

# PARALLEL IMPORTING IN AUSTRALIA: WHAT IS THE OBJECTIVE AND IS IT BEING ACHIEVED?

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## I INTRODUCTION

The Australian law on parallel importing of trade marked goods appears to be inconsistent with the objectives of that law. A combination of the new legislation in 1995 and case law since that legislation has led to the erosion of a regulatory scheme which was previously more tolerant of parallel importing. The position that has emerged is that in many circumstances, parallel importing will constitute an indefensible infringement of a registered trade mark. Even if it would not constitute an infringement, a potential parallel importer will be unable to determine in advance of importation whether or not that importation will be lawful. The effect of the latter position is that potential parallel importers will be disinclined to engage in that practice and a de facto prohibition or impediment to parallel importing will exist that is inconsistent with the objectives of the law. In addition, some trade mark owners will be unable to prevent parallel importing simply because of the particular business structures that they have adopted, while some other trade mark owners will be able to take advantage of different business structures to effectively prevent parallel importing.

This regulatory outcome is unsatisfactory. Parallel importing is either desirable from a policy perspective or it is not. If it is desirable, the legal regime affecting it should facilitate parallel importing. If it is not desirable to permit parallel importing, the legal regime should be equally clear that such activity is not permitted, regardless of the business structure adopted by any particular trade mark owner. The current twilight zone of legality generates uncertainty for both trade mark owners and importers, undermines the policy objectives surrounding parallel importing and invites re-arrangement of trade mark ownership without any benefits to the community flowing from such arrangements.

### ***A Defining Parallel Importing***

The solution to this problem is more difficult than the elucidation of it. No small part of the difficulties in this area result from the difficulty in actually defining parallel importing itself. Indeed, the term itself is not actually used within the Australian legislation or in European or American legislation. Parallel importing involves importing into Australia trade marked goods in circumstances where that importation is not authorised by the registered owner in Australia of that trade mark. Of course, this simplistic definition is inadequate because it includes the importation of counterfeited goods where the trade mark is applied to the

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goods without the authority of any person who has the right to do so. Such activity is clearly illegal under any trade mark regime that complies with the *TRIPS Agreement*.<sup>1</sup>

Something else is also required in order for the importation to be parallel importing and potentially lawful. At a minimum, the initial application of the relevant trade mark to the goods must be a lawful act which, in turn, means that a registered owner of that trade mark has either applied the trade mark to the goods itself or consented to the application of the trade mark to the goods. Many of the difficulties with the current Australian law on parallel importing flow from the associated difficulties in determining whether the Australian trade mark owner has in fact consented to the application of its trade mark to the goods. A broad view of what constitutes that consent leads to a broad definition of parallel importing.

In any event, the legality of parallel importing will depend upon the conduct of the trade mark owner, namely the giving of its consent to the application of the trade mark to the goods, and knowledge of the precise nature of that conduct will not be publicly available. A potential importer will have difficulty in determining in advance of importation whether or not that consent existed at the time the trade mark was applied to the goods. In addition, it will be in the interests of a trade mark owner to obfuscate the issue by not providing any readily available information about whether it has in fact consented to the application of the trade mark to the goods in question.

This paper has a number of parts. In the next part, Part II, a brief summary of the history of the policy and law of parallel importing of trade marked goods in Australia up until the current day will be provided. In Part III, the implications of that policy and its legal history are considered together with some suggested solutions for legislative amendments.

## II PARALLEL IMPORTING: WHAT IS THE OBJECTIVE?

A great deal of the difficulty with the debate surrounding parallel importing is that there does not appear to be any definitive, well-articulated government policy on the issue. Public policy on the point has evolved in an ad hoc fashion through case law, some specific legislative amendments concerning the issue and legislative amendments of a more general nature, such as the introduction of s 123 of the *Trade Marks Act 1995* (Cth). In addition, occasional public pronouncements of government working parties and inquiries have recommended particular approaches that have tended to be in favour of parallel importing.

Until a clearer view emerges of government policy on the point, it is difficult to comment comprehensively on the adequacy or inadequacy of the current legal

1 *Marrakesh Agreement Establishing the World Trade Organization*, opened for signature 15 April 1994, 1867 UNTS 3 (entered into force 1 January 1995) annex 1C ('*Agreement on Trade-Related Aspects of Intellectual Property Rights*').

regime. Without knowing what one is trying to achieve, it is very difficult to know whether it is being achieved. However, a detailed study of the history of parallel importing in Australia suggests the existence of a somewhat opaque but nevertheless clearly discernible pro-parallel importing policy.

