THE LAW RELATING TO PARALLEL IMPORTING

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1. Introductory

This paper is concerned with the law relating to what is termed parallel importing. It is perhaps as well to begin by defining exactly what is meant by a term which is sometimes used imprecisely, and which covers a number of different situations.

In the most general terms, the parallel importer acquires overseas stocks of a product also sold on the local market, and imports them so as to sell them in competition with the local distributor of the product. That local distributor may of course be the overseas manufacturer itself. Some of the parallel importing cases have involved the overseas manufacturer finding a product which it has made and sold in one market being imported and sold against it in another market. Particularly in Australia and New Zealand, however, it is often the case that a local authorised distributor will have been appointed to import and market exclusively the products of an overseas principal. It is such a local distributor which experiences the pain of parallel importing in its most acute form.

Because of the smallness even of the Australian market and the miniscule size of the New Zealand market, many large overseas manufacturing companies are not interested in operating here themselves or through subsidiaries. They will instead choose to appoint a New Zealand or Australian distributor, sometimes even licensing manufacturing rights to it. The local distributor will inevitably be involved in a degree of expense, sometimes heavy. It may for example be obliged to make an initial payment for the agency. It may well embark on a costly advertising campaign to promote the product. If it does not have a national distribution network, then it may spend considerable sums to set one up so as to ensure that the product is available throughout the country. The essence of the agreement for the local distributor will therefore be its exclusivity. It will expect to be the only source of the product in question in its territory and to recoup its outlay by creating a demand only it can satisfy.

It can be little short of commercially disastrous if another distributor is able to acquire overseas and to import the same product and to sell it at a discounted price. The reasons for the discounted price may be many, but among them are the fact that the parallel importer is normally not saddled with extensive promotional and distribution costs, and the costs of backup service. The parallel importer may in fact rely on customers taking defective products to the authorised service network of the local distributor, rather than incurring the expense of servicing what it sells. It is also likely to sell largely in the bigger markets in the cities and its distribution costs will accordingly be low; it may be able to undercut the local authorised agent severely.

The essential feature of parallel importing is that the parallel importer obtains from overseas the same product as the local agent, that is a genuine product. Clever but false imitations of the genuine article, counterfeits, constitute a different problem altogether, resolved in a different way. The parallel importer sells exactly the same product, and normally sells it at a lower price.

The aggrieved local distributor often finds it difficult to work out how the parallel importer manages to acquire its product in the first place. The answer may be connected with the practice of many multi-national companies to manufacture in different countries through local subsidiaries, each manufacturing the same product but with an entirely different cost structure, and therefore selling it at different prices throughout the world. Sometimes also, the parent company itself will dispose of portions of its production at different prices throughout the world or indeed even within its home country. An American manufacturing company, for example, would probably be likely to sell large quantities of a product to a chain of American department stores at a much lower unit price than it would accord to its local distributor for much smaller quantities for the whole of the very small New Zealand market.

Very often, there is nothing in the contract of sale to prevent the buyer of large quantities of a product overseas, theoretically for the market in which it buys, from selling on part or all of the goods for export to Australia and New Zealand. In fact, in some countries, such as those of the EEC with their principle of free movement of goods between member states, there are practical difficulties in the original manufacturer inserting a condition prohibiting export in the contract of sale. And sometimes also, it must be said, parallel importing flourishes because the overseas principal itself does not much care to whom it sells, so long as it does sell. Some parallel importing occurs because companies which have granted supposedly exclusive distribution rights for a particular country through their overseas divisions turn a blind eye to sales made through their domestic divisions which they know may be exported to that country.

In summary, then, the essence of the problem of parallel importing is that the local authorised distributor is confronted by an unauthorised competitor selling the same genuine article, usually at a lower price. The reaction of the parallel importer to legal proceedings is, incidentally, usually one of moral outrage that the law should assist in the perpetuation of monopolies and the fleecing of the consumer.

There is no firm rule on what legal proceedings against the parallel importer will contain. The legal remedies of the local distributor will depend on the goods in question. Contractual issues may be involved, as may the law of patents, the law of trade marks, the law of copyright and the law of passing off. At least in Australia, the Trade Practices Act 1974 (Cth) may inhibit some or all of these causes of action. These various areas of the law will now be examined in turn.

