PARALLEL IMPORTING

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I. Introduction

Consider the following hypothetical business venture: An entrepreneur purchases from a United States wholesale outlet and imports into New Zealand, genuine[1] RAYBAN sunglasses at a total cost of $100 (NZ) a pair. They are placed on the New Zealand market at $120 (NZ). The same model already retails in New Zealand at $180 (NZ). However, the importation and sale of the sunglasses is without the consent of the New Zealand owner of the intellectual property rights and thus a classic case of what is legally described as "parallel importing" or "grey marketing".

A most comprehensive definition of parallel imports is that given by Warwick A Rothnie:

> Parallel imports have two vital, distinguishing features. They are lawfully put on the market in the place of export, the foreign country. But an owner of the intellectual property rights in the place of importation, the domestic country, opposes their importation (usually because the goods are sold in the two different countries at quite disparate prices) and, taking advantage of the lower price, some enterprising middleman buys stock in the cheaper, foreign country and imports them into the dearer, domestic country. Hence, the imports may be described as being imported "parallel" to the authorised distribution network.[2]

Essentially, three elements must exist:

(i) It must be a foreign manufactured good.

(ii) It must be the "genuine" article in the sense that it has been made overseas in accordance with intellectual property law. This is in contrast to "black market" or "pirate" goods which are illegally made outside of New Zealand.

(iii) The importation and sale is without the consent of the New Zealand holder of intellectual property rights.[3]

At the heart of the parallel importation controversy are two opposing interests; the economic rights of the intellectual property rights owner and the public's demand for inexpensive brand name merchandise. This tension will be apparent throughout the discussion and the extent to which the intellectual property rights holder can use copyright and trade mark law to prevent the parallel importation of new and second hand goods, will be considered at the outset.

The writer then reviews the Government's justifications for retaining the general ban[4] on parallel imports. The prohibition was last considered in 1994 when officials were directed by Cabinet to investigate whether the ban on parallel importing of copyright goods should be retained. As a result of a cost benefit and risk analysis prepared by the New Zealand

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This paper was awarded the Canterbury Law Review Prize for the best undergraduate Honours Paper completed in 1997.

1 A "genuine" good in this context means a product that has been made by the owner of the intellectual property rights or a licensee.

2 W A Rothnie *Parallel Imports*, London: Sweet and Maxwell, 1993, at 1.

3 This discussion of parallel importation will look at questions of copyright and trade mark law. The term "holder of intellectual property rights", will refer to the entity/person that owns or licenses the relevant copyright or trade mark rights.

4 Technically there is no ban on parallel importing but the Copyright Act can be used to prevent parallel importation. The word "ban" will be used for convenience.

Institute of Economic Research and international trade policy considerations, the Government decided that the ban should be retained in the Copyright Act 1994. Both the economic policy considerations and the international trade factors (including the impact of the GATT-TRIPS agreement) will be analysed and discussed in Part IV.

II. Copyright Law

Infringement of copyright by unauthorised importation has long been recognised in the law. In *Pitt Pitts v George & Co*[5] the copyright in a musical composition entitled "La Fileuse" was acquired by a German, F Ries. F Ries assigned to an English firm, Patey and Willis (the plaintiff, Pitt Pitts owned Patey and Willis) the right to publish and perform "La Fileuse" in England.

F Ries also assigned the German rights to a publisher in Germany. The defendant, George and Co, purchased from the German publishers, copies of "La Fileuse" printed in Germany, imported them into England and sold them in competition with Patey and Willis.

The majority of the English Court of Appeal found for the plaintiff. Lindley LJ said:

> If the defendant's contention was correct, it would follow that a foreign author could assign his English copyright and import and sell copies of his work here in competition with his own assignee unless prevented from so doing by express agreement. Such a state of our law would not be very creditable, and I am glad to find that the court is not driven to hold the law to be so unsatisfactory ...[6]

More recently in New Zealand, Prichard J in *Barson Computers (NZ) v John Gilbert and Co Ltd*[7] commented that the rule in copyright law against parallel importation was internationally recognised:

> It is generally true that a purchaser of articles made under copyright by or with the licence of the owner of the copyright, can make any use he likes of his purchases and will not thereby infringe copyright, but it is otherwise when copies are taken across an international frontier for the purposes of trade without the consent of the person who owns the copyright in the country of importation. This principle has international recognition. It is implemented by a system whereby each nation provides in its own legislation that such importation is a separate species of secondary infringement.[8]

He then went on to explain the financial damage parallel importation causes the copyright owner. The loss is so whether the goods are made overseas by the copyright owner himself or by a licensee:

> If, for example, a copyright owner licenses the making of copies of the original work in a foreign country and has no protection against importation of those copies into other countries where he owns the copyright the value of his copyright in the country of importation will be diminished. Foreign made copies could then be imported into the country where the copyright owner is domiciled and where he owns the copyright — possibly flooding the market with copies manufactured abroad far more cheaply than they can be made in the "home" country. Or the foreign made copies might be imported into another overseas country to the detriment of an exclusive distributor or licensee appointed in that country by the copyright owner — and to the ultimate detriment of the copyright owner.
>
> Similarly, the unauthorised importation for resale of copies made, not by a licensee, but by the person who owns the copyright in the country of importation will have an adverse effect on the business of any exclusive licensee or distributor in the country into which the

5 [1896] 2 Ch 866.
6 Ibid, 876.
7 [1985] FSR 489.
8 Ibid, 493.

copies are imported — and so deplete the royalties or other payments which the owner of the copyright can expect to receive.[9]

It could be said that a copyright owner (who licenses the making of copies in a foreign country), may protect himself from parallel importation by including an export prohibition clause in the initial contract. However this would be a limited form of protection. If the foreign licensee brought parallel imports into the local market, the copyright owner would be able to sue for breach of contract and hence, prevent further importation. Yet if there was no general ban against parallel importation and a third party imported grey market goods, without being a party to any breach of contract, the copyright owner would be in a powerless position. Prichard J's statement (that a legislative prohibition on parallel importation is required to protect the copyright owner from financial harm), appears therefore to be justified.

So far, many of the New Zealand cases concerning the grey market are interpretations of s 10(2) of the old Copyright Act 1962. It reads:

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.

The new s 35 and s 12(3) of the Copyright Act 1994 are to the same effect as the old s 10(2) in they retain the prohibition on parallel importation, but there are two material changes. First, the knowledge requirement has been altered. Under the old s 10(2) it was necessary to show actual knowledge on the part of the parallel importer. Eichelbaum CJ said in *DN Russel and Co Ltd v Everiss and Shirley (1984) Ltd*:[10]

The knowledge required is actual not constructive, and it is implicit in the requirement that the defendant must be aware that copyright subsists in the article in question. However, actual knowledge can be inferred from opportunities for knowledge coupled with the ordinary understanding of a person in the defendant's line of business.[11]

Since the 1994 Act however, the knowledge threshold has been lowered to include the "reason to believe" formula:

35. Importing infringing copy — Copyright in a work is infringed by a person who, other than pursuant to a copyright licence, imports into New Zealand, otherwise than for that person's private and domestic use, an object that is, and that the *person knows or has reason to believe* is, an infringing copy of the work. (Emphasis added)

The addition of the phrase "reason to believe" means a defendant will have difficulty denying that he had no knowledge, when on the facts there were factors alerting him to the possibility that the making of the goods in New Zealand would have infringed copyright.[12]

Secondly, the 1994 Act clarifies any confusion as to the hypothetical manufacturing requirement. The phrase "or would have constituted such an infringement if the article had been made in the place into which it is so imported" in s 10(2) of the 1962 Act caused divided opinion and one judge to describe it as "cryptic and equivocal".[13] The ambiguity stemmed from three possible interpretations.

9 Ibid, 493-494.
10 (1989) 3 TCLR 340.
11 Ibid, 342.
12 The writer has been unable to find any authoritative statements on the "reason to believe" phrase in s 35 of the Copyright Act 1994.
13 Prichard J in *Barson Computers* [1985] FSR 489, 508.

One possible construction and the one favoured by the English courts is the actual maker theory.[14] The interpretation is that the copies are made in the country of importation by the person who actually made them somewhere else. However following this line of reasoning, there can be no infringement if the overseas manufacturer and the copyright owner in the country of importation are one and the same. After all, the registered proprietor cannot infringe his own copyright. Yet the copyright owner's interests are damaged by unauthorised importation regardless of whether he made those copies himself or whether they were made by his/her licensee. It would therefore seem anomalous to restrict copyright protection to one case and not the other. This was the thrust of Prichard J's argument against the actual maker theory in *Barson Computers*:

> 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 depredation 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 interest and without his consent. If the identity of the hypothetical maker is immaterial then that door is closed.[15]

The interpretation therefore favoured in the New Zealand courts was Quilliam J's approach in *J Albert and Sons Pty Ltd v Fletcher Construction Co Ltd*.[16] That is, the identity of the notional maker is irrelevant, rather it is just a question of whether to make that article in the country of importation would infringe copyright. Prichard J took the ratio of *J Albert and Sons* to be the following:

> The decisive question is not to be answered by reference to the identity of the person who actually made the imported copy overseas. The question is whether the making of that article in New Zealand, irrespective of who makes it, would be an infringement.[17]

The third alternative is to ask whether the importer would have infringed copyright by making the article in the country of importation. This is the approach in the Australian Copyright Act 1968, and the interpretation New Zealand has finally arrived at in the 1994 Act:

> 12. Meaning of "Infringing Copy" -
> (1) In this Act, the term "infringing copy", in relation to a copyright work, shall be construed in accordance with this section.
>
> ...
>
> (3) An object that a person imports or proposes to import into New Zealand, is an infringing copy -
> (a) If, had that person made the object in New Zealand that person would have infringed the copyright in the work in question.