## **A The Case for Why Australian Policy is Pro-Parallel Importing**

There are a number of separate indicators of a government policy which permits the parallel importing of trade marked products. They include the following:

1. Case law prior to the 1995 legislation clearly favoured the legality of parallel importing and there was no legislative alteration of that position.<sup>2</sup>
2. Copyright law for much of the period before the 1995 legislation clearly prohibited parallel importing of copyright material via specific statutory prohibitions,<sup>3</sup> yet the trade mark legislation did not have such specific prohibitions and the case law favoured parallel importing.
3. Copyright law was amended to ensure that it could not be used to prohibit parallel importing of trade marked materials by alleging that such importation constituted an importation of artistic works in the label of such goods.<sup>4</sup>
4. The majority of the Working Party created to consider the detail of the 1995 legislation favoured the legality of parallel importing.<sup>5</sup>
5. The 1995 legislation introduced s 123, which is clearly aimed at permitting parallel importing.<sup>6</sup>
6. The Ergas Report recommended certain changes to strengthen the legality of parallel importing.<sup>7</sup> The government at the time accepted the recommendations although no legislative changes were introduced except one amendment to the copyright legislation.
7. Over some decades, there have been some changes to rules relating to parallel importing of material in which intellectual property subsists and the general direction has been in favour of loosening restrictions on parallel

2 See *Atari Inc v Fairstar Electronics Pty Ltd* (1982) 1 IPR 291; *R A & A Bailey & Co Ltd v Boccaccio Pty Ltd* (1986) 6 IPR 279; *Delphic Wholesalers Pty Ltd v Elco Food Co Pty Ltd* (1987) 8 IPR 545.

3 *Copyright Act 1968* (Cth) ss 37, 102. These sections placed significant restrictions on the importation of copyright material for sale without the consent of the copyright owner in Australia.

4 *Copyright Act 1968* (Cth) s 44C was introduced by the *Copyright Amendment Act (No 1) 1998* (Cth).

5 Working Party to Review the Trade Marks Legislation, *Recommended Changes to the Australian Trade Marks Legislation* (Australian Government Publication Service, 1992) 76.

6 See, eg, *Transport Tyre Sales Pty Ltd v Montana Tyre Rims & Tubes Pty Ltd* (1999) 93 FCR 421 ('*Montana*').

7 Intellectual Property and Competition Review Committee, Parliament of Australia, *Review of Intellectual Property Legislation under the Competition Principles Agreement: Final Report to Senator the Hon Nicholas Minchin, Minister for Industry, Science and Resources and the Hon Daryl Williams AM QC MP Attorney-General* (2000) 188.

importing. For example, the parallel importing of sound recordings was legalised in 1998,<sup>8</sup> and the parallel importing of computer programs was legalised in 2003.<sup>9</sup> None of the public inquiries that have addressed parallel importing generally over the last several decades have recommended a tightening of parallel importing provisions.

More generally, these developments have occurred in the context of Australian government policy that has tended to a less protectionist trade stance over the course of time. The increase in electronic commerce which facilitates direct sales to Australian consumers also generates difficulties in controlling parallel importing, even if it were desirable to do so.

## **B History of Parallel Importing Law in Australia**

With that understanding of what, it seems, Australia is attempting to achieve with its approach to parallel importing in mind, a review of the history of the law on the topic is necessary to track the correlation between the objectives of the law and the law itself. The history of the law of parallel importing in Australia has been set out in previous publications by several writers.<sup>10</sup> However, for current purposes, a recapitulation of that history is necessary.

### **1 History of Parallel Importing Prior to the Trade Marks Act 1995 (Cth)**

Prior to 1995, the majority of case law held that parallel importing did not constitute use of a trade mark as a trade mark.<sup>11</sup> Consequently, parallel importing could not possibly infringe a registered trade mark. There was, of course, the same problem in defining what constituted parallel importing. The majority of cases relating to the pre-1995 legislation were relatively straightforward in terms of their facts. In most of those cases, the owner of the registered Australian trade mark had clearly either applied its trade mark to the goods in question or had consented to the application of the trade mark to the goods in question. For example, in *RA & A Bailey & Co Ltd v Boccaccio Pty Ltd*,<sup>12</sup> the dispute related to the importation of bottles of Bailey's Irish Cream. The product was produced overseas by the Australian trade mark owner although the particular bottles obtained from overseas and imported into Australia were imported without the permission of the trade mark owner. The New South Wales Supreme Court held

8 *Copyright Amendment Act (No 2) 1998* (Cth).

9 *Copyright Amendment (Parallel Importation) Act 2003* (Cth).