2. Contractual Issues

If the parallel importer is to be stopped, the co-operation of the overseas principal will be essential. In most cases, it will need to be a party to the proceedings. This is because the principal will likely be the owner of what may be termed the primary intellectual property rights involved - patents which may cover the goods, copyright in literary or artistic works used in their manufacture and any trade marks registered in respect of them. It is important in dealing with parallel imports to apply against the parallel importer the rights of the overseas principal in its goods.

The agreement between local distributor and overseas principal will be regulated by a contract of some kind. It should in all cases be written, but may sometimes be verbal. Even the best written agreements, however, seem seldom to contain any express covenant by the overseas principal to assist in restraining parallel importing. Some overseas principals can be reluctant to assist. This may be understandable if the parallel importer is buying from an overseas market controlled by the principal or a subsidiary, at a good price for that market. The best counter to such reluctance is an express provision in the contract that the overseas principal will take all reasonable steps to prevent parallel imports, coupled with an authorisation to the local distributor and its solicitors to use its name in legal proceedings to this end.

Further provisions which may be appropriate and can be negotiated, depending on the circumstances, include an exclusive licence or assignment of the local copyright, an assignment of any local patent, the assignment of any local trade marks or at least the registration of a registered user agreement. Many overseas principals will be reluctant to go so far. It can however be pointed out that all such assignments can be the subject of an agreement to reassign at the conclusion of the distribution agreement, and that a reassignment can even be executed in advance to be held in escrow by the overseas principal.

At the very least, in all cases, the covenant to take reasonable steps to prevent parallel importing should be obtained. An overseas principal which will not give such a covenant is one to be treated with extreme caution.

3. Patents

It is clear law that importation of patented goods or goods made overseas by a patented process amounts to an infringement of the local patent.[1] The importer of a counterfeit patented article can therefore be easily put out of business.

The parallel importer will, however, be importing the genuine article, manufactured abroad either by the patentee itself, by one of its subsidiaries, or by a licensee. Whether relief is available depends on which of these situations applies.

If the goods have been made overseas by the local patentee itself, it cannot normally restrain the importer under the local patent. The principle is that, in selling patented goods without restriction overseas, a patentee gives a buyer of those goods an absolute right to deal with them as it wishes. The leading case is Betts v. Wilmott [2], the ratio of which was clearly stated by Cotton LJ in a later case :

> "When an article is sold without any restriction on the buyer, whether it is manufactured under (a foreign or an English patent), that, in my opinion, as against the vendor gives the purchaser an absolute right to deal with that which he so buys in any way he thinks fit, and of course that includes selling in any country where there is a patent in the possession of and owned by the vendor".[3]

It will be noted, of course, that this principle is subject to the qualification that the article should have been sold without any restriction on the buyer. Subject to local legislation such as the provisions of the EEC treaty safeguarding the free movement of goods between member states, it is of course open to a patentee to include in its conditions of sale a provision that the goods not be exported to particular countries, such as Australia and New Zealand. There appears to be no case in which it has been decided whether, in those circumstances, importation of goods sold overseas subject to such a condition by a local parallel importer amounts to infringement of the local patent. In principle, however, such importation should amount to infringement and my view is certainly that it does. From the point of view of the local distributor, it is therefore important to ensure that the overseas principal does include such a provision prohibiting export in its conditions of sale. Hence, in turn, the importance of the provision in the agency agreement between overseas principal and local distributor that the former will take all reasonable steps to prevent parallel importing.

The position is exactly the same if the patented goods have been made overseas by a subsidiary of the local patentee. It has been held that a sale by the authorised agent of a patentee acting within the scope of its authority confers on the purchaser the same rights as a sale by a patentee.[4] If the sale overseas has been made without restriction by a subsidiary, importation of the goods is not infringement of the principal's patent.

The position is, however, different if the goods have been made overseas by a licensee of the patentee. Licences are normally granted in respect of limited territories for sales within those territories. The leading cases on this point are Societe Anonyme des Manufactures de Glaces v. Tilghman's Patent Sand Blast Co. [5], and, more recently, Beecham Group Limited v. Shewan Tomes (Traders) Limited[6].

The plaintiff in the latter case was the owner of patents for a particular product registered throughout the world, including in Hong Kong. The defendant was its licensee in the United States and a number of other countries, excluding Hong Kong, under corresponding foreign patents. The defendant manufactured in the United States a variant of the licensed product and sold it there and in countries throughout the world, including Hong Kong. The plaintiff applied for an injunction to restrain infringement of its Hong Kong patent. The variant was held to fall within the claims of the patent. It was also held that the fact that the product had been legitimately made under licence in the United States did not mean it could be sold outside that territory. The injunction sought was accordingly granted.