Although Quilliam and Prichard JJ took a different approach from that in the 1994 legislation the practical effect is the same, in that it is irrelevant whether the copyright owner or a licensee manufactured the article overseas. Section 12(3)(a) of the 1994 Act however clarifies any remaining confusion over the old s 10(2).

14 See Browne-Wilkinson J in *CBS United Kingdom Ltd v Charmdale Record Distributors Ltd* [1980] FSR 289 and Robert Megarry VC at first instance in *Polydor Ltd v Harlequin Record Shops* [1980] FSR 194.

15 *Barson Computers* [1985] FSR 489, 508.

16 [1974] 2 NZLR 107.

17 *Barson Computers* [1985] FSR 489, 500.

Despite these changes, cases decided under the 1962 Act remain guiding authorities today. It is useful therefore to look at what principles have emerged from them.

The underlying rationale against parallel importation in *Barson Computers* was that the unauthorised importation of copies of a protected work would substantially harm the interests of the copyright owner or his/her exclusive distributor or licensee. The defendants in *Tamiya Plastic Model Co v Toy Warehouse*[18] however endeavoured to distinguish *Barson Computers* on the basis that part of the ratio was that an importation of copies made not by a licensee, but by the person who owns the copyright in the country of importation will have an adverse effect on the business of any exclusive licensee in the country into which the copies are imported and so deplete royalties or other payments which the owner of copyright can expect to receive. On the facts, the Toy Warehouse had imported kitset radio-controlled model racing cars manufactured by Tamiya of Japan who had appointed Bringans as its agent for the importation and sale of the cars in New Zealand. Counsel argued that there was no evidence that there was any payment of royalties and the indications were that these manufacturers simply charged all their distributors an appropriate price for the product sold to them. Thus they would not suffer any loss regardless of who ultimately sold the products in New Zealand and regardless of the identity and place of business of the initial purchaser from Tamiya.

This submission was not accepted by Wylie J:

> The interests of the person who owns copyright in the country of importation may be much wider than the mere receipt of royalties. The evaluation of those interests seems to go to the question of balance of convenience on an interim injunction application than to the interpretation of the legislative provision itself.[19]

His Honour was most likely correct when he said that the evaluation of the copyright owner's interests go to the question of balance of convenience rather than to the interpretation of the legislative provision. Under the old s 10(2) (and also under s 35 of the 1994 Act), there is no requirement that the copyright owner must prove damage before he/she can prevent parallel importation. To succeed in an infringement action, all the registered proprietor must do, is prove that an unlicensed person has imported an article (other than for his private and domestic use) into New Zealand, "knowing"[20] it was an infringing copy. Thus the potential harm[21] to the copyright owner goes to the question of the overall justice of the case.

18 (1987) 2 TCLR 45.
19 Ibid, 51.
20 In s 35 of the 1994 Act, actual or constructive knowledge will suffice, with the introduction of the "reason to believe" phrase. See earlier comments.
21 As Wylie J said the copyright owner's interests are wider than the mere receipt of royalties. Other factors would therefore be considered. For example:
(i) the value of his/her copyright in New Zealand may diminish;
(ii) the parallel imports may lead to an oversupply, ultimately resulting in a downturn in consumer demand;
(iii) the goods would lose their "exclusive" quality;
(iv) the parallel imports may not have been specifically designed for the New Zealand market, leading to customer dissatisfaction with the product and loss of goodwill. For example, the kitset radio-controlled model racing cars imported from Japan by the unauthorised dealer may have come with non-English instructions, labels and packaging.

The defendants in *Samsung Electronics Co Ltd v Asda Holdings*[22] took a different approach to evade the protection against parallel importation. There a South Korean television manufacturer (Samsung) and its New Zealand distributor (Berry Enterprises Ltd) applied for an interim injunction to restrain the importation of unused but old model Samsung television sets from Fiji.

The defendants argued that since no Order in Council had been made pursuant to s 49 Copyright Act 1962 directing that the provisions of New Zealand's statute should apply to South Korea, there being no reciprocal copyright convention between the countries, no question of infringement of s 10 could arise. No decision on that point was necessary but by way of obiter, Thorp J said he would have accepted the defendant's argument:

> If I had to determine that point my present inclination would be to accept the argument of Miss Latimer that the application of s.10 to protect copyright originating in non-convention countries would create a situation so foreign to the obvious intention of s.49, and particularly the direction ins.49(3) that Orders in Council under that section shall not be granted unless the Governor General is satisfied that mutual protection will be available, that the more limited interpretation she proposes would be preferred.[23]

The reason why no final determination of the issue was necessary was because there was insufficient evidence of an exclusive distributorship arrangement. An interim injunction was declined on this basis also in *Tamiya Plastic* where Wylie J concluded that the correspondence was insufficiently precise to satisfy the provisions of s 26(9) of the Copyright Act 1962 that an exclusive licence must be in writing signed by or on behalf of the owner of copyright. The submission that the correspondence was a partial assignment under s 56 was also rejected:

> As I have mentioned that letter was essentially of an informal social nature ... It was thereby expressive of the circumstances in which the hopes expressed in the paragraph and the good wishes contained elsewhere in the letter were made. In my view it cannot possibly fulfill the requirements of s 26 or s 53.[24]

Assuming that the plaintiff can prove the essential elements of the claim (such as an exclusive distributorship arrangement and sufficient knowledge on the part of the unauthorised importer), he/she will be awarded an injunction[25] preventing the further importation and sale of infringing copies in New Zealand.[26]

In the recent High Court decision of *Composite Developments (NZ) v Kebab Capital*[27] the key ingredients were present but one outstanding issue prevented the case from being a straight forward application of s 35; the goods were secondhand.

22 (1988) 3 TCLR 382.
23 Ibid, 385.
24 *Tamiya* (1987) 2 TCLR 45, 50.
25 The injunction may be granted against the director(s) as well as the company if the former authorised the importation of the infringing copies. For example in *IBM Corporation v Computer Imports Ltd* [1989] 2 NZLR 395, the injunction was served against the two directors as well as the company since the former controlled the day to day running of the company.
26 Injunctions can only be ordered in respect of New Zealand. A plaintiff's request that the injunction have effect in Australia also was rejected by Tipping J in *Atkinson Footwear v Hodgskin* (1995) 31 IPR 186, 190. It was stated that copyright protection only exists within New Zealand. Acts done outside New Zealand do not constitute an infringement of New Zealand copyright; only acts done in New Zealand constitute infringement.
27 [1996] 7 TCLR 186.

The plaintiff, the exclusive distributor of Rossignol products brought proceedings to protect the copyright held by the French company Skis Rossignol SA when the defendant imported various secondhand Rossignol skis and snowboards into the country from the United States. From the start, the defendants conceded that if the skis were new then the importation would breach copyright. After quoting from *Barson Computers* and s 10(2) of the 1962 Act, Salmon J said:

> These statements make it perfectly clear that had the skis been new there is no doubt that copyright would be infringed and that is the effect of ss 35 and 12 of the Copyright Act 1994. These sections effectively replace s 10(2) of the 1962 Act.[28]

The question was whether s 12(3)(a) of the Copyright Act covered the importation of secondhand goods. Salmon J held the plaintiff had an arguable case that the section did apply and that the balance of convenience and overall justice of the situation supported the continuation of the interim injunction. The judge was swayed by the fact that the plaintiff could potentially lose its distributor's licence if the defendants were permitted to continue selling the products. Salmon J's sense of justice however cannot be founded in the law.

The distinction was made in the case between secondhand goods which had been purchased and sold in New Zealand and the importation of secondhand goods. Breach of copyright could occur in the latter situation but not the former. Why was this held to be so? The reason appears to be that copyright protection is dealt with on a territorial basis and it is in accordance with the policy of copyright legislation that the importation of secondhand copies should be protected.[29] According to Salmon J it was a straightforward conclusion that s 12 included secondhand goods:

> Given an ordinary meaning to the words used in s.12 that appears to be a necessary consequence.[30]

However, there is a problem with this logic. An "infringing copy" is defined in s 12(3)(a) of the Copyright Act as meaning, had that person *made* the object in New Zealand, that person would have infringed the copyright in question. The problem here is one cannot make used goods, only new goods can be "made". Hence on a literal reading, secondhand goods are not within the scope of the provision.