10 See Mark Davison, 'Parallel Importing of Trade Marked Goods: An Answer to the Unasked Question?' (1999) 10(3) *Australian Intellectual Property Journal* 146; Mark Davison, 'Parallel Importing: Who's Using What and When and What Happens Then?' (2009) 20(2) *Australian Intellectual Property Journal* 71; Graeme S Clarke, 'After *Gallo Winery v Lion Nathan*: Does a Parallel Importer of Trade-Marked Goods Infringe the Mark?' (2011) 85 *Australian Law Journal* 234.

11 See *Atari Inc v Fairstar Electronics Pty Ltd* (1982) 1 IPR 291; *RA & A Bailey & Co Ltd v Boccaccio Pty Ltd* (1986) 6 IPR 279; *Delphic Wholesalers Pty Ltd v Elco Food Co Pty Ltd* (1987) 8 IPR 545.

12 (1986) 6 IPR 279.

that the importer was not using the trade mark as a trade mark and therefore could not be infringing the trade mark. As mentioned above, the case was decided by reference to copyright law on the basis that the artwork on the labels had been imported without permission and, at that time, doing so clearly infringed the relevant copyright legislation.

On the other hand, in the one case decided in this era where there was a separation between the owner of the registered Australian trade mark and the company that actually produced the goods, the outcome for the parallel importer was one of only two cases where the parallel importer was found to be infringing or likely to be infringing the registered trade mark.<sup>13</sup> In *Fender Australia Pty Ltd v Bevk*,<sup>14</sup> the owner of the registered Australian trade mark was an assignee of the American company that produced Fender guitars and applied the Fender trade mark to them. The separation between the American company and the Australian assignee was not total. The assignment provided that once Fender Australia ceased to be the distributor of the Fender guitars, made by the American company, it was contractually obliged to re-assign the trade mark. The trade mark owner obtained the guitars it sold in Australia from that American company. The importer also imported guitars made and trade marked by the American company, but it did so without the permission of the Australian company which now owned the trade mark pursuant to the conditional assignment. The trial judge ultimately held that the trade marks applied to guitars intended for the American market were, as a matter of law, separate from the trade marks applied to those intended for sale in the Australian market by the registered owner of the Australian trade mark. This position was taken even though the trade marks were physically identical. Burchett J stated:

Here, the mark affixed to the guitars purchased by Mr Bevk in the United States was affixed, not as a trade mark under the *Trade Marks Act* with which the United States manufacturer had no concern, but as a trade mark in the United States under United States law. In that respect, the situation is similar to the situation in the *Colgate-Palmolive* case, as Falconer J described it (at 316).<sup>15</sup>

In terms of the then legislation, the decision is perhaps best explained by the suggestion that the Australian trade mark owner's use of the trade mark demonstrated its connexion with the goods in question because it had a reputation as the distributor of the goods and provided warranty and repair services. The trade mark on the guitars it sold indicated that connexion between those goods and the trade mark owner.

The approach taken in the *Fender* case of distinguishing between the legal identity of a trade mark and its physical identity was subsequently rejected after the passing of the 1995 legislation in the *Montana* case. In the context of the

13 The other decision was an interlocutory decision in *Atari Inc v Dick Smith Electronics Pty Ltd* (1980) 33 ALR 20.

14 (1989) 25 FCR 161 (*Fender*).

15 *Ibid* [31].

current legislation, the issue would be whether the Australian trade mark owner had consented to the application of the Fender trade mark, in its physical sense, by the American company to the guitars sold by the importer.

While the *Fender* decision was an outlier in terms of parallel importing decisions under the previous legislation, the other decisions that held the parallel importer was not using the trade mark as a trade mark were difficult to justify. The basic proposition put forward in those cases was that once the goods were marked by the trade mark owner and placed into commerce, subsequent dealings with those trade marked goods by others in commerce were irrelevant to the issue of use as a trade mark. This approach was backed by reliance on the much older English decision in *Champagne Heidsieck et Cie Monopole Societe Anonyme v Buxton*,<sup>16</sup> that in such circumstances, no deception of consumers was taking place.