In summary, then, an action for patent infringement by the overseas principal will not necessarily succeed. The best means of ensuring that it does is to assign the patent to the local distributor. There can then be no question of an overseas sale of the product having given to an Australian or New Zealand distributor the right to sell the product locally against the patentee. The practical difficulties in persuading the overseas principal to grant such an assignment can, of course, be formidable.

4. Trade marks

At first blush, the law of trade marks appears to offer a ready remedy to the local distributor keen to stop parallel imports. Trade mark law being territorial in nature, as the cases on divided goodwill and different proprietorship of marks in different countries demonstrate,[7] it must surely be easy for the local trade mark proprietor to stop imports bearing the trade mark. Unfortunately, however, trade mark law demonstrates as little consistency and logic in this area as in others; the territoriality principle has no application to parallel imports.

In the trade mark area as in the patent area, the distinction between goods manufactured by an overseas principal and its subsidiaries on the one hand, and by licensees or registered users on the other, is of cardinal importance. The principle appears to be that, if the mark has been applied overseas by a company which is part of the same corporate group as the local trade mark owner, then it is no infringement of the local trade mark for a third party to import goods bearing the mark.

The leading case in this area is the judgment in the English Court of Appeal in Revlon Inc. v. Cripps & Lee Limited[8]. The parent company was Revlon Inc., which manufactured and sold in the United States. The registered proprietor of the United Kingdom trade marks in question was its Swiss sub-subsidiary, Revlon Suisse SA. Another subsidiary (incorporated in Venezuela) manufactured for the British market and yet another subsidiary (this time incorporated in New York) actually marketed in the United Kingdom. Both of course enjoyed registered user agreements in respect of the trade mark.

The parallel importer had obtained very cheaply stocks of a line marketed but discontinued by Revlon Inc. in the United States. The argument of the Revlon Group was that it was entitled to control the use of its trade mark in the United Kingdom. Put differently, it asserted that it was entitled to make a profit from selling the goods in the United States without any restriction as to their export but to obtain an injunction against the innocent third party which had bought them there so as to export them into the United Kingdom.

The Court of Appeal preferred the second view of the case. It held that the importer was not infringing the relevant trade marks because of the provisons of section 4(3)(a) of the Trademarks Act 1938 (UK), which reads as follows :

> "The right to the use of a trade mark given by registration as aforesaid shall not be deemed to be infringed by the use of any such mark as aforesaid by any person - (a) in relation to goods connected in the course of trade with the proprietor of a registered user of the trade mark if, as to those goods or a bulk of which they form a part, <u>the proprietor</u> or the registered user conforming to the permitted use <u>had applied the trade mark and has not subsequently removed or obliterated it, or has at any time expressly or impliedly consented to the use of the trade mark."</u> (emphasis added)

Buckley LJ considered that it could not be said that the registered proprietor had applied the trademark to the goods, because the actions of the principal (Revlon Inc.) could not be said to be those of the registered proprietor of the trademark, its subsidiary (Revlon Suisse). He therefore held that the first portion of the paragraph underlined was not applicable. He was however satisfied that the subsidiary must be taken to have consented to the principal's use of the trade mark because of the connection between them and that the second portion underlined did apply. Bridge LJ agreed with Buckley LJ.

Templeman LJ, by contrast, appears to have regarded the registered proprietor of the trade mark (Revlon Suisse) as having applied the mark to the goods within the meaning of section 4(3)(a) by virtue of its relationship with its parent. His judgment demonstrates a willingness to lift the multi-national corporate veil and to disregard for all practical purposes the distinction between the principal and its subsidiaries. He regarded the Revlon Group of companies as one collective corporate entity regardless of technical legal distinctions between them.

In New Zealand, the position is exactly the same as in the United Kingdom. Section 8(3)(a) of the Trade Marks Act 1954 (NZ) is identical to section 4(3)(a) of the United Kingdom legislation.