In addition, *Composite Developments* conflicts with leading Australian authority. Salmon J briefly dismissed *Wingate Marketing Pty Ltd v Levi Straussl*,[31] stating that the case was not directly on point since it depended upon the wording of the Trade Marks Act and the policy of trade mark protection.[32]

The validity of *Wingate* will be discussed later in the Trade Marks section but for now it is enough to say that the misreading of s 12(3)(a) and the brief dismissal of *Wingate*, makes *Composite Developments* a dubious decision.[33]

28 Ibid, 190.
29 Ibid.
30 Ibid.
31 (1994) 28 IPR 193.
32 *Composite Developments* [1996] 7 TCLR 186, 190.
33 *Composite Developments* has been followed in the High Court decision of *Lyntec Holdings Ltd v Wills* (Unrep, 29 January 1997, High Court, Auckland Registry, CP 11/97). Robertson J concurred with Salmon J's decision and held that the parallel importing provisions in the Copyright Act do apply to second hand goods. It is not a convincing authority however as Robertson J stated he was "hampered" in deciding the matter by Counsel's lack of representation and argument to the contrary.

III. Trade Mark Law

As has been discussed the combined effect of s 35 and s 12(3) of the Copyright Act 1994 is to retain the general ban on parallel imports. What then is the position under the Trademarks Act 1953?

At first glance it would appear a registered proprietor (or user) in New Zealand has the power to prevent grey market goods from entering the domestic market. Section 8(1A) of the Trademarks Act says any use of the trade mark in the course of trade other than by the proprietor (or registered user) shall be deemed to be an infringement. Seemingly, the right to exclusive use would be infringed where goods bearing a trade mark registered in New Zealand are imported and sold in the course of trade without the authority of the registered proprietor of the New Zealand trade mark and if the goods are the same or similar to those in respect of which the mark is registered.[34]

However a parallel importer may avoid liability if he/she can satisfy the requirements of s 8(3)(a) of the Act. It reads:

> (3) 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 reason -
>
> (a) In relation to goods connected in the course of trade with the proprietor or a registered user of the trade mark if, as to those goods or a bulk of which they form part, the proprietor or the registered user conforming to the permitted use has 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.

Broken down the section provides a two stage defence:

(1) The mark must have been used in relation to goods *connected* in the course of trade with the proprietor or registered user *and*

(2) Either

(a) The proprietor or registered user must have applied the mark to the goods, *or*

(b) The proprietor or registered proprietor must have consented to the use of the mark.[35]

The most straightforward defence is that the trade mark owner applied the mark to the goods imported. The leading case on this point is *Champagne Heidsieck Et Cie Monopole Societe Anonyme v Buxton.*[36]

There, the plaintiffs produced champagne in France. They sold "Champagne Dry Monopole" in England and France, the wine sold in France being the sweeter of the two. The labels on the bottles containing the wine sold in France bore the word "Brut" and sufficiently distinguished in England (as the Court found as a fact) that wine from the wine prepared for and sold in the English market. The plaintiffs who were the registered owners of trade marks under which the wine prepared for English use was sold, took certain steps to prevent the Brut wine from being sold in England. The defendant, without being a party to any breach of contract, imported the plaintiff's Brut wine into England.

34 See C Turner, "Trade Marks and the Parallel Importation of Goods into Australia: Resolved and Unresolved Issues" University of Queensland Law Journal 16 (1991) 175, 177 where the author takes this to be the position under Australian law also.

35 See Buckley LJ in *Revlon Inc v Crisps and Lee Ltd* [1980] FSR 85, 106. who broke down the English equivalent to s 8(3)(a) in this way.

36 [1930] 1 Ch 330.

In dismissing the action, Clauson J strongly rejected the plaintiff's contention that a trade mark proprietor had a right to control dealings with the goods. Rather a trade mark's function was to indicate the source from which the goods came:

It was in effect suggested that whereas before 1875, a trade mark if established as a trade mark was a badge of origin of the goods, the effect of s 3 of the Act of 1875 was to make a registered trade mark a badge of control, carrying with it the right in the owner of a registered trade mark to full control over his goods, into whosoever hands they might come, except in so far as he might expressly or by implication have released this right of control. I do not so read the section ... The section appears to me to mean that the proprietor of a registered trade mark is to have the right exclusively to use such a trade mark in the sense of preventing others from selling wares which are not his marked with the trademark.[37]

For Clauson J the decisive question was whether the defendant had used the plaintiff's trade mark upon goods which were not the plaintiff's:

I prefer to adopt with approval, subject to slight verbal amendment, a statement of the law in a well known text book, Kerly on Trade Marks, and to hold that the use of a mark by the defendant which is relied on as infringement must be a use upon goods which are not genuine goods, ie, those upon which the plaintiff's mark is properly used, for anyone may use the plaintiffs' mark on the plaintiffs' goods, since they cannot cause the deception which is the test of infringement.[38]

There was no infringement on the facts since the defendant imported only goods which the plaintiffs themselves had made overseas. This was held to be so even though the parallel imports were of a different nature, (the Brut wine was sweeter than the English variety) and that the goods were sold in France subject to an express prohibition on their export.[39]

The plaintiff's trade mark was held to be infringed in the earlier case of *Dunlop Rubber Company Limited v AA Booth and Co Ltd*.[40] There the imported articles were the same as the ones sold in the domestic market but strictly speaking the goods came from different manufacturers.

Dunlop made tyres in the United Kingdom for the domestic market and for export, charging a price 30 percent higher on the domestic market although the tyres were the same. Both types of tyres were stamped with its UK registered trade mark. At the same time an "associated" company, in France, made the same tyres for the French market and owned the French trade mark. Dunlop sued Booth for infringement by importing into England both French and English tyres.

37 Ibid, 339.

38 Ibid, 341. Clauson J's statements are consistent with later Australian and American authorities. For example in *Atari Inc and Futuretronics Australia Pty Ltd v Fairstar Electronics Ltd* (1982) SC ALR 274, 276 Smithers J said "The critical consideration is that the registered proprietor of a trade mark is to have the right to exclusively use such trade mark in the sense of preventing others from selling wares which are not marked with his trade mark", and the comments of the court in *Muhlens and Krapff Inc v Fred Muhlens Inc* 43 F 937 (CA 2) 1930): "In the United States, where a foreign manufacturer and owner of the trade mark in the United States has established an exclusive distributor in this country but has not assigned the trade mark to said distributor and continues to be the owner of the trade mark in the United States, he cannot claim infringement of the trade mark against an unauthorised importer of his genuine goods."

39 See the later discussion of *Colgate Palmolive Ltd v Markwell Finance Ltd* [1989] RPC 497 (CA) where the quality and the ban on exports played against the parallel importer.

40 (1926) 43 RPC 139 (Ch D).

Tomlin J did not enjoin the importation of the English Dunlop tyres since this was "perfectly proper dealing"[41] but an injunction was granted against the French tyres. Tomlin J applied a strict approach to legal personality but nevertheless *Dunlop Rubber Company* does illustrate the point that if the trade mark owners in the respective countries are considered to be different entities, parallel imports will be prevented from entering the domestic market.

More recently when faced with a multi national corporate group, commonsense prevailed. The English Court of Appeal in *Revlon Inc v Cripps and Lee Ltd*[42] recognised the legal and factual position that resulted from the mutual relationship of the various companies[43] and in doing so, refused the plaintiffs to partition its worldwide market by placing reliance on the territorial limitations of the trade mark law.[44] The special facts of the case however were very relevant to this finding. In particular:

(a) The registered UK proprietor, Suisse, was through a complicated web, a wholly owned subsidiary of Revlon Inc and simply a vehicle for holding property assets.

(b) Suisse's rights to use the Revlon marks existed only as long as it was controlled by the parent of the Revlon group.

(c) The trade marks were used with the endorsement "REVLON, New York, Paris, London".

(d) The products sold domestically were not identified as coming from the UK registered users, "International" and "Overseas", who were also wholly owned subsidiaries of Revlon Inc.

The Court of Appeal was unanimous in finding that the REVLON products manufactured in the United States by Revlon Inc, were free to enter the United Kingdom market. Yet Buckley and Templeman LJJ were divided in their reasoning as to why there was no trade mark infringement.