There were, and remain, a number of difficulties with that approach. First, registered trade marks confer a property right on the owner. Infringement of that right is not dependent on proving actual confusion or deception of consumers. The issue under the previous legislation was whether the importer was using a substantially identical or deceptively similar trade mark as a trade mark, ie in order to indicate a connexion between itself and the goods in question.<sup>17</sup> Under the current legislation, the issue is whether the importer is using the trade mark to indicate a dealing with or provision of the goods so as to distinguish between those goods and other goods so dealt with by any other person.<sup>18</sup> Some attempts have been made to justify the continued application of the *Champagne* case by arguing that it is authority for the proposition that the trade mark owner has consented to the use of its trade mark once it has sold its trade marked goods. However, this is quite a separate matter from the issue of whether or not the importer is using the trade mark as a trade mark and it is highly questionable whether the court in the *Champagne* case took such an approach.<sup>19</sup>

Second, if an importer is not using the trade mark on the goods, there then arises the question as to whether an importer could ever be infringing a trade mark on the goods. For example, if the goods are manufactured as counterfeit goods where the registered trade mark is applied in circumstances in which the registered owner clearly had no connection of any kind with those goods or their manufacture, the importer of such counterfeit goods that had no involvement with their initial production and offering for sale could not be liable for trade mark infringement because it would not be using the trade mark as a trade mark. The relevant use would be that of the manufacturer who made the goods and applied

16 [1930] 1 Ch 330 ('*Champagne*').

17 *Trade Marks Act 1955* (Cth) s 6 defined a trade mark as a 'mark used ... in relation to goods ... for the purpose of indicating ... a connexion in the course of trade between the goods ... and a person who has the right ... to use the mark'.

18 *Trade Marks Act 1995* (Cth) s 17 defines a trade mark as 'a sign used ... to distinguish goods ... dealt with or provided in the course of trade by a person from goods ... so dealt with or provided by any other person'.

19 See the discussion in R Burrell and M Handler, *Australian Trade Mark Law* (Oxford University Press, 2010) 374, 374 n 235.

the trade mark illegitimately to them in the first instance. Such an outcome cannot possibly be correct.

## 2 Cases since the 1995 Legislation

The cases since the 1995 legislation have taken a different tack in relation to parallel importing. The legislation itself is critically different from the 1955 legislation. In particular, the introduction of s 123 into the new legislation has fundamentally altered the approach of the Federal Court to this issue. Section 123 provides that a person does not infringe the trade mark if the trade mark has been applied to the goods by or with the consent of the registered trade mark owner.

The Full Federal Court decision in the *Montana* case has provided considerable insight into the current position. First of all, it rejected the argument accepted in the *Fender* case that there is a distinction between an overseas trade mark and an Australian trade mark where the two trade marks are physically identical. If the Australian registered owner consented to the application of a trade mark that is physically identical to its registered trade mark, it is to be considered to have consented to the application of its trade mark. It cannot argue that the trade mark applied was the overseas trade mark rather than the Australian trade mark.

Even more importantly, the *Montana* decision abandoned the previous view that a parallel importer was not using the trade mark as a trade mark. Instead, the importer is now considered to be using the trade mark as a trade mark. The only issue which then arises is whether or not the defence in s 123 applies. The difficulty with this approach is that the Federal Court has not adequately explained why the importer is now using the trade mark as a trade mark. The concept of use of a trade mark as a trade mark does not appear to have been altered by the new legislation. Given that lack of alteration in the concept, no explanation has been given as to why post-1995 case law departs radically from the conclusions of the pre-1995 case law in relation to parallel importing. In the *Montana* decision, the Full Federal Court simply stated that the parallel importer is using the trade mark as a trade mark without engaging in any meaningful consideration of the question.

The consequence of this change in approach is that the onus now falls on the importer to justify its conduct in the first instance.<sup>20</sup> The trade mark owner which brings the infringement action need only point to the act of importation in order to establish a prima facie case. The onus then falls on the importer to prove that the trade mark was applied to those goods by, or with the consent of, the trade mark owner.

In addition, the recent case law has identified circumstances in which the courts have either held or suggested that consent will not be implied. In particular, in *Brother Industries*, Tamberlin J stated in obiter that the mere fact that a trade mark had been applied to goods by a company in the same corporate group as

20 See *Brother Industries Ltd v Dynamic Supplies Pty Ltd* (2007) 163 FCR 530 ('*Brother Industries*'); *PZ Cussons (International) Ltd v Rosa Dora Imports Pty Ltd* (2007) 74 IPR 372.

the trade mark owner was not, in itself, sufficient to constitute consent to the application of the trade mark to the goods by the trade mark owner.<sup>21</sup> This point will be considered in further detail below.

In addition, in *Sporte Leisure Pty Ltd v Paul's International Pty Ltd [No 3]*,<sup>22</sup> the Federal Court held that goods produced by a licensee, in circumstances where those goods were produced in a manner that was not authorised by the licence in question, were not goods to which the trade mark had been applied with the trade mark owner's consent. In that particular case, the licensee had a licence to produce goods for sale within a particular geographical region that was defined by the licensing agreement. In contravention of that provision of the licensing agreement, it produced goods intended for sale outside of the relevant geographical area. Consequently, the sale of those goods in Australia infringed the registered trade mark as the registered owner had not consented to the application of the trade mark to those goods.