The Trade Marks Act 1955 (Cth) does not however contain a similar provision and it appears that there is no Australian authority decisive of the point whether parallel importing constitutes trade mark infringement. The best survey of the arguments and cases is undoubtedly a recent article in a special issue of the University of New South Wales Law Journal by Muratore and Robertson.[9] The authors of that article draw attention to the argument that a defence of consent is available in Australia on general equitable principles. They also express the view, following a recent interlocutory judgment of Smithers J in the Victorian Supreme Court[10], that the relevant use in a parallel importing situation ("use" being, in Australia as in New Zealand, the primary prohibited act) is by the overseas manufacturer which actually places the trade mark on the goods, not by the parallel importer itself. Parallel importation and sale of goods is therefore not in their view "use" in trade mark terms and does not amount to infringement.

It should be noted that the argument that only the person who applies a mark to goods "uses" it in a trade mark sense has far-reaching implications. It means for example that sale, hire purchase or leasing of goods bearing the mark are not prima facie acts of infringement. This is wholly contrary to the usual understanding of the ambit of the rights of the registered proprietor - to exclusive use of the mark in the course of trade, trade including on the authority of the House of Lords dealings such as hire purchase and leasing.[11] It also means that certain cases brought successfully against mere distributors and not manufacturers of goods were wrongly decided[12]. And it means finally that the concession made in Revlon Inc.[13] that what was being done amounted to infringement if the statutory defence made available by section 4(3)(a) did not apply was wrongly made. The counsel and the judges involved in that case were of notable experience in trade mark matters. It will be interesting indeed to see whether the views expressed by Muratore and Robertson do in fact prevail when the point comes to be decided in Australia.

That leaves for consideration only the situation where the goods imported by the parallel importer have been manufactured and sold to it overseas by a licensee or registered user of the trade mark rather than the overseas principal itself. A well drawn registered user agreement will of course contain a territorial restriction on the use of the mark, similar to the restrictions common in patent licence agreements. Such restrictions would in my view in New Zealand serve to negate any suggestion that the registered proprietor had consented to the use of the trade mark for New Zealand purposes within the meaning of section 8(3)(a).

In summary, there are potential pitfalls in an action for trade mark infringement to restrain parallel imports. As in the patent area, the courts have generally resisted allowing an overseas principal to sell in one country under its trade mark and to restrict sales in another country under its registration of the same trade mark there. Most of these difficulties will disappear if the local distributor is registered as the proprietor of the local trade mark. From a practical point of view, a assignment of the trade mark to the local distributor is the best solution to the problem of parallel imports. Whether the overseas principal will be prepared to assign is a different issue.

5. Copyright

What emerges from the last two sections is that neither a patentee nor the registered proprietor of a trademark which has itself made and sold goods overseas without restriction can succeed in an action against a parallel importer which imports those goods into Australia or New Zealand. It would be consistent were the overseas copyright holder to be in the same position. Consistency is, however, not a particular feature of the law of intellectual property in this area. It will be seen that, both in Australia and New Zealand, the copyright holder can in fact prevent parallel imports.

Both the Copyright Act 1962 (NZ) and the Copyright Act 1968 (Cth) contain provisions making importation and sale of a copyright work an infringement. The New Zealand provisions are section 10(2) and (3), which read as follows :

> "(2) The copyright in a literary, dramatic, musical or artistic work is infringed by any person who, without the licence of the owner of the copyright imports an article (otherwise than for his private and domestic use) into New Zealand if to his knowledge the making of that article constituted an infringement of that copyright, or would have constituted such an infringement if the article had been made in the place into which it is so imported.
>
> (3) The copyright in a literary, dramatic, musical, or artistic work is infringed by any person who, in New Zealand, and without the licence of the owner of the copyright,-
>
> (a) Sells, lets for hire, or by way of trade offers or exposes for sale or hire any article; or
>
> (b) By way of trade exhibits any article in public,-
>
> if to his knowledge the making of the article constituted an infringement of that copyright, or (in the case of an imported article) would have constituted an infringement of that copyright if the article had been made in the place into which it was imported."

The equivalent Australian provisions are section 37 and 38, which read as follows :

> "37. The copyright in a literary, dramatic, musical or artistic work is infringed by a person who, without the licence of the owner of the copyright, imports an article into Australia for the purpose of-
>
> (a) selling, letting for hire, or by way of trade offering or exposing for sale or hire, the article;
>
> (b) distributing the article -

(i) for the purpose of trade; or
(ii) for any other purpose to an extent that will affect prejudicially the owner of the copyright; or

(c) by way of trade exhibiting the article in public,

where to his knowledge, the making of the article would, if the article had been made in Australia by the importer, have constituted an infringement of the copyright.

