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Trade, Labor and EU Law Perspectives

Parallel importing just got easier!

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There has been a significant amendment to the *Trade Marks Act* 1995 which further entrenches the legality of parallel imports in Australia.

Until recently, s123 of the *Trade Marks Act 1995* provided a defence to parties (including importers) using a trade mark to sell or import goods where the trade mark had been applied with the consent of the trade mark owner.

This defence was relied on by parties importing into and selling genuine branded goods in Australia through channels other than the trade mark owner's authorised distribution channel.

This practice is frustrating for brand owners who have invested significant resources in their licensed and/or contracted distribution channel, because parallel importers typically sell the parallel imports at a cheaper price than the locally available equivalent. This can materially affect local contracted distributors by requiring them to discount stock to stay competitive.

Branded goods which are imported into, or sold in, Australia are known as “grey goods” or “parallel imports”, and they are not illegal in Australia.

A series of cases sought to clarify the defence in s123, for the benefit of brand owners, the most definitive of which was *Paul’s Retail Pty Ltd v Lonsdale Australia Limited [2012] FCAFC 130*. In this case, the local brand owner of the mark ‘Lonsdale’ was a different corporate entity to the foreign brand owner which originally applied the Lonsdale mark to certain goods which had been imported into Australia by Paul’s Retail.

While the facts of this case were complex, Paul’s Retail was unable to rely on the defence in s123 because, in part, the foreign licensee that applied the mark to the relevant goods was not a member of the same corporate group as the local brand owner. As a result, the local brand owner had not ‘consented’ to the application of the mark as required by s123.

This case was an example of restrictive legislative interpretation, and led to changes in the corporate structures and trade mark ownership practices of many high profile brand owners to allow those parties to take advantage of the Court’s narrow interpretation of s123.

Some overseas manufacturers established conditional assignment agreements with their Australian distributors which assigned foreign trade marks to Australian subsidiaries, or permitted the Australian distributor to register the trade mark in Australia, on the condition that the mark was assigned back to the overseas manufacturer when the distribution agreement terminates.

Until recently, these arrangements were likely to have circumvented the defence in s123, making it harder for parallel importers.

This represented a shift away from Federal Government policy, which supports parallel imports on the basis that they improve competition in the marketplace. As a result, in the Productivity Commission’s 2016 Intellectual Property Arrangements, Inquiry Report, recommended that s123 be amended to broaden its scope to meet its original policy intent.

The report considered that cases such as Paul’s case had ‘muddied the waters’ on parallel imports and recommended amendments to the *Trade Marks Act 1995* to make clear that parallel imports are permitted.

Section 123 is repealed

On 24 August 2018, section 123(1) was repealed and replaced with a new s122A.

Section 122A sets out when use of a trade mark will not be considered an infringement and includes an expanded list of circumstances where consent will be considered to have been given.

If the parallel importer can establish that a reasonable person, after making inquiries, would have concluded that the trade mark had been applied by, or with the consent of, any one of the following parties, there will be no trade mark infringement:

1. the registered owner or authorised user of the trade mark;
2. a person permitted to use the trade mark by the registered owner or authorised user;
3. a person permitted to use the trade mark by an authorised user who has power to give such permission;

(Note, b) and c) are intended to cover the situation where the initial owner of the mark in Australia assigns the mark to an Australian distributor with a requirement for the mark to be assigned back or otherwise controlled by the previous owner as described above);

1. a person with significant influence over the use of the trade mark by the registered owner or an authorised user; or
2. an associated entity of any of the aforementioned persons *(Note, this will cover the situation where the trade mark was applied to the goods in a foreign country by one*

member of a corporate group structure, but the owner of the trade mark in Australia is a different member of the same corporate group.)

The parallel importer is required to make 'reasonable inquiries in relation to the trade mark' before the time of trade mark use. It does not matter where the trade mark had been applied to, or in relation to, the relevant goods.

What is the effect of the s 122A?

Put simply, if the goods are genuine (not counterfeit) and the mark has been applied with the consent of the local or foreign trade mark owner, or entity associated with either party or permitted to use the mark, the importer (and any subsequent seller) is likely be able to rely on the defence in s122A.

Convoluted IP ownership structures and arrangements with local distributors to permit local entities to register Australian trade marks and assign marks back to foreign brand owners will no longer overcome the defence.

Importantly, new s122A removes the evidentiary burden on importers to prove that the registered owner of the mark actually applied the trade mark to the goods. The importer only has to show that it was reasonable for a parallel importer to assume this was the case.

Is there anything brand owners can do to stop parallel importers?
The changes to the *Trade Marks Act 1995* have the potential to open up the market to grey goods and create price wars between local subsidiaries/distributors and parallel importers and unauthorised dealers.

However, there are courses available to brand owners to maintain control over their brand in Australia and limit the proliferation of parallel imports of its goods, including by:

- prosecuting and maintaining trade mark registrations in Australia;
- lodging or maintaining Notices of Objection with the Australian Border Force (**ABF**), in relation to branded goods. This is a process available under the import provisions under the *Trade Marks Act 1995* and *Copyright Act 1968* which allows the ABF, under certain circumstances, to seize goods that infringe registered trade marks and copyright. Notices of Objection are lodged by rights holders (or in some cases authorised users) who are concerned about the potential damage

to trade, reputation and profits that may result from the importation of goods that infringe their trade marks or copyright. The usefulness of this scheme at stopping parallel imports has reduced as a result of the introduction of s122A however it in our view it should be pursued to stop counterfeit goods at the border;
- if a brand owner has concerns that parallel imports of its brand or product present a risk to public health and safety, we can work with the Department of Home Affairs and the Australian Competition and Consumer Commission to investigate the issue;
- limiting warranty and service obligations for parallel goods, where permitted under the Australian Consumer Law; and
- keeping a tight rein on your global supply chain and distributor contracts, including taking action for breach under those contracts where necessary.

What does this mean for those in the supply chain?

Service providers in the supply chain such as licensed custom brokers (**LCB**) and freight forwarders (**FF**) often suffer "collateral damage" in these disputes over parallel imports. The LCB and FF tend to be the first parties to receive notices of the goods having been seized as a consequence of action based on the Notice of Objection and then need to deal with clients on the claim being made. The LCB and FFs are also exposed to claims for detention if containers are held pending resolution of any dispute regarding the rights of the importer to import the goods. On occasion, LCB and FF face demands by rights holders not to release goods even when Notices of Objection have not been lodged.

These events are difficult for the LCB and FF to manage as many have no interest in the goods or the disputes between the parties.

Accordingly, we would suggest the following general steps to be taken:

- ensure that relevant staff and customers are aware of the changes to the law, which only apply to trade mark rights at this stage;
- do not offer gratuitous advice to importers as to their right to import "parallel" goods;
- refer the importers to secure their own advice;
- remain aware of the register of parties who have lodged Notices of Objection so that the issue can be raised with the importers before import if it appears that the goods may be subject to Notices; and
- ensure that terms and conditions of trade include a warranty that the customer has the right to import the goods and an indemnity against liabilities associated with action taken to hold the goods pending any dispute.

Ultimately, while the legislative changes may be perceived to enhance the rights of parallel importers, the service providers will still be directly affected.

What does this mean for brand owners and importers?

If you are a brand owner or an importer or distributor of parallel imports, come and talk to us about how these changes affect your business.

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