The majority of the Court of Appeal, relied on the "house mark" principle[45] and consent[46] whilst Templeman LJ preferred the view that the proprietor had "applied" the trade mark. Although Revlon Inc had applied the mark to the United States products in question, given that Suisse was a wholly owned subsidiary of Revlon Inc, Templeman LJ thought an act by

41 Ibid, 146.
42 [1980] FSR 85 (CA).
43 Ibid, 105. Buckley LJ denied that the Court was piercing the corporate veil, rather it was just recognising the reality of the situation.
44 Section 4(3)(a) of the UK Trade Marks Act 1938 is the equivalent to New Zealand's s 8(3)(a).
45 Buckley LJ found that Revlon Inc had ultimate control over every company in the group and that in those circumstances every company must be taken to have consented to the Revlon Flex mark being used as a group mark to designate the products upon which it is put as products of the Revlon group. In other words Revlon Flex had become the "house mark" of the whole group. At 107, he said:
"It has at all material times been intended for use, and has been used, to indicate that the goods to which it is applied are goods which originate from the Revlon group, but not from any particular part of that group. The exploitation of the mark and of the goods to which it relates is a worldwide exercise in which all the component companies of the group who deal in these particular products are engaged in the course of trade."
46 The two points that were critical to finding consent were:
(i) Revlon Inc sold to United States wholesalers without any condition against export.
(ii) Revlon Inc could export United States products itself to the United Kingdom because:
(a) The United Kingdom subsidiaries had consented to Revlon Inc's use of the mark to designate appropriate products of Revlon's own manufacture, and
(b) Revlon Inc had power by virtue of its control over the subsidiaries to overrule any objection by any of them.

one could be considered an act by the other. In other words, the parent and subsidiary could be regarded as a single entity.[47]

Buckley LJ was unable to take this view. Nevertheless he appears to implicitly recognise that the application of a mark by a wholly owned subsidiary could be capable of constituting an application by the parent company but not vice versa.[48]

A parallel importer's ability to defend an infringement action was considerably limited however by *Colgate Palmolive Ltd v Markwell Finance Ltd.*[49] Like *Revlon*, the case also involved a multi-national corporation but several factual differences proved decisive. In *Colgate*, Colgate US, the parent, operated through subsidiaries in over 50 countries throughout the world producing Colgate toothpaste. Colgate US was the registered proprietor of the Colgate trade marks in both the United Kingdom and Brazil, with Colgate UK and "Limitada" being the registered users in the respective countries. The Brazilian toothpaste was of an inferior quality but the defendants obtained supplies and imported it into the United Kingdom.

Both Slade and Lloyd LJJ found the defendant's argument flawed in a number of respects. First, they found that the defendant's submissions overlooked the crucial distinction between United Kingdom and foreign trade marks. On the facts there had never been an application of the relevant United Kingdom trade marks by any person to the Brazilian goods since the Colgate mark applied to the goods in Brazil was neither used or proposed to be used in the United Kingdom. The only application had been that of Brazilian trade marks even though they were the same in appearance as the United Kingdom ones.[50] Lloyd LJ, in response to the defendant's submission that it was a meaningless question whether a Brazilian or United Kingdom mark had been applied, since they were the same thing, said:

> But however sensible that reply might seem in an era of multi-national companies possessing a network of registered trade marks and a worldwide presentation, it does not accord with the present, as yet perhaps under-developed system of trade mark protection. Mr Aiken's response may well represent the law of the future. The present reality is that each country grants trade mark protection within its own territorial limits. Thus the term "use" in the definition of a trade mark in Section 68 of the Act ("a mark used or proposed to be used in relation to goods...") means use in the United Kingdom.[51]

47 Ibid., Templeman LJ at 116 said:
"The object of the section is to prevent the owner of the trade mark claiming infringement in respect of a product which he has produced and to which he has attached the trade mark. In the circumstances of the Revlon group, and applying the approach of Cross LJ in *GE Trade Mark* [1970] RPC 339, 395, user by the parent, Revlon Inc, may fairly be considered as user by the proprietor, the subsidiary Revlon Suisse itself. In more homely language, section 4(3)(a) cannot be evaded by substituting the monkey for the organ-grinder."

48 As Buckley LJ said at 107:
"I find it more difficult to say that an act of a parent company can legitimately be regarded as the act of a wholly owned subsidiary who cannot in any way control the parent company. An act of the hand may be caused or permitted by the brain, but the actions of the brain cannot be caused or controlled by the hand." However Slade LJ in *Colgate-Palmolive* [1989] RPC 497, 523 saw the difficulties of this argument since it can counter to the doctrine of separate corporate personality. Traditionally, the corporate veil has only been pierced where special circumstances existed indicating that the relationship was a mere facade concealing the true facts. See Lord Keith in *Woolfson v Strathclyde Regional Council* [1978] Sess Cas 90, 96 (HL). As Slade LJ noted on the facts of *Colgate-Palmolive* there was no suggestion that the relationship between Colgate LJ and Limitada was a mere facade concealing the true facts.

49 [1989] RPC 497 (CA).

50 Ibid, 522. See Slade LJ's statements.

51 Ibid, 533.

Secondly, the fact that the overseas manufacturer, "Limitada", was a subsidiary subject to various export restrictions was considered important. Most particularly, the general rule that it could not export goods directly or indirectly to a country where a Colgate Palmolive subsidiary existed, was fundamentally inconsistent with consent.[52]

Thirdly, what proved most damming to the consent defence was the inferior quality of the parallel imports. Slade LJ, relying on *Aristoc v Rysta*[53] stated that a trade mark's function, in addition to being a badge of origin was a quality assurance. A misrepresentation therefore occurred and the United Kingdom registered trade mark was infringed when goods did not conform to the identifiable quality which the purchasing public had come to expect by reference to that trade mark. On this basis Slade LJ readily distinguished *Revlon* where the parallel imports were found to be part of a homogenous class of group manufactured products.

Thinking back to *Champagne Heidsieck*, there appear to be some irreconcilable differences between it and *Colgate Palmolive*. The nature of the parallel imports and the presence of export prohibitions, which were crucial factors in *Colgate*, did not alter the defendant's case in *Champagne*. However, closer scrutiny perhaps reveals the reasons for the two different outcomes.

To begin with, Clauson J in *Champagne* was dealing with goods of a different *kind* (the French wine being sweeter), not necessarily of a different *quality*. No harm was therefore caused to the consumer; it was possible the consumer may have even enjoyed the taste of the French wine over the English variety. Nonetheless consumer confusion between the two different wines would have surely resulted had it not been for the fact that the "Brut" parallel imports had been circulating freely in England for several years. Because the Heidsieck company, knowing this, had failed to take rigourous action against the imports, the public had learnt to distinguish between the "Brut" and non-"Brut" varieties. There was therefore no consumer deception. As to the export restrictions, it seems difficult to credit the Heidsieck company's claim that it never intended the "Brut" variety of its products to be projected into the United Kingdom market when they had done nothing to stop imports from the continent for several years.[54]

In support of *Colgate*, Slade LJ's statements regarding quality are in keeping with economic realities as to what a trademark does. A most important part of a trade mark's function is to guarantee in the eyes of the customer the uniform quality and composition of the goods so marked. The importance of the guarantee function is pointed out by Landes and Posner:

> The benefits of trade marks in reducing consumer search costs require that the producer of a trade marked good maintain a consistent quality over time and across consumers. Hence trade mark protection encourages expenditures on quality ... Trade marks have a

52 Ibid, See Lloyd LJ's statements at 534-535.

53 [1945] AC 68.

54 On a general level, the presence or absence of export restrictions goes to the question of consent. It is not relevant in determining whether a trade mark owner has applied the mark to the imported goods. Either the trade mark has or has not applied the mark; questions as to quality and export restrictions are irrelevant. In *Champagne Heidsieck*, the application argument succeeded because the trade mark owner applied the mark to the imported goods; in *Colgate Palmolive* the trade mark owner did not apply the relevant trade mark and the consent arguments failed because of export restrictions and the inferior quality of the goods.

self-enforcing feature. They are valuable because they denote consistent quality, and a firm has an incentive to develop a trade mark only if it is able to maintain consistent quality.[55]

Castrol Limited v Automotive Oil Supplies[56] supports the *Colgate* proposition that if by agreement a foreign product is not to be exported abroad, the consent defence will be negated. Here, the Canadian licensee of Castrol Oil by express agreement with Castrol Ltd, had only the right to use the Castrol trade marks registered in Canada and only to use those marks within Canada. There was also a notice affixed to the Canadian containers of motor oil prohibiting export to foreign markets. This led Vivian Price, Esq, QC to say:

> It seems to me very clear in this case that the registered proprietor has most certainly *not* consented to the use of the trade mark in the United Kingdom, and that the registered proprietor has by a clear notice made his absence of consent very apparent to any purchaser of the Canadian goods.[57]

From the preceding discussion of the English authorities it is most likely that parallel imports will be able to enter the New Zealand market if:

(i) The New Zealand registered proprietor has affixed the mark overseas.[58]

(ii) The New Zealand registered proprietor has consented (expressly or impliedly) to the use of the mark. This is a question of fact but in the international corporate context, factors influencing consent are:

 (a) the "house mark" argument;

 (b) the nature of the relationship between the overseas manufacturer and local trade mark owner;

 (c) the presence or absence of export prohibitions;

 (d) the quality of the parallel imports.

What now has to be considered is the position of the local distributor. Because of New Zealand's small population and remote geographical location, many large overseas companies are not interested in operating here themselves, or through local subsidiaries. It is more economically viable to appoint a local company as the exclusive distributor of its product in New Zealand, often licensing manufacturing rights to that company. As part of the agreement, the New Zealand agent is often appointed registered user.

To what extent then can a local distributor prevent parallel importation, where the registered proprietor manufactures goods and imports them into New Zealand or alternatively, the registered proprietor supplies a third party, knowing the third party intends to import in breach of the registered user's licence? It is likely that in both these cases the registered user will have an action in contract against the proprietor but there will be no successful trade mark suit due to s 8(1A) of the Trade Marks Act which exempts from infringement use by the proprietor and the Australian Victorian Supreme Court decision of *Delphic Wholesalers Pty Limited v*

55 W M Landes and R A Posner, "Trade Mark Law: An Economic Perspective" The Journal of Law and Economics, October (1987) 265, 270.