38. (1) The copyright in a literary, dramatic, musical or artistic work is infringed by a person who, in Australia, and without the licence of the owner of the copyright-

(a) Sells, lets for hire, or by way of trade offers or exposes for sale or hire, an article; or

(b) by way of trade exhibits an article in public,

where, to his knowledge, the making of the article constituted an infringement of the copyright or, in the case of an imported article, would, if the article had been made in Australia by the importer, have constituted such an infringement. (emphasis added).

Both sets of legislation provide for a hypothetical making of the imported article as the test of infringement. It will however be noted that the Australian legislation places an identity on the notional maker, whereas the New Zealand legislation does not. In Australia, the test is whether the importer would have infringed had it manufactured locally.

The legislation in the United Kingdom is almost identical with that in New Zealand. There has been a debate over the proper construction of it for some years. Some commentators have argued[14] that the United Kingdom legislation should be construed as if the words "by the importer" were inserted, as in Australia. The High Court has however held in the only reported case[15] that the hypothetical maker is the actual maker overseas, its activities notionally transferred into the United Kingdom. The consequence of this interpretation is, of course, that the copyright holder which has manufactured and sold overseas cannot prevent the goods being exported and sold against it or its authorised distributor in another territory.

The point was directly raised for decision in New Zealand last year.[16] The case involved computers and computer software. The plaintiff Acorn Computers Limited owned copyright in a range of artistic and literary works from which it had manufactured its products in the United Kingdom. It had granted exclusive New Zealand distribution rights to a local distributor. This company had proceeded to set up a distribution network around the country and to promote the product heavily through very extensive and costly advertising. It was disturbed to find the product on sale through a large electronics dealer which had apparently been purchasing its stocks through Acorn's wholesalers in the United Kingdom. The question was whether, Acorn having manufactured and sold without restriction in the United Kingdom the products acquired by the defendant, it could exercise its New Zealand copyright to prevent their being imported and sold.

Moved perhaps by the desire to achieve a species of judicial closer economic relationship, and after careful consideration of the history and purpose of the copyright legislation, Prichard J held that the New Zealand legislation should be interpreted in the same way as the Australian. He rejected the argument that the "making" in section 10(2) and (3) is the actual manufacture overseas, notionally transferred to New Zealand. He said :

> "The scheme to be spelt out of the legislation is that the interests of the person who owns the copyright in the country of importation are to be protected from depradation through the activities of importers who seek to bring into that country copies of the protected goods to be there sold in competition with those sold by the owner of copyright or by his exclusive licensee or appointed sole distributor. If the "actual maker" theory is accepted, the door is left open for the importation of copies made abroad by the owner of the New Zealand copyright, against his interests and without his consent. If the identity of the hypothetical maker is immaterial then that door is closed. I agree with the submission ... that if the door is open for the unauthorised importation of copies made overseas by the owner of the New Zealand copyright, the whole system of licensing will be impaired."

As the law stands, therefore, importation of "genuine" articles, whether into Australia or into New Zealand, is prima facie an infringement of the local copyright.

There remains to be considered the effect of the phrase, present in the legislation of both countries :

"Without the licence of the owner of the copyright".

There is of course no difficulty, and the plaintiff will have no case, if the defendant can prove an express licence. The argument arises in situations where a defendant seeks to assert that the circumstances in which it purchased the goods confer on it an implied licence to import them into Australia or New Zealand.

The leading case on the implied licence defence is Time Life International (Nederlands) BV v. Interstate Parcel Express Co. Pty Limited[17]. The case concerned books purchased by one of the defendants in the United States without any restrictions as to resale, and imported into Australia. The copyright holder had entered into distribution agreements with one set of distributors in the United States and another set in Australia. The proceedings were obviously brought at the instigation of the latter.

