reading of section 107A (b) detrimentally impacts a patentee's exclusive rights under section 48 and also runs the risk of violating TRIPS[26].

- **"Indianising" The Law**

One suggestion could be to interpret the term "law" in the section, to mean Indian law. To recapitulate, section 107(A)(b) states that any importation of a patented product "from a person who is duly authorized under the law to produce and sell or distribute the product" is legal (emphasis by authors).The key problem is that with such an interpretation is that one is faced with a logical inconsistency. A parallel import involves an "exporting" country (e.g. Bangladesh) and an "importing" country (e.g. India). The "producer" of the good or the seller/distributor as referenced in section 107A(b) (e.g. Beximco) is more likely to be based in Bangladesh and the importer (e.g. Cipla) is more likely to be based in India. Subjecting the legality of "production", "sale" or "distribution" in Bangladesh to "Indian" law appears incongruous. In other words, was one to interpret "law" as Indian law, one is faced with an absurd question: Under Indian law, can Beximco produce and distribute the drug in Bangladesh? Therefore, any reasonable construction of section 107A(b) would suggest that "law" as used in the section has to mean Bangladeshi law.

- **Expanding the Locus of the "Patent"**

[26] Shamnad Basheer and Mrinalini Kochupillai, "*TRIPS, PATENTS AND PARALLEL IMPORTS IN INDIA: A PROPOSAL FOR AMENDMENT*" Indian Journal. Intell. Prop. L,2012:65-68

A better alternative would be to argue that in order to harmoniously construe section 107A(b) with section 48, the term "patented product" could be interpreted to mean a product patented in both the exporting country (Bangladesh in our hypothetical) and the importing country (India).To recapitulate section 107A(b), it exempts from infringement an "importation of patented products by any person from a person who is duly authorized under the law to produce and sell or distribute the product."Naturally, the term "patented product" envisages a "patent" in India that covers such product—if this were not the case, then an importer does not need to seek refuge under section 107A (b) at all. Rather, since there is no patent in India, she is free to import into India or even manufacture and sell in India.

Apart from the above ordinary meaning, the term "patented product" could also be interpreted to envisage a patent over the imported product in Bangladesh. Since a "parallel import" envisages an exporting country and an importing country, it would be logical to assume that the "patent" status of a product that is subjected to such parallel import has to be measured with reference to both the place of export and the place of import.

This interpretation does not detract unduly from the patentee's exclusive rights under section 48, complies with TRIPS and fits well within the overall framework of the section. Also, this interpretation furthers Parliamentary intent i.e. to permits international exhaustion and the buying of low priced patented goods, once the patentee has already sold them anywhere else in the world[27].

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[27] Ibid,72

DEBATE ON PARALLEL IMPORTS

There has been ongoing debate between the proponents and opponents of the first sale principle constituting international exhaustion.[28]

It has been argued that parallel import restrictions (PIRs) strengthen IP holders' control over distribution channels, thereby permitting market segmentation and leading to price discrimination. The third party (unauthorised) has an incentive to operate parallel imports due to the feasibility of price arbitrage. Producers have argued that price discrimination, as compared with uniform price, benefits consumers because it encourages production in different segmented markets. Price discrimination permits access to the consumer who could have been deprived under the uniform (relatively high) price mechanism. Also, higher output allows producers to reap economies of scale and, thus, lower the costs. Monopoly profit is used to finance further research and development. Thus, parallel import restrictions (PIRs) benefit consumers.

However, restrictions on parallel imports go against the spirit of free trade that has been the core principle of multilateral and regional trade treaties. Trade restrictions lead to undesirable economic side effects. 'Market democracy rather than entrepreneurial dictatorship should be the rule of the future',

The principle of international exhaustion opens up trade channels that benefit consumers. Further, PIRs adversely affect the operations of authorised IP licensees in developing countries because they are not

[28] http://www.wipo.int/treaties/en/ip/rome/trtdocs_wo024.html

permitted to export their production to other countries. Producers do not prefer such international trade since it affects their geographic market segmentation and limits their ability to charge different prices in different markets. Market segmentation is likely to increase producer surplus but lower consumer welfare[29].

PARALLEL IMPORTATION AND COPYRIGHT

The provisions restricting the parallel importation of books that are the focus of this study are contained in the Copyright Act 1968. In this chapter, the Commission first outlines the relevant legal provisions and then discusses the objectives of both the Act and the Parallel Import Restrictions (PIRs). Other government policies and objectives that may bear on an assessment of the PIRs are discussed in the final section.

The Parallel Import Restrictions

The terms of reference do not request the Commission to undertake a wholesale review of Australia's copyright system, but rather to review the specific effects of the parallel importation laws for books. Subject to certain conditions, Australian copyright law provides for an almost total ban on Australian retailers importing books from overseas if a version of the book has been published locally. Under the Copyright Act 1968 (s. **37**), it is an infringement for an Australian bookseller to parallel import copies of a book to sell in Australia

[29] "The Impact of Parallel Imports of Books, Films / Music and Software on the Indian Economy with Special
Reference to Students" article by Ministry of Human Resource Development (Copyright Division, Department of Higher Education) Government of India, January 2014

without the permission of the copyright holder, even if those copies have been legitimately published in another country.

However, in 1991, the Act was amended to permit Australian booksellers to parallel import one or more copies of a book without the permission of the Australian copyright holder if Australian publishers do not meet certain conditions.