### 3 The High Court Decision in *Gallo v Lion Nathan*

All of the above analysis has now been placed into question by some aspects of the decision of the High Court of Australia in *E & J Gallo Winery v Lion Nathan Australia Pty Ltd*.<sup>23</sup> In that case, the trade mark owner was resisting an application for removal of its trade mark for non-use. During the relevant non-use period, the trade mark owner of Barefoot Wine had not intentionally offered any of its wine for sale in Australia and was not even aware of any offering of its wine for sale in Australia. It did sell some of its wine, with its trade mark applied, to a distributor in Germany. Thereafter, the trade mark owner had no involvement in or knowledge of the subsequent sale of that wine. Some of that wine was then imported into Australia for retail sale by an importer. Given that there had been no other use of the relevant trade mark in Australia, the question for the High Court was whether or not the sale of the wine by the importer constituted a use of the trade mark as a trade mark by the registered owner, despite its lack of knowledge of the sale of its wine in Australia or the lack of any intention to sell any of its wine in Australia.

The High Court held that the sale of the wine constituted a use of the trade mark by the trade mark owner in Australia. The decision also generated some difficulties in relation to parallel importing because the High Court declined to comment on whether or not the importer was using the trade mark as a trade mark.<sup>24</sup> In addition, the High Court indicated, but did not expressly state, that the *Champagne* case was still good law.<sup>25</sup> The clear suggestion is that a parallel

21 *Brother Industries* (2007) 163 FCR 530, 550 [79].

22 (2010) 88 IPR 242 ('*Sporte Leisure*').

23 (2010) 241 CLR 144 ('*Gallo*').

24 *Ibid* [53].

25 *Ibid* [34]. Gallo's arguments were stated as including the argument based on the *Champagne* case that 'a trade mark is not infringed by a third party importing, offering for sale and selling, without the owner's consent, goods to which the registered owner (or its licensee) has affixed the mark' but the High Court did not find it necessary to deal with that issue. It was sufficient to find that Gallo had used the mark.



importer may not be using the trade mark as a trade mark although the point is not clear. It is quite possible for more than one person to be using the same trade mark on the same goods at the same time. In addition, the High Court indicated in a footnote that s 123 was intended to reflect the approach in the *Champagne* case.<sup>26</sup> It would be somewhat strange if the High Court found that a trade mark owner could rely upon parallel importation to constitute use of its trade mark in Australia and maintain its registration but, at the same time, the same act of importation could be impugned by that trade mark owner on the basis that it constituted an infringement of its trade mark.

The effect of reverting to the previous case law which held that a parallel importer is not using the trade mark as a trade mark would be considerable. In particular, a court would have to determine when an importer is using a trade mark as a trade mark and on what basis it makes that decision. For example, in the *Sporte Leisure* case, if the licensee had produced the relevant goods within the scope of its licence, subsequent sale of the goods in Australia by an importer would not constitute use of a trade mark as a trade mark by that importer.

Presumably, given the High Court's decision in *Gallo*, it would also constitute use of the trade mark by the registered owner even if the registered owner was not aware of the importation and sale of those goods in Australia. However, if, as was the case in the *Sporte Leisure* decision, the goods were produced outside the scope of the licence, presumably the trade mark owner would object to the importation and sale of those goods. If that sale would constitute use of the trade mark as a trade mark by the importer, there would be grounds for an infringement action. For the reasons already explained, it is not clear why the importation in the first of those scenarios would not constitute use as a trade mark but would constitute use of the trade mark in the second of those scenarios.

#### **4 Trade Mark Infringement and Confusion**

It appears that the distinction may be based on the issue of whether confusion of Australian consumers arises as a consequence of the importer's sale of the goods in Australia.<sup>27</sup> This was the view in the *Champagne* case which, in turn, is the initial authority on which the pre-1995 parallel importing cases were based. In *Champagne*, the proposition was simply that once having placed its branded champagne on the market in France, the trade mark owner ceased to have any control over the brand, primarily because nobody would be confused by the subsequent sale of the goods in England.<sup>28</sup> This approach took a conservative view of confusion, in the sense that the Court was slow to find confusion. The Hedsieck champagne designated by the trade mark owner for the English market was sweeter than that sold in France and imported without the trade mark owner's authorisation. While the distinction was noted by relevant descriptions on the

26 Ibid [34] n 10.

27 See Burrell and Handler, above n 19, 374.

28 [1930] 1 Ch 330.

labels, a regular English consumer of Hedsieck may not have noted the distinction prior to purchase.