56 [1983] RPC 315.

57 Ibid, 324. (Emphasis added.)

58 See the New Zealand High Court decision of *Tamiya v Toy Warehouse* (1987) 2 TCLR 45 where Wylie J found there to be no trade mark infringement, citing s 8(3)(a) of the Trade Marks Act, *Champagne Heidsieck* and *Revlon* as support. Also note that if the registered proprietor forms part of a parent/subsidiary relationship, there is the possibility of treating the New Zealand and overseas trade mark holder as a single entity. Refer to earlier comments. Furthermore, note the distinction between the application of foreign and domestic trade marks. Refer to earlier comments.

Elco Food Co Pty Limited[59] which is authority for the point that the registered user may only prevent parallel importation in circumstances where the proprietor had grounds to prevent it.[60]

In *Delphic*, the Australian registered proprietor of Diana olive oil (the second defendant), agreed to supply the first defendant with a consignment of Diana olive oil to import into Australia, even though by agreement, the plaintiff, Delphic Wholesalers Pty Ltd was the sole distributor in Australia.[61]

McGarvie J rejected the trade mark infringement action for two reasons:

(i) The right of exclusive use of a trade mark did not entitle the registered proprietor in Australia to prevent the sale of its genuine goods marked with its trade mark.

(ii) The registered proprietor had consented to importation and sale by Elco.

Thus, the registered user is powerless where the registered proprietor is unable to prohibit grey market goods from entering New Zealand. However if the trade mark is *assigned* to the local distributor, this will most likely enable it as proprietor to prevent parallel importation.

In *Fender Australia Pty Limited v Bevk and Sullivan*[62] the overseas and the Australian trade mark proprietor were different and only connected via a contractual arrangement. Fender-US had been the original owner of the Australian trade mark registrations but it had assigned those rights to Fender-Australia, an independently owned company, several months after appointing it as its exclusive distributor. The latter's rights to use the trade marks ended with the distributorship and it was only permitted to use the Fender name and marks in association with Fender-US' products.

Sullivan and Bevk each owned music stores. They had separately imported Fender products from the United States where they had been made, marked and sold by Fender-US. Bevk imported both new and second hand guitars, while Sullivan only imported second hand goods.[63]

Burchett J found that Fender-Australia could use its Australian trade mark rights to bar parallel imports of new Fender products. In finding this, His Honour relied on the independent, valuable goodwill in the trade mark which Fender-Australia had built up and on the territorial[64] limitation of trade mark rights, ruling that:

> ... [Fender-Australia] is not a subsidiary of the United States corporation. The tie between them is contractual. As an entity independently controlled [Fender-Australia] has built up its own goodwill, and it has been permitted to attain by assignment the position of registered

59 (1987) 8 IPR 545.

60 This is consistent with s 37(3) of the Trade Marks Act which states that a registered user may call upon the registered proprietor to take proceedings to prevent infringement. If the registered proprietor refuses or neglects to do so within two months, the registered user may initiate proceedings "as if he were the proprietor".

61 See Turner, "Trade Marks and the Parallel Importation of Goods into Australia: Resolved and Unresolved Issues" University of Queensland Law Journal 16 (1991) 175, 181.

62 (1989) 15 IPR 257 (Fed C).

63 The issue of second hand goods will be discussed later.

64 The principles of "territoriality" and "universality" explain the dual nature of intellectual property rights: In a general sense, certain products bearing intellectual property rights such as trade marks, marketed all over the world, indicate only one original manufacturer. In this way, intellectual property rights are universal. On the other hand, the owner of such rights may have licensed or assigned the rights to different people to use. Thus a single property right may have a different legal basis in different countries and have separate goodwill in each country. In this way, intellectual property rights are territorial. See Rothnie, *Parallel Imports*, London: Sweet and Maxwell, 1993 at 4-5.

proprietor of the trade mark. Protection of its rights under the mark would carry out the statutory purpose, for that purpose is to make effective the use of the mark by the registered proprietor to identify and distinguish goods connected in trade with it, and with its goodwill.[65]

Fender-Australia had not itself affixed the trade mark to the parallel imports and there was no ground to infer its consent to that affixation. *Revlon* did not apply because the "house-mark" concept was limited to very special circumstances[66] not present in this case. *Champagne Heidsieck* was also distinguished because it only concerned the situation where the registered proprietor was the same in both countries.[67] Rather, His Honour applied the territorial approach taken in *Colgate* concluding that the trade mark on the parallel imports was not the Australian trade mark:

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 1955 with which the United States manufacturer had no concern, but as a trade mark in the United States under United States law.[68]

Thus following *Fender* it appears a local distributor, that has been assigned the trade mark rights, will have the power to stop parallel goods, if it has developed a status as an independent entity and established goodwill.

The *Fender* decision has not been without its critics. It has been said that goodwill is a concept of passing off rather than the law of trade marks. In support of this is authority stating that one of the main objects in introducing the registration of trade marks was to obviate the need of proving goodwill.[69] Rather the critical question is whether the defendants' use of the trade mark makes an incorrect connection in the course of trade.[70]

Burchett J's reliance on *A Bourgois and Co Inc v Katzell*[71] and *Breck's Sporting Goods Co Ltd v Madge*[72] has also received criticism. In both these cases the local trade marks were unconditionally assigned to the plaintiff by the overseas proprietors of the trade marks.[73] That was not the situation in *Fender* where the rights to the trade marks only ran with the distributorship and purely with Fender-US products. *Fender* is further distinguishable from *Bourjois*, where the overseas company had operated a separate business to market its products before the assignment of rights.[74] Furthermore Gibson J's decision in *Breck* that lends support to *Fender* was unanimously reversed on appeal by the Federal Court of Appeal and finally by the Supreme Court of Canada. The appeal turned on the particular provisions of the Canadian Trade Marks Act (which were different from

65 Ibid, 270.
66 For example, Burchett J emphasised that in *Revlon*, all the products bore the endorsement "Revlon, New York, Paris and London", which denied that the mark had a specifically English origin and the mark was intended to indicate that the goods to which it was applied were goods originating from the Revlon group but not any particular part of the group. In contrast *Fender* involved only a contractual tie between the overseas and domestic trade mark holders and the applicant had built up its own goodwill in the product it distributed. See M J Davison, "Parallel Importing of Trade Marked Products: *Fender Australia Pty Ltd v Berk*", Australian Business Law Review 18 (1990) 201, 206.
67 See Rothnie, *Parallel Imports*, London: Sweet and Maxwell, 1993 at 50-51.
68 *Fender* (1989) 15 IPR 257, 271.
69 GE Trademark [1973] RPC 297, 327 per Lord Diplock.
70 Rothnie, *Parallel Imports*, London: Sweet and Maxwell, 1993 at 52.
71 (1923) 260 US 689.
72 (1971) 1 CPR (2d) 177.
73 M Davison, "Parallel Importing of Trade Marked Products: *Fender Australia Pty Ltd v Berk*" Australian Business Law Review 18 (1990) 201, 207.
74 Turner, "Trade Marks and the Parallel Importation of Goods into Australia: Resolved and Unresolved Issues". University of Queensland Law Journal, 16 (1991) 175, 185.

the Australian equivalent) but according to one academic the Canadian case in its entirety refutes rather than supports the decision in *Fender*.[75]

Leaving aside Burchett J's inappropriate use of the "goodwill" concept, the conclusion reached by His Honour is still the same when the "correct" question is asked: did the defendant's use of the trade mark make an incorrect connection in the course of trade? The registration under the Trade Marks Act postulates that the connection is to Fender-Australia and, since the parallel imports had never been connected with Fender-Australia, the postulated connection would be incorrect.[76]

Also, perhaps in this area of trade mark law "goodwill" is a useful and necessary consideration. Granted that in all other facets of trade mark law a registered proprietor should not have to prove goodwill[77] but in the special case of a local distributor who has been assigned the trade mark rights, it is a helpful guide.

Also, with regards to *Bourjois* the fact that the overseas company had previously operated in the local country is not so important. What was vital in *Bourjois* was that the local American company had spent a significant amount in advertising and quality control and the American public had come to associate the product as coming from the plaintiff corporation. Likewise in *Fender* the relevant Australian public understood the trade marks in question as indicating goods acquired from their American producer <u>and</u> distributed in Australia by Fender-Australia. Similarly, it is not so critical that the assignment was conditional as opposed to unconditional. What was material was that the assignee had relied on that agreement and had invested considerable capital and effort to establish a local reputation.

Fender is also authority for the point that the importation of second hand marked goods does <u>not</u> constitute trade mark infringement. His Honour denied infringement in the case of the second hand guitars for two reasons: first, selling second hand goods by reference to the trade mark on them did not indicate any trade connection between the seller and the trade mark owner; and second, it also did not indicate any trade connection between the trade mark owner and the goods.[78] A number of reasons led to this conclusion.

First, His Honour reviewed the authorities to conclude that once goods were bought for consumption they were no longer in the course of trade. The rights conferred by registration did not extend beyond the point of retail sale and use by the consumer.[79]

75 Ibid.

76 Rothnie, ibid, 52.

77 This would be time consuming and would defeat the purpose of registration which is to give the registered proprietor a recognised and defendable right.