The defendant argued that the fact that it had purchased in the United States without any restriction on its use of the books gave it an implied licence to import them into Australia. It relied on the consistent line of cases, mentioned earlier in relation to patents[18], in which it has been held that a patentee may not sue for infringement locally if it has sold overseas without restriction an article the subject of a patent. The High Court of Australia was not prepared to apply these cases in the copyright context. Gibbs J expressed his reasons as follows :

> "However there is another important difference between the law of patent and the law of copyright. By the grant of a patent in traditional form, a patentee is granted exclusive power to "make, use, exercise and vend" the invention. The sale of a patented article, by the patentee, would be quite futile, from the point of view of the buyer, if the buyer was not entitled either to use or to re-sell the article which he had bought. It therefore seems necessary, in order to give business efficacy to such a sale, to imply a term that the patentee consents to the use of the patented article by the buyer and those claiming under him. The law accordingly does ordinarily imply the consent of the patentee

"to an undisturbed and unrestricted use" of the patented article : National Phonograph Company of Australia Limited v. Menck, at page 349. To make such an implication, for the purpose only of avoiding the restrictions upon the use of the article that would otherwise be imposed by the patent, seems to be perfectly consistent with the ordinary rules governing the implication of terms in contracts. However no similar necessity exists to imply a term of this kind upon the sale of a book the subject of copyright. The owner of copyright has not the exclusive right to use or sell the work in which copyright subsists : see section 31 of the Act, and Copinger and Skone James, op. cit. para. 1027. The buyer of a book in which copyright subsists does not need the consent of the owner of the copyright to read, or speaking generally to re-sell the book. The necessity to imply a term in the contract which exists when a patented article is sold does not arise on the sale of a book the subject of copyright. It was not, and could not be, suggested that the sale of a copy of a book is a licence to do the acts comprised in the copyright and set out in section 31 of the Act.

An owner of copyright who sells a book in which copyright subsists passes to the buyer all the rights of ownership. He does not however consent to any particular use of the book - generally speaking his consent is irrelevant. For the reasons given, the cases on patent law are distinguishable. In some circumstances when the owner of copyright sells a book his consent to a particular use may be implied. For example if the owner of copyright sold in America a commercial quantity of books for delivery to a buyer in Australia, whom he knew to be a bookseller, his consent to the importation of those books into Australia and their sale there might well be implied."

It will be noted that Gibbs J left open circumstances when the consent of a copyright owner to a particular use would be implied. If, for example, the copyright owner overseas sold direct to an Australian or New Zealand company, knowing that the goods were to be exported, an implied licence would surely be held to exist.

From the point of view of a local distributor, the best protection against such an argument being raised is either an assignment of the local copyright to it or else the insertion by the copyright owner in its conditions of sale overseas of a provision prohibiting export generally, or at least to Australia or New Zealand. Hence, again, the importance of a covenant by the copyright holder in the distribution agreement that it will take reasonable steps to prevent parallel imports. Litigation to prevent parallel imports is usually at the expense of the local distributor, although the principal's name may be used. It would be upsetting, to say the least, for the local distributor to lose its case because it was held that the carefree actions of the domestic division of the copyright holder overseas in selling to the parallel importer had created an implied licence on which the latter could rely to resist the claim for copyright infringement.

A final point which should be made relates to the need to join the overseas copyright holder to any proceedings. Normally, of course, this should be done and copies of any drawings or other works in which copyright is said to subsist should be obtained so that the basis of the claim to copyright is before the court. A very recently decided New Zealand case demonstrates, however, how far the courts are prepared to dispense with such formalities in a case regarded as urgent.[19]

The case concerned competing importers of a brand of video cassette records manufactured in Japan. The sole plaintiff was the local distributor, which produced a letter from the exclusive sales agent of the Japanese manufacturers in the following terms :

> "Ultronic Industries Limited of New Zealand has sole and exclusive right to sell, market and distribute "Orion" brand video in New Zealand providing Ultronic Industries Limited purchase more than 5,000 units for next one year from 1st November 1984. However, Otake Trading Co. Limited has the right to terminate this agreement unconditionally, unilaterally at any time after 1st of November 1985."

Casey J held this letter was either a partial assignment of copyright or an exclusive licence in favour of the New Zealand company. He did not regard it as important that the letter entirely failed to refer to the subject of copyright. He did not see it as a bar to interim relief that there was a lack of evidence about any drawings or designs or the time or place of their first publication. He held that the court may infer from the ordinary course of commercial dealings that plans and drawings would exist, that the manufacturer would have copyright in them, that first publication of them would have taken place in the manufacturer's home country when the product produced from them was sold and that the manufacturer would wish the local distributor to have the benefit of the copyright to protect its market.