The decision in the Full Federal Court in *Gallo* suggested that the *Champagne* decision rested on an implied consent of the trade mark owner to the subsequent sale of its products anywhere in the world, rather than an issue of use as a trade mark.<sup>29</sup> As has been pointed out elsewhere,<sup>30</sup> the Court in that case specifically rejected such a proposition. In addition, an implied consent could not survive an express statement to the contrary. Consequently, the trade mark owner could have prevented further importation by imposing a contractual restriction on resale overseas if that were the relevant basis of the decision. Instead, it was firmly based on a view of exhaustion of the rights of the trade mark owner once the goods were sold by it and, in turn, that exhaustion approach was justified by the absence of any confusion of English consumers by the importer's conduct.

However, if the touchstone of use as a trade mark in this context is confusion, difficulties arise in determining exactly what type of confusion is relevant. As just pointed out, in the *Champagne* case, the Court was disinclined to find confusion on the basis of differences between the products intended for the English market and those imported without authorisation and sold in England. If we take the facts of a decision such as the *Sporte Leisure* case, it is difficult to identify the nature of the confusion that occurs.

In that instance, the goods that were sold by the licensee were identical in every physical way to the other goods produced by the licensee within the terms of its licence. The processes for their manufacture would have been precisely the same as the processes for the manufacture of goods produced within the scope of the licence and the trade mark owner's quality control processes would have almost certainly been applied by the licensee to the production of the unauthorised goods. The only difference between them was that the goods that were the subject of the litigation were not branded with the consent of the trade mark owner but in all other respects they were identical to those produced with the authority of the trade mark owner.

If the lack of consent by the trade mark owner to the application of the trade mark constitutes confusion then why does importing the goods without the authorisation of the trade mark owner not also constitute confusion? Hence, even if the goods were marked with the owner's consent but imported into Australia without the owner's consent, confusion arises from the implication to consumers that the imports were authorised. Confusion is just as contestable an issue as use as a trade mark itself and arguably even more complex.<sup>31</sup>

In any event, if the touchstone of infringement in such circumstances is confusion, then the confusion is simply co-extensive with the operation of s 123. Further, the concept of use as a trade mark is already sufficiently complicated without

29 *Gallo* (2009) FCR 386, 403 [58].

30 See Burrell and Handler, above n 19, 374.

31 Graeme W Austin, 'Tolerating Confusion about Confusion: Trademark Policies and Fair Use' (2008) 50 *Arizona Law Review* 157.

unnecessarily introducing concepts of confusion into the process of its analysis.<sup>32</sup> For trade mark infringement purposes, if confusion is to be introduced into the analysis, it should be done at the point of determining whether the defendant's sign and the trade mark owner's trade mark are deceptively similar, not at the point of considering use as a trade mark.<sup>33</sup>

### III WHERE TO FROM HERE?

Given the above analysis, where should we go from here? The first decision to be made is whether to adhere to what seems to be the policy of permitting parallel importing. A definitive statement on the point would help clarify what should be done. On the other hand, if the intention is to prevent parallel importing, this can be done with a relatively simple legislative amendment that would introduce provisions akin to s 37 of the *Copyright Act 1968* (Cth).

If we can assume that the objective is to permit parallel importing, broadly defined, some alterations to the current legislative position would be useful. They include the following:

#### A Reversing the Onus of Proof under s 123

One of the practical advantages of previous case law holding that parallel importing did not constitute use as a trade mark was that the onus of establishing an infringement action fell squarely on the shoulders of the registered trade mark owner rather than the importer. The post-1995 case law has reversed that onus of proof by treating s 123 as a defence that has to be positively established by the importer. The difficulty with this reversal of the onus of proof is that an importer cannot know for certain that a trade mark owner has consented to the application of its trade mark to certain goods unless the trade mark owner specifically advises it to that effect. Of course, such information is highly unlikely to be forthcoming from the registered owner. Consequently, a potential importer cannot know for certain that their conduct will be lawful until they have actually imported the goods. By that time they will have already infringed the trade mark.

One means of ameliorating the difficulties associated with this approach is to reverse the onus of proof under s 123. The registered owner is in the best position to provide evidence of consent or lack of consent to the application of the trade mark to the particular goods that are the subject of litigation. In addition, the provision of evidence of lack of consent by the registered owner may be of use to the importer in its dealings with the entity that sold the goods to it. For example, in a scenario similar to the *Sporte Leisure* case, the importer could have insisted on a contractual warranty from the licensee of the trade mark owner that the

32 Mark Davison and Frank Di Giantomasso, 'Use as a Trade Mark: Avoiding Confusion when Considering Dilution' (2009) 31 *European Intellectual Property Review* 443.