78 See Rothnie, ibid, 52-57, for discussion of *Fender* and second hand goods.

79 In support of this, Burchett J cited at 262-264, dicta of Lord McMillan in *Aristoc Ltd v Rysta* [1945] AC 68:
"A connection with goods in the course of trade in my opinion means ... an association with the goods in the course of their production and preparation for the market. After goods have reached the consumer they are no longer in the course of trade. The trading in them has reached its objective and its conclusion in their acquisition by the consumer."
And this passage from the European Court of Justice in *Centrafarm v Winthrop* [1974] 2 CMLR 480:
"... the guarantee that the owner of the trade mark has the exclusive right to use that trade mark, for the purpose of putting products protected by the trade mark into circulation for the first time, and is therefore intended to protect him against competitors wishing to take advantage of its status and reputation ... by selling products illegally bearing it."

Next, Burchett J considered the fundamental nature of trade marks as an aspect of the goodwill of a *particular business*, stating that:

The goodwill of a business producing or marketing goods is connected with the sale of the goods it supplies not with a market in what these goods will become after they have been used for some time. The goodwill with which the mark of Holden cars is connected is that of a business manufacturing and selling new cars. A business selling used cars may also have a goodwill, and a mark associated with it, but the goodwill is not to be confused with the goodwill of General Motors, however much the reputation may assist in a particular sale.[80]

Alternatively, the retail sale and subsequent use of the goods broke the connection between the goods and the trade mark owner and a new connection was imposed, between the second hand dealer and the goods. The latter was the relevant one for trade mark purposes.[81]

The reasoning of Burchett J was adopted in the subsequent Australian decision of *Wingate Marketing Pty Ltd v Levi Strauss*.[82] The appellant sold reconditioned second hand jeans, which were originally labelled with the respondent's trade mark. At first instance, it was held that the sale of the jeans constituted an infringement of this trade mark. On appeal, however, the fundamental argument in *Fender* that once goods were bought for consumption they were no longer in the course of trade, was upheld and the Court found that the appellants were not using the LEVI STRAUSS marks as trade marks when they marketed the second hand goods:

Whilst a trade mark remains on goods it functions *as an indicator* of the person who authorised the *initial* use of the mark and as such there should be no necessary dichotomy between new and second hand goods.[83]

This was not however the approach that was taken in the New Zealand High Court decision of *South Pacific Tyres NZ Ltd and others v David Craw Cars*.[84] There, the first and second plaintiff were the New Zealand registered user and proprietor respectively of the registered trade mark "Dunlop". The first defendant was a licensed motor vehicle dealer which imported into and sold in New Zealand, used Dunlop manufactured tyres. The plaintiffs had no connection with the owner or lawful user of the trade marks in Japan nor were they in any way involved in the manufacture of tyres in Japan bearing these marks. The tyres were clearly promoted as being second hand and the advertising contained no reference to brand names. The plaintiffs brought an action for trade mark infringement.

Fraser J granted an interlocutory injunction accepting the plaintiff's submission that the fact the tyres were second hand made no difference. His Honour found nothing in the Trade Marks Act which indicated that the Act should be read as only applying to new goods and not to second hand goods.[85] Rather the question was whether there had been use of the trade mark in the relevant sense. Fraser J found there had, stating:

Even although not advertised as such, the display and offering for sale and the actual sale of the tyres marked with the trade marks of the plaintiffs *is a use by the defendants of the trade marks because the articles being displayed or offered for sale or sold are thereby held out to be second hand Dunlop tyres and such use also renders the use of the mark*

80 Ibid, 264.
81 Ibid.
82 (1994) 121 ALR 191.
83 Ibid, 192. (Emphasis added).
84 [1992] 24 IPR 99 (HC).
85 Ibid, 104.

likely to be taken as importing a reference to the plaintiffs and their tyres simply because they are the registered proprietors and users in New Zealand and do manufacture and distribute their tyres in New Zealand.[86]

Like Salmon J in *Composite Developments*, no mention is made in *David Craw* of authority that suggests that once goods were sold to and used by consumers they were no longer in the course of trade. These legal considerations seem to be overlooked by both judges and what is apparent is an overriding empathy for the plaintiffs' case.[87] For example, Fraser J stated in *David Craw*:

The term "second hand" covers a wide range of meanings from old and worn out at one end to almost new at the other. Although the present case involves relatively small quantities and there is no dispute that the tyres were what might be described as legitimately or genuinely second hand, it would not be difficult to envisage a situation where a large volume of almost new tyres with the plaintiff's trade mark and device on them were brought into New Zealand and sold at a lower price. Obviously that would have a devastating effect on the plaintiffs' business and make the protection given by the Trade Marks Act completely nugatory.[88]

IV. Justifications for Retaining the Ban on Parallel Imports

1. The 1994 Parallel Importing Study

As mentioned earlier the 1994 Parallel Importing Study was compiled by the New Zealand Institute of Economic Research (NZIER) to aid the Government in determining whether the general prohibition on grey market goods should be retained. Before embarking on what the Institute's findings were, it is useful to look at the traditional arguments for and against parallel importation.[89]

(a) Arguments against Parallel Importation

(i) Consumer Deception

Grey goods are inherently confusing in that they are similar to genuine goods in appearance but may differ in substance and character. Sometimes they may not comply with safety and health standards and the labelling requirements of the importing country. For example, parallel imported food, cosmetics and pharmaceuticals may be old, obsolete, inferior, defective or damaged. These deficiencies supposedly create consumer dissatisfaction which is detrimental to the reputation and goodwill associated with a trade mark.[90]

(ii) The "Free rider" Argument

The "Free rider" argument is that, if a trade mark owner has spent considerable amounts of money and time in creating a demand for a trade marked product, it is undesirable to allow an unauthorised importer to reap the benefits of the trade mark's goodwill without contributing to the

86 Ibid. (Emphasis added.)
87 See back to the discussion of *Composite Developments* where Salmon J was concerned that the plaintiff could lose its distributor's licence if the defendants were permitted to continue selling the products.
88 *David Craw*, ibid, 104.
89 It can then be determined what traditional arguments played a pivotal role in the 1994 NZIER study.
90 See T J Warlick, "Blue Light Specials and Grey Market Goods: The Perpetuation of the Parallel Importation Controversy" Emory Law Journal 39 [1990] 347, 357.

trade mark holder's investment.[91] The parallel importer provides no warranties nor pre and post sale services. Furthermore, there is no expenditure by him or her on promotion, establishing distribution networks or advertising. If a parallel importer is allowed to "free-ride" this will certainly reduce the incentives of the local authorised distributor to provide quality services and establish local goodwill. Ultimately it will reduce the incentives of the trade mark holder to develop a valuable trade mark in the first place.[92]

It should be noted that the significance of the free rider argument varies with the nature of the good. For example, advanced technological products such as computers, televisions and stereos, require after-sale services. As will be discussed later[93], purchasers of computers require upgrades repairs and support services. In this situation, the free rider argument is very strong; an unauthorised importer should not be allowed to profit whilst the local authorised distributor bears the cost of the post-sale services.

Yet, with different types of good, such as food and cosmetics, the argument is less formidable. Olive oil,[94] for example is readily consumed and little or no post sale service is needed. The same applies to cosmetics, although they are not as quickly used. Nevertheless, the local distributor of such goods invests a considerable sum in promotion and advertising on which the unauthorised importer "free-rides". Also, all products require warranties, whether they are technological in nature, or readily consumable. For example, it is necessary that food products comply with New Zealand health and safety standards. The parallel importer provides no such guarantees. Thus, although the free rider argument has greater impact with computers and the like, it is still applicable with all types of goods.

(iii) Reduction in Investment, Innovation and Quality

Reduction of profits (the likely result of parallel importation), would create a disincentive for the intellectual property rights owner to make innovative product improvements, to continue producing quality merchandise and to provide a wide selection of goods. The momentary reduction of prices caused by parallel importation eventually returns to plague the consumer in the form of a constrained market of poorly-constructed and technologically stagnant goods.[95]

(iv) An Increase in Black Market Goods

An increase in black market goods would result, as the local intellectual property rights holders would be unable to distinguish between pirate copies and parallel imported copies. As to copyright law, the basic argument is that if parallel importing was prohibited, a local exclusive licensee could establish a breach of copyright simply by proving that imported material being sold by a retailer was not imported by the licensee. There would be no need to prove whether the material was pirated or a parallel import. If parallel importing was permitted, the local licensee would have the problem

91 R Andrade, "The Parallel Importation of Unauthorised Genuine Goods: Analysis and Observations of the Grey Market" University of Pennsylvania International Business Law Review 14 [1993] 409, 428.
92 See Landes and Posner, "Trade Mark Law: An Economic Perspective" The Journal of Law and Economic, October (1987) 265, 270.
93 See later discussion of computers and the free-rider argument.
94 See earlier comments on *Delphic,* which involved the parallel importation of olive oil.
95 See Warlick, ibid, 361-362.

of establishing that the creation of the material, rather than just the importing of the material, was done without the copyright owner's consent. This would be difficult because the pirated and parallel imported material may not look different.[96]

(b) Arguments for Parallel Importation

(i) International Price Discrimination

Parallel imports serve as a defence mechanism against international price discrimination.[97] In the absence of price competition, the New Zealand trade mark owner will charge as much as the New Zealand consumer is willing to pay for otherwise unobtainable brand name products, hence creating a domestic market of high prices in a world of lower prices.[98] Parallel imports thereby protect the New Zealand consumer and promote intra brand[99] competition.[100]

(ii) The Gold-plating Effect

Parallel imports may also prevent authorised distributors from providing unnecessary services which make the costs for distribution higher than they should be.