In summary, it seems that the copyright owner can use copyright to control trade in its goods on the Australian and New Zealand markets. The contrast with the position of the registered proprietor of a trade mark or of a patentee is striking. Why, one may ask, should a copyright owner be free to exploit the copyright to its full in New Zealand and Australia while patentees and registered proprietors of trade marks have their rights restricted?

6. Passing Off

The classic definition of the law of passing off is that given in Clerk and Lindsell :

> "It is an actionable wrong for a trader so to conduct his business as to lead to the belief that his goods or business are the goods or business of another."[20]

In this area, at least, the parallel importer might think itself on firm ground. Its goods are after all as genuine as those of the authorised local distributor; the misrepresentation which is the essence of passing off cannot, surely, be attributed to it.

In fact, there is a slender but strengthening line of authority to the effect that the actions of the parallel importer may indeed amount to passing off. The most important case is a Canadian one, Seiko Time Canada Limited v. Consumers Distributing Co. Limited.[21] The plaintiff was the exclusive distributor of the Seiko brand of watches in Canada. It had set up a network of authorised dealers which honoured the warranty offered with the watch. The defendant had imported stocks of the same watches from an unknown source outside Canada and of course sold them in competition with the plaintiff.

The plaintiff was granted a permanent injunction to restrain the defendant from advertising or selling the watches in Canada. The plaintiff's product was held to be not merely the watch, but also the warranty and the after sales service through the authorised dealer network. It was in that composite product, the watch and the services offered with it, that the plaintiff had built up a goodwill which it was entitled to protect by the passing off action. By selling the same watches as the plaintiff, the defendant misrepresented that it could offer the genuine authorised composite Seiko product.

A case along similar lines was decided a little later in the United Kingdom.[22] Again, the goods involved were electronic and subject to a warranty and to backup service. The interim relief granted obliged the defendant to attach a label to its goods in the following terms :

> "Saray's are not authorised Sony dealers and Sony equipment sold here is guaranteed by Saray's and not by Sony."

One presumes that this form of negative advertisement severely depressed the defendant's sales. The case does not appear to have come to a final hearing.

To my knowledge, an undertaking to attach similar labels to goods was obtained at the interim stage of the New Zealand Barson case, which of course involved computers. An order to similar effect was made, again at the interim stage, in the Australian version of the Barson proceedings. There appears as yet to be no case in the United Kingdom, Australia or New Zealand where the full rigour of the Seiko Time decision has been applied. The principle is, however, obviously there to be explored and perhaps exploited.

It is important to note that the principle is at present limited to a composite product involving services which only authorised distributors can provide in addtion to the goods themselves. An allegation of passing off was in fact summarily rejected by the Court of Appeal in the Revlon Inc. case, which of course related to shampoo, a product for which an authorised dealer network is apparently not required. It can however plausibly be argued that many of the goods which are worth the trouble of parallel importation, including especially computers and electronic goods, comprise a package of services of some kind along with the goods themselves.

The feature which distinguishes an action for passing off along these lines, and possibly its great advantage, is that it is available to the local distributor. It will be the local distributor which has built up a goodwill in the package of goods and services that it offers to the public. The involvement of the overseas principal in the legal proceedings may be an advantage, but is not essential. From the point of view of the local distributor, the cause of action in passing off is a right which it acquires as against other traders from its trading under its contractual relationship with the overseas principal. The much vaunted flexibility of the passing off cause of action gives it the potential to cope in the future with the varied and changing factual problems of parallel importing. Its use in this area is only beginning and it seems likely that it will flourish in the years ahead.

7. Trade Practices and the Sanctity of Competition

All successful intellectual property actions have the effect of stifling competition in the marketplace. Successful actions to restrain parallel importing prevent sales of precisely the same goods, usually at a cheaper price. Both Australia and New Zealand, however, possess legislation[23] which promotes competition, and makes illegal practices which discourage it.

In Australia, it is open to the parallel importer to assert under section 46 that a cause of action under one of the intellectual property heads amounts to an illegal trade practice and that the action must accordingly fail. The New Zealand legislation can not at present be invoked in this way in civil proceedings, although the long promised

Competition Bill may when introduced alter the position.

Muratore and Robertson point out in their article that, even in Australia, the implications of the provisions of the Trade Practices Act have hardly been explored in parallel importing cases. They are bound to be so explored in the future, and may even be developed in New Zealand.