The 30 day release rule

Prior to 1991, publishers could buy the Australian rights to a foreign book and delay the release of the title indefinitely. Now, under section 29(5) of the Copyright Act, the holder of Australian copyright for a new book has 30 days to supply copies of the book to the Australian market after its release in another market. If the copyright holder fails to meet this requirement, Australian booksellers become free to import non-infringing copies of the book from any overseas supplier. Australian publishers therefore have an incentive to release titles promptly to preserve the PIRs on their titles.

The 90 day resupply rule

Section 44A contains the 90 day resupply rule, which places an onus on Australian publishers to maintain a supply of the books they publish to Australian booksellers. An Australian publisher forfeits parallel import protection over a publication if:

- A bookseller has requested the publisher to supply a book, but the publisher has not responded within 7 days advising they will supply the book within 90 days, or

- The publisher has not supplied the book to the bookseller within 90 days.

Under the current law, it is not clear whether a publisher loses parallel importation protection permanently if unable to supply a book within 90 days, or only until supply is restored. This lack of clarity continues partly due to the fact that there has been very little parallel importation through forfeiture of protection under the 90 day rule.

The Act also sets out some other situations in which booksellers may parallel import books. For example, booksellers are able to parallel import a single copy of a book to satisfy a written customer order or to supply books to a library.

Also, the 1991 amendments to the general prohibition on parallel importation did not directly affect the pre-existing rights of consumers to purchase books for personal use from overseas.

Objectives of The Parallel Importation Restrictions

Like the Copyright Act as a whole, the objectives of the PIRs are not explicitly detailed in the Act. However, the construction of the Act can help in gaining an understanding of those objectives.

The Australian PIRs are implemented as an extension of the publication and reproduction rights — that is, those who hold those rights in Australia can prevent the importation of overseas editions of a book. By adding to what the holder of the publication and reproduction rights can control, the PIRs thus potentially add to the value that those rights might have in the marketplace. The Australian Copyright Council noted this point in its submission, stating:

The parallel importation provisions are thus not an additional incentive, but rather a means of maintaining the incentive provided by the exclusive right of reproduction.

In relation to the 1991 amendments to the general prohibition on parallel imports, the intended objective is more straightforward. The terms of reference state that 'these changes were intended to address concerns about delays in obtaining copies of overseas books'. The reforms were designed to provide Australian publishers with a commercial incentive (namely, forfeiture of territorial protection and thus exposure to the threat of parallel imports) to undertake the timely and continuous supply of the titles they publish to the benefit of Australian book consumers[30].

PARALLEL IMPORT SAGA: LAWS ARE LEGITIMATE

The Central Board of Excise and Customs (CBEC) has issued a circular dated May 8 2012 that aimed to dispel the uncertainty resulting from the conflicting views that emerged from the Samsung and Dell cases in relation to the import of genuine goods procured without the consent of the registered trademark owner.

The circular[31] clears the decks for the free movement of parallel-imported goods in India, stating that they are genuine goods that are allowed under the Trademarks Act 1999. The Customs Department, which comes under the Ministry of Finance, sought clarification from the Department of Industrial Policy and Promotion (DIPP), which comes under the Ministry of Commerce (the entity responsible for operational and policy matters in relation to the Trademark and Patent Office), and the latter seems to have interpreted the relevant section

[30]" Copyright law and the broader policy environment", COPYRIGHT LAW AND OTHER POLICIES available at http://www.pc.gov.au/__data/assets/pdf_file/0019/90271/06-chapter3.pdf data retrieved on September 12,2014

[31] Circular No 13/2012-Customs (F No 528/21039/08-Cus/ICD, Government of India, Ministry of Finance, Department of Revenue, Central Board of Excise & Customs), 8 May 2012

of the Trademark Act as meaning that parallel imports are allowed, in sharp contradiction to the ruling in Samsung.

The main points that emerge from the circular are as follows:

i. When deciding whether a particular consignment of imported goods infringes the rights of an IP rights owner, the Trademarks Act 1999, the Designs Act 2000, the Patents Act 1970, the Geographical Indication of Goods Act 1999 and the Copyright Act 1957 are to be taken into consideration.

ii. These acts are broad and do not exclusively deal with imported goods. Therefore, only those provisions which have been expressly mentioned in the Intellectual Property (Imported Goods) Enforcement Rules 2007 and subsequent notifications are to be taken into consideration. In this regard, the provisions of the Trademarks Act that are mentioned in the 2007 Rules are Sections 102 (goods bearing a false trademark) and 2(i) (goods bearing a false trade description). Therefore, consignments can be seized only if the conditions under either of these two provisions are satisfied.

iii. In its comments on the issue of parallel importation, the DIPP - the nodal authority with regard to all matters pertaining to the Trademarks Act, the Designs Act and the Patent Act - has held that Section 107A(b) of the Patent Act allows parallel imports in relation to patents. In addition, Section 30(3) of the Trademarks Act provides for the principle of international exhaustion of rights, and suggests that parallel imports are allowed as long as the goods are genuine and have not been materially altered or impaired. In relation to designs, parallel imports are expressly prohibited under Section 22 (1)(b) of the Design Act.

iv. Field officers should follow the above principles when deciding whether a particular consignment is to be stopped or released.

v. The circular brings clarity as to Customs' position on parallel imports, highlighting that the authorities will no longer stop such consignments. However, this does not augur well for brand owners, who might argue that parallel imports render locally-produced goods less attractive from a price point of view. Encouraging parallel imports seems counterproductive, as local manufacturing generates employment and taxes. In addition, imported products do not take into account local preferences and demand, and do not carry warranty.

In terms of enforcing IP rights, the circular should thus make the situation more difficult for brand owners: they will need to monitor parallel imports and gather intelligence at the market level to seek redress from the courts on the basis of the Samsung ruling.