(iii) Free Trade and Globilisation

Parallel imports are consistent with the concepts of free trade[101] and the global market.

(iv) Counter Arguments to Criticism of the Grey Market

Parallel imports do not necessarily result in consumer confusion. So long as the parallel importers provide clear information to the consumers to distinguish them from the authorised distributors, it is unlikely that confusion will occur.

As to the free rider argument, a parallel importer may provide a separate warranty service or alternatively the consumer may prefer a cheaper product without pre and post sale service or perhaps no further servicing is required

96 This was the submission considered by the Australia Prices Surveillance Authority (PSA). See "Inquiry into Prices of Computer Software - Final Report" December 1992, at 155. For the PSA's conclusion on this submission, see later comments.

97 The Australian Price Surveillance Authority when analysing the Australian book market indicated that three conditions need to be satisfied in order to form geographical price discrimination. First of all, there must be market power in the marketplace held by suppliers; secondly, there must be differences in demand and/or supply conditions between markets; and thirdly, there must be effective segmentation of geographical markets such that profitable international arbitrage is not possible: "Inquiry Into Book Prices Interim Report" (Australia) Prices Surveillance Authority, 31 August, 1989, Rep No 24.

98 International price discrimination must be distinguished from legitimate unmanipulated cost differentials which are caused by such things as production costs, cultural differences and individualised experiences with certain trade marked products within a given country translating into costs for manufacturers/sellers. Also, depending on the stage of development of the product, more or less investment in trade mark capital may be necessary to properly promote the product. See Andrade. Ibid, 416.

99 Intra brand competition involves competition between distributors of one particular brand of product. This creates lower prices than if there was only one distributor. This is opposed to inter brand competition which is competition between similar, substitutable goods, for example, Pepsi Cola and Coca Cola.

100 See Warlick. Ibid, 359.

101 Free trade focuses on the reduction of trade barriers. It is a concept which has increased in importance over the last several decades and has been shown by the proliferation of multi-national trading organisations such as the European Community (EC) and by free trade areas created by agreements such as the Canadian Free Trade Agreement (CFTA), the North American Free Trade Agreement (NAFTA) and GATT. Also New Zealand has forged closer economic relations with Australia (CER).

after the goods are sold. Furthermore the local distributor may have expended little in the way of promotion and marketing costs because the product already had an international reputation. As to encouraging the black market, it is said the same problems of detection already confront local licensees regardless of whether parallel importing was permitted.[102]

(c) The 1994 Parallel Importing Study

The NZIER investigated three New Zealand industries: computer software, parts for automotive vehicles and books. The report was inconclusive as to whether the general prohibition on parallel imports should be retained[103] but some interesting observations were made.

As to computer software, prices were found to be substantially higher than that paid by the United States consumer and that in some cases there was a significant saving to be made by parallel importing directly. The chart below by the NZIER illustrates the difference between the United States, New Zealand landed[104] and New Zealand street prices. The four sources[105] of price information are Microsoft, ITANZ, PC World and the New Zealand Computer Society.

102 This is the view that was taken by the Australian Prices Surveillance Authority. It noted that retailers can stock legitimately acquired material next to parallel imported or pirate material. Consequently, the same problems of detection already confront local licensees as would confront them if parallel importing were permitted. "Inquiry into the Prices of Sound Recordings", Report 35 by the PSA, 13 December 1990.

103 This is in contrast to the Australian Prices Surveillance Authority's findings in their last three reports. See "Inquiry into Book Prices - Final Report" Report 25, 19 December 1989, "Inquiry into Prices of Sound Recordings" Report 35, 3 December 1990, and "Inquiry into Prices of Computer Software", December 1992, where the PSA argued that the prohibition of parallel importing had led to higher prices for books, sound recordings and computer software and that copyright owners do not need rights over the distribution of legitimately created copyright material.

104 "New Zealand landed price" means the total cost of transporting the product to the New Zealand market. This includes freight costs, the exchange rate and the GST component.

105 All four sources show price differentials between prices in New Zealand and prices in the United States. Each of the three price comparisons use different assumptions regarding the freight cost which in some cases can be the determining factor in deciding whether or not the parallel imported products are cheaper. PC World used a freight cost of $NZ12 while the Microsoft comparison estimated freight costs to range between $NZ40-70 depending on the application. The NZ Computer Society survey did not make any attempt to estimate an exchange rate, freight cost or GST component. The ITANZ study did not estimate a freight charge and simply compared the advertised discount prices in four countries. Only the US price was used in the comparison detailed below, even though prices in Australia and the UK were listed in the ITANZ study and were sometimes cheaper for some applications. See the NZIER Parallel Importing Study 1994 at 8.

Table 1: Comparison of Software Prices

	MSoft Word	**Msoft Excel**	**Lotus 123**	**Lotus Ami Pro**	**Msoft Access**	**Msoft Encarta**	**Corel Draw**
PC World							
US	509		505	391	517	147	647
NZ Landed	521		517	403	529	159	658
NZ Street 699		785	785	699	246	999	
Difference*	190		280	394	182	99	352

* The difference calculated is the difference between the United States and the New Zealand street price.[106]

	MSoft Word	**Msoft Excel**	**Lotus 123**	**Lotus Ami Pro**	**Msoft Access**	**Msoft Encarta**	**Corel Draw**
ITANZ							
US	477	494	460	357	511		392
NZ Landed							
NZ Street	587	695	578	578	695		1010
Difference*	110	201	118	221	184		618
Microsoft							
US	508	508				168	
NZ Landed	558	568				208	
NZ Street	695	695				221	
Difference*	187	187				53	
Comp. Society							
US	515	510	510	419	517		
NZ Landed							
NZ Street	782	753	741	660	782		
Difference*	267	243	231	241	265		

* The difference calculated is the difference between the United States and the New Zealand street price.[106]

The main defence put forward by the representatives of the software distributors in New Zealand, for the significant price differential, was the cost of the support networks that they provide. Essentially this support service consists of answering consumer queries about routine operations

106 See the NZIER Parallel Importing Study 1994 at 9.

of the software. Applying the free rider argument, they argued that if software was imported by unauthorised distributors, consumers would still expect Microsoft NZ to provide the same level of service as they currently provide, because ultimately it is a genuine Microsoft product. Hence the situation could arise where parallel importers would gain the profits while Microsoft NZ would bear the cost of the support. If Microsoft NZ did not provide the service the consumers believed they were entitled to, they believed the Microsoft name would fall into disrepute.[107]

The bundling of the technical support together with the software was considered by the Australian Prices Surveillance Authority (PSA).[108] It found that it led to an oversupply of technical support by software distributors and acted as a disincentive to the emergence of third party supplies of technical support services only.[109] Parallel importation would prevent local distributors from requiring software purchasers to acquire technical services from them, as purchasers could easily by pass the local distributors and obtain software only contracts for imported software. Consequently, the PSA hoped that opening the market for software would lead to reduced prices and more competition in the technical services market.[110]

In New Zealand, on their own initiative, Microsoft New Zealand and Lotus Development Corporation have since unbundled the cost of the support service from the cost of the software. Their new policy is to provide only 90 days free support and after that the consumer pays.[111] This is a positive move in making prices more competitive.[112]

The NZIER found that lifting the ban on parallel importing in software would allow two markets to be serviced separately. A parallel importer may be able to import genuine products at a reasonable price, while the registered software distributors may be able to continue to provide the software and support services package to customers. Any licensed distributor would have to set up a system to ensure that they were only providing support to those that had purchased the software through their distribution chain. Most of the major companies already have such a system in place to try to distinguish a genuine user from the user of a pirated product. Therefore extending a system to identify users of parallel imported products would not be an onerous task for the exclusive licensee, in fact many already do so.[113]

Other arguments submitted by Microsoft NZ and considered by the NZIER included:

(i) The need for upgrades and the fact that parallel imported products may not be suitable for New Zealand upgrade products.[114]

(ii) Consumer confusion would result from parallel importation since some types of software are adapted to the needs of the destination country.

107 Ibid, 10.
108 PSA "Inquiry into Prices of Computer Software - Final Report", December 1992, at 92.
109 The PSA's observations are an interesting comparison but it should be remembered the effects of a ban on parallel imports will differ among countries, depending on their economic structure, marketing structure and other economic conditions.
110 See Davison, "Parallel Importation of Computer Programs in Australia" European Intellectual Property Review 3 (1993) 110, 111.
111 See the NZIER Parallel Importing Study 1994, at 11.
112 Ibid, 32.
113 Ibid, 13.
114 Ibid, 11-12.