8. Conclusion

Although some of the relevant cases are of respectable vintage, the problem of parallel importation has developed and become acute only in the last twenty or thirty years. It is a problem arising from what one might term the internationalisation of the world - the same tastes and the same markets for the same goods have been created in many countries. That internationalisation has probably, in turn, arisen in large part from the remarkable development over the same period of various forms of transport and communication. It is notable that many of the products involved in recent parallel importing cases are computers or electronic products.

The various intellectual property rights considered in this paper were developed in the United Kingdom over a long period and transplanted to Australia and New Zealand late last century. Their focus as they developed was not international but domestic. They were directed mainly towards regulation of activities within one country. The judges have recently needed to develop in the parallel importing cases doctrines which give those rights an international perspective.

This paper demonstrates that the development has not been an even or consistent one. The overseas principal which operates itself or through subsidiaries overseas, and has not assigned any of its intellectual property rights locally, appears able to stop parallel imports of its own goods under the law of copyright and passing off but not under the law of patents and trade marks. If it has fortuitously chosen to operate overseas through licensees, however, it should be able to sue for patent and trade mark infringement as well. And if it has even more fortuitously chosen to assign rather than to license its rights in Australia and New Zealand, the local distributor will itself have a right to sue in all four areas of law. It is however difficult to see any logical basis for this difference in rights when the situation in the market place is in all cases precisely the same - one "authorised" trader selling precisely the same goods as another which is "unauthorised". It must be said that those wishing to restrain parallel imports have sometimes succeeded or failed on the basis of the astuteness or otherwiseof their legal advisors in discerning possible causes of action and constructing legal relationships.

It will be interesting to see, in years to come, if consistency is brought into the law of parallel importing. It may be that the catalyst for consistency will be the principle that competition is to be encouraged at all costs, and that remedies which prevent one trader selling genuine goods more cheaply than another trader will be removed from the legal armoury. On the other hand, the principle of territoriality may yet flourish and prevail, with the courts recognising the right of a trader which has earned intellectual property rights to control the use of those rights for profit in individual markets. The dyed-in-the-wool free traders will perhaps again be set against the intellectual property lawyers and the patent attorneys. This is a long-standing battle which is a source of constant enjoyment and satisfaction to many of those who will be attending this seminar.

FOOTNOTES

1. Pfizer Corporation v. Ministry of Health [1965] RPC 261.

2. (1871) LR 6 Ch. App. 239.

3. Societe Anonyme des Manufactures de Glaces v. Tilghman's Patent Sand Blast Co. (1883) 25 Ch D 1.

4. Beecham Group Limited v. International Products Limited [1968] RPC 130.

5. (1883) 25 Ch. D. 1.

6. [1968] RPC 268.

7. For example, Pioneer Hi-Bred Corn Co. v. Hy-Line Chicks Pty Limited [1978] 2 NZLR 50, which shows that the American originator of a mark is its registered proprietor in the United States, and an Australian pirate the registered proprietor in Australia, but that neither (by reason of the slopover goodwill in New Zealand of both) may register here.

8. [1980] FSR 85.

9. "The Trade Marks Act 1955 and Parallel Imports", Anthony Muratore and Donald Robertson, (1984) 7 UNSWLJ 117.

10. Atari Inc. and another v. Fairstar Electronics Pty Limited (1983) 50 ALR 274.

11. Aristoc Limited v. Rysta Limited (1945) 62 RPC 65, 83.

12. Eg. Nitedahls v. R. Lehmann & Co. Limited (1908) 25 RPC 793.

13. [1980] FSR 94.

14. Laddie, Prescott and Vitoria, "The Modern Law of Copyright" Butterworths 1980 paragraphs 11.5 to 11.8.

15. CBS United Kingdom Limited v. Charmdale Record Distributors Limited [1980] FSR 289.

16. Barson Computers (NZ) Limited and others v. John Gilbert & Company Limited (A. 444/84, High Court Auckland, unreported judgment of Prichard J)

17. [1978] FSR 251.

18. Footnote 2, supra.

19. Ultronics Industries Limited v. Video Force (NZ) Limited and others (A. 1314/84 High Court Auckland, unreported judgment of Casey J delivered on 13 December 1984).

20. Clerk and Lindsell on Torts, Sweet & Maxwell, 15th Edition, 1982.

21. (1980) 112 DLR (3d) 500.

22. Sony KK v. Saray Electronics (London) Limited [1983] FSR 302.

23. Trade Practices Act 1974 (Cth); Commerce Act 1975 (NZ).