33 See Burrell and Handler, above n 19, 341.

licensee had authority to apply the trade mark to the goods. If the onus was placed on the trade mark owner to prove the absence of such authority, the importer would then be armed with evidence that it could use in any action based on the breach of warranty by the licensee.

In addition, it would place a logistical onus on the trade mark owner to have in place some means of tracking those goods which had been produced with its authority and trade marked as such. Given the general thrust of the legislation to require a trade mark owner to control the use of its trade mark, such a requirement would not be an unduly burdensome one.

There are already other provisions of the *Trade Marks Act 1995* (Cth) which place the onus on a trade mark owner to prove various matters relating to use of its trade mark. For instance, in the context of applications for removal for non-use, the onus falls upon the registered owner to prove use of its trade mark.<sup>34</sup>

### **B Expanding the Concepts of ‘Consent’, ‘Acquiesce’ etc**

In addition, it may be necessary to expand the concept of consent within the meaning of s 123. Case law suggests a judicial narrowing of the concept of consent as defined for the purposes of s 123.<sup>35</sup> Such an approach may be inconsistent with the policy objective of encouraging parallel importing. For example, consent may need to include acquiescence. This is particularly the case where the registered owner is a subsidiary of an overseas company that is applying the trade mark to goods. In such circumstances, the subsidiary has no power to object to the application of the trade mark to the goods, so it is also difficult to see how it is consenting to the application of the trade mark for the goods unless a broad view of consent is taken. Some clarification of the point in the legislation would be useful.

### **C Use of the Trade Mark by the Same Corporate Group**

In particular, the concept of consent to application of the trade mark should include circumstances where the use of a trade mark by another company in the same corporate group could be relied upon by the trade mark owner if it were the subject of an application for removal for non-use. For example, the majority of case law on non-use suggests that use of the trade mark by a corporation in the same corporate group could be relied upon by a trade mark owner to resist an application for removal for non-use.<sup>36</sup>

If that is the case, it seems curious that the registered owner could equally argue that the application of the trade mark to the goods by its corporate sibling was

34 *Trade Marks Act 1995* (Cth) s 100(1).

35 See, eg, *Brother Industries* (2007) 163 FCR 530.

36 See Mark Davison, Tracey Berger and Annette Freeman, *Shanahan’s Australian Law of Trade Marks and Passing Off* (Thomson Reuters, 4<sup>th</sup> ed, 2008) 557–61.

done without its consent. If the application was done without its consent, then surely it could not argue that it has authorised the use of the trade mark by the corporate sibling within the meaning of the trade mark legislation. In other words, the registered owner should not be permitted to approbate and reprobate. This argument is further strengthened by the decision of the High Court in *Gallo*.<sup>37</sup> Given the concept of use is so wide as to include use even without knowledge of that use, the concept of consent to application of the trade mark for the goods should be equally broad. In other contexts, such as the issue of demonstrating first use of a trade mark in Australia for ownership purposes, the Full Federal Court has held that courts should be ‘cautious to allow the legal fiction of the corporate veil to defeat registration in a case where one of a group of companies, all controlled by the same directing mind and will, used the mark prior to the other’.<sup>38</sup> In the context of a pro-parallel importing stance, the courts should be quick to infer consent to application of a trade mark when the application is by any member of the corporate group that includes the registered owner.

## **D Conditional Assignments — Fender and Montana**

Similarly, s 123 should address the issue of conditional assignments such as those that were used in the *Fender* case and the *Montana* case. It seems clear that those conditional assignments were executed primarily, if not solely, for the purpose of preventing parallel importing. The concept of consent within s 123 should be defined so that any application of the trade mark by the assignor of an assignment that provides for a right of reassignment should constitute an application of the trade mark that has occurred with the consent of the assignee.

To do otherwise encourages some trade mark owners to engage in commercial transactions purely for technical purposes of preventing parallel importing in circumstances where parallel importing should be encouraged. In addition, many corporations will be prevented from engaging in such activity because of the tax implications of such conduct for them or due to other reasons relating to their business structure. The capacity to engage in conditional assignment should not be the determinant of whether parallel importing is permitted or not. This point has been the subject of a recommendation of the Ergas report,<sup>39</sup> and that recommendation was accepted ‘in principle’ by the then Commonwealth government.<sup>40</sup> However, to date, no comprehensive action has been taken in relation to it.

This approach would also dovetail with the suggestion above of reversing the onus of proof when considering the application of s 123. In order to prove that s 123

37 *Gallo* (2010) 241 CLR 144.

38 *Food Channel Network Pty Ltd v Television Food Network GP* (2010) 185 FCR 9, 27 [61].