For example, word processing packages have different spelling-checkers and date formats depending on the country that it will be used in.[115]

Overall, the Institute made some tentative predictions. It said that in the short term, the lifting of the ban *may* have some ill effects on the market. Opportunists would enter the market in search of a quick profit, importing inferior goods and there would be an increased risk that some of these products may be pirated since it is often difficult to tell a pirated version without going back through the paper trail from distributor to distributor.[116] Furthermore, the NZIER noted that the business software market appears to be moving towards a competitive equilibrium anyway and the price differentiations have continued to narrow in recent years.[117]

A rather different situation exists in the market for car parts where parallel importing already occurs. The abolition of import licensing in the 1980s led to the influx of a large number of imported used vehicles and in turn a support network was set up to ensure that appropriate parts were available for these vehicles. Part distributors began importing used parts directly from Japan to meet the demand of the imported vehicles and to supply New Zealand new vehicle owners with a cheap alternative to the existing parts suppliers.[118]

Despite the fact that copyright law is available as a means for vehicle manufacturers to restrict the manufacture and importation of car parts, most copyright infringement was tolerated. This was particularly so for exclusive licence holders of high volume Japanese manufactured vehicles.[119] This was not the case of luxury European cars where the New Zealand distributor of BMW vehicles had no hesitation in using s 10(2) of the Copyright Act to prevent trade in BMW parts.

The decline in part prices since the 1980s has meant that repairing a car is much lower which has made it feasible to repair a greater number of vehicles. Obviously with more cars being repaired instead of being written off a greater quantity of parts will be demanded. A positive flow on effect of this is an increase in demand for the services of mechanics, panel beaters, plastic welders and a range of other automotive vehicle workers.[120]

Once again the Institute made a very cautious suggestion but this time it appeared to favour removing the ban:

115 Ibid, 13.
116 Ibid, 14. The Australian PSA outrightly rejected this argument. See back to p 35.
117 This was put down to parallel importing for personal use (legal by the Copyright Act). Every person who uses this avenue is one less customer the New Zealand distributor will have, so to eliminate this, prices must fall. Ibid, 32.
118 Ibid, 16.
119 Five possibilities were put forward as to why this was so:
(i) The cost to the vehicle manufacturer, of ensuring a supply of all the necessary parts for all vehicles manufactured, would be extremely high. The after-market ensures the availability of the parts for all vehicles at no direct cost to the manufacturer.
(ii) Litigation is costly and the outcome is uncertain.
(iii) Prevention of the supply of after-market parts by a vehicle manufacturer may adversely affect their competitive position vis-a-vis other manufacturers that do not restrict supply of those parts.
(iv) Vehicle manufacturers may not have been aware of the provision in the New Zealand legislation that allowed them to stop the importing.
(v) The law requires the copyright holder and the exclusive licensee in New Zealand to join in any action against a parallel importer. So the New Zealand exclusive licensee would have to persuade the original copyright holder to join in a legal action (except in an application for an interlocutory injunction).
(at 17 of the Parallel Importing Study 1994).
120 Ibid, 19.

It is not known for certain whether the lifting of the parallel importing ban will decrease the price any further than the existing competition has done. The general feeling in the industry is that the price would not fall any further than the present level. But if the status quo (of having parallel imported, used parts in the market) is not protected under the copyright revision, the price of car parts is likely to increase.[121]

Finally, with regard to the book industry, it appears that the lifting of the ban would not enhance consumer welfare. The Institute reached a number of relatively firm conclusions here.

First, it appears the local agent for the major overseas publishers are a vital part of the market:

They provide a service to the local retailing industry in terms of stock-holding, risk-taking and distribution that even the major retailers are not currently prepared to undertake. They also provide a significant boost to the local publishing industry. The resources and expertise that they have brought to New Zealand have been an important force behind the creation of the local publishing industry.[122]

Under a system of parallel importing the local agents may leave the country, taking with them these positive functions.[123]

Secondly, the sales-return option and warehousing function provided by the distributors indirectly benefits the consumer:

Unlike software, the cost of this support network cannot be easily separated from the cost of the product. One of the main reasons for this is that it is not the consumer who benefits directly from the support network, it is the retailers. The cost of the sales-return option and the warehousing function cannot be differentiated from the price of the final good. If the local agents were to leave the country, as it is assumed would happen under a system of parallel importing, the retailers would have to undertake these services themselves at which is likely to be a higher cost, which would be passed on to the consumer.[124]

Thirdly, book prices between Australia[125] and New Zealand are not significantly different, making parallel importing non-feasible anyway:[126]

The trade in books is not characterised by high absolute prices so even if the relative price differences were large, a large profit could only be made on large volume. Another factor is the high cost of freight relative to the cost of the good. Undertaking to sell large quantities of a publication will carry with it the risk of not being able to sell all of the copies. Given these constraints, the ability to arbitrage, as is being done in the software industry, is not great. However, there may be some books, such as academic or technical books, where the absolute price level is high enough and the relative differences are large enough to encourage parallel trade.[127]

121 Ibid.

122 Ibid, 33.

123 The parallel importing ban has served to reinforce the role of the local publisher. They act as agent for the overseas publishers and they also publish local authors' work. There is considerable cross-subsidisation of the local publishing industry by the importation of overseas material. Without the revenue generated by the imports, the local publishing industry would be severely curtailed (at 12). Furthermore, if parallel imports were allowed it is likely that the sales-and-return facility would be withdrawn because the distributor could not verify whether they supplied the book in the first place. Given this scenario, it is expected that the major retail book stores would survive but the small retailer would not (at 28).

124 Ibid, 33.

125 Australian prices were used because the NZIER thought that Australia would be a likely source of parallel imports. See at 28.

126 Perhaps here the NZIER overlooked the possibility of parallel importation from the United States, where price differentiations may have been greater, making parallel importation a feasible business venture.

127 Ibid, 33.

The general conclusion reached by the NZIER was that there had been a general increase in competition in all the industries.[128] The Institute saw the two likely effects of removing the ban as being the strengthening of the copyright holder/licensee relationship and increased specialisation.[129] However the outstanding feature of the study was that all the markets were very different and thus a policy that provided a blanket solution designed to cover all these markets simultaneously was going to get it wrong for at least some of the markets. Even a policy that provided for an industry by industry decision on the issue was also likely to be ineffective for some of the products in each of the industries.[130]

The NZIER conceded that the anecdotal evidence upon which the report was based was not the most accurate method but it believed no amount of additional time or resources would be sufficient to provide an indisputable decision as to whether allowing parallel imports would be beneficial for society as a whole. The crucial factors would always remain immeasurable and uncertain.[131]

2. International Trade Policy Considerations

Since the NZIER findings were inconclusive (although they probably, if anything favoured retaining the status quo), the determinative factors were probably New Zealand's current stance on the intellectual property rights issue (consistent with that of other developed countries), and international political pressures.

After seven years of negotiations participated in by 125 countries, the GATT Uruguay Round was concluded on 14 April 1994.[132] The documents signed at Marrakesh, included the Agreement establishing the World Trade Organisation (WTO) as well as a multi lateral agreement relating to intellectual property, otherwise known as the Agreement on Trade Related Aspects of Intellectual Property (TRIPS).

The agreement on TRIPS was initiated by a group of developed countries such as the United States, Japan and Switzerland, that believed the absence of protection or inadequate protection of intellectual property rights within the territory of certain countries was equivalent to a barrier to trade.[133] This is a change from the past where intellectual property rights were perceived as a source of barriers to trade. The change in views is most likely due to documentation revealing the extensive damage to local industries (containing a large intellectual property investment) caused by insufficient intellectual property rights laws of foreign countries.[134]

128 Ibid, 29.
129 Ibid, 30.
130 Ibid, 34.
131 Ibid, 37. Measurement of welfare effects is not a simple task since many of the costs and benefits are intangible. Also, the equilibrium price under a policy of allowing parallel imports cannot be estimated with much certainty. The landed price may be used as a guide but the market may not necessarily stabilise at that price due to factors that may not be obvious before any policy change. Furthermore it is difficult to get information on current quantities sold in the market. See at 2-3.
132 P Demaret, "The Metamorphoses of the GATT" Journal of Transnational Law 34 [1995] 123, 122.
133 Ibid, 163.
134 See the US International Trade Commission Report, "Foreign Protection of Intellectual Property Rights and Effects on US Industry and Trade", USITC Publication 2065 (February 1985), a part of which is reproduced in Journal of World Trade Law 22 (1988) 101-14.

The TRIPS agreement deals with almost all questions concerning industrial property and literary and artistic property[135], but it leaves it to members to determine policy on parallel importing. Article 6 of the agreement provides that for the purposes of dispute settlement nothing in the agreement shall be used to address the issue of the exhaustion of intellectual property rights. In effect this means that parallel importing is a matter for each national jurisdiction and no WTO member can invoke dispute settlement procedures with regard to another's parallel importing practice.

However, it was a concern of the Ministry of Foreign Affairs and Trade that New Zealand's trading relations with the United States would seriously change if the ban on parallel importing