39 Intellectual Property and Competition Review Committee, above n 7, 191. This recommendation was accepted by the then government.

40 Attorney-General’s Department, Australian Government, *Government Response to Intellectual Property and Competition Review Recommendations* (August 2001) <[http://www.ag.gov.au/www/agd/agd.nsf/Page/Publications\\_GovernmentsresponsetotheErgasreport-August](http://www.ag.gov.au/www/agd/agd.nsf/Page/Publications_GovernmentsresponsetotheErgasreport-August)>.

did not apply, the trade mark owner would be required to provide the ownership history of its trade mark and produce any assignments that might be conditional assignments together with any documentation of collateral arrangements that may not appear in the formal assignment of the trade marks.

## **E Remedies**

Finally, it may be appropriate to vary the remedy available in an infringement action where the importer had reason to believe that the imported goods had been marked with the consent of the trade mark owner. For example, it may be appropriate to provide that damages are not available in such circumstances and that the remedy should be limited to either an injunction and/or an account of profits. An example where this approach might apply is where the importer dealt with either a known licensee of the trade mark owner or derived title to the relevant goods from an entity known or reasonably believed to be a licensee of the trade mark owner.

A similar situation already exists in relation to s 115 of the *Copyright Act 1968* (Cth). Under that section, the plaintiff is not entitled to damages if the defendant was not aware and had no reasonable grounds for suspecting that the act constituting the infringement was an infringement of the copyright. In normal circumstances, such an approach is not appropriate under trade mark legislation because trade mark rights are clearly enunciated in a public register of trade mark registration. However, the position is slightly different when the defendant's action is based on its understanding of the application of s 123. For example, it may well receive assurances from a trade mark owner's licensee that the relevant goods are being supplied after the trade mark was applied to them with the trade mark owner's consent. In those circumstances, it would be appropriate and consistent with the policy of encouraging parallel importing to limit the defendant's liability as the availability of an injunction and/or an account of profits would usually be sufficient to protect the trade mark owner's interests while not inordinately discouraging those seeking to engage in parallel importing. The goods in question would almost certainly be of a standard required by the trade mark owner in relation to authorised goods and, partly for that reason, the damage to its trade mark would be less than in circumstances where completely counterfeit products are produced and sold. In addition, the trade mark owner would have an available remedy for breach of contract against its licensee if an injunction and account of profits were insufficient remedies in relation to its action against the importer. Given that the registered owner has an obligation to control the use of its trade mark by its licensees, there is good reason to place the responsibility for recovering for damage to its trade mark on the registered owner, rather than an importer acting reasonably. It should be emphasised here that the reduction in remedies should only apply in circumstances where s 123 is in issue rather than infringement actions generally.

A further argument for this more nuanced approach to remedies for trade mark infringement is that the rights of a trade mark owner in respect of flagrant

infringements have recently been expanded. The *Intellectual Property Laws Amendment (Raising the Bar) Act 2012* (Cth) provides for the amendment of s 126 of the *Trade Marks Act 1995* (Cth) to permit additional damages to be awarded in respect of flagrant infringements.<sup>41</sup> This amendment brings actions for trade mark damages in line with similar actions in respect of flagrant breaches of copyright.<sup>42</sup> An amendment to the provisions relating to damages for trade mark infringement, in line with the suggestion above in respect of importation of goods reasonably believed to comply with s 123, would create even greater consistency in the approach to damages for trade marks and copyright.

## IV CONCLUSION

The above analysis leads to several conclusions as to what further action needs to be taken in relation to parallel importing.

1. There needs to be a clear and definitive statement of government policy in relation to parallel importing.
2. It would be preferable if the statutory regulation of parallel importing continued to be regulated on the assumption that parallel importing does in fact constitute use of a trade mark as a trade mark. The further complication of the concept by acknowledging and deliberately introducing concepts of actual confusion into the analysis of use as a trade mark would be unhelpful to Australian trade mark law generally.
3. Section 123 requires some amendment if the relevant policy objective is to achieve greater tolerance of parallel importing.
4. Some of the desirable amendments include reversing the onus of proof in s 123, providing an expanded concept of consent to the application of a trade mark, provided that the use of a trade mark by a corporation in the same corporate group constitutes consent to application of the trade mark by the registered owner and addressing the issue of conditional assignments. In addition, consideration could be given to eliminating a right to damages if an importer has acted on a reasonable belief that the trade mark was applied to the imported goods with the consent of the registered owner.

41 *Intellectual Property Laws Amendment (Raising the Bar) Act 2012* (Cth) sch 5 item 29.

42 *Copyright Act 1968* (Cth) s 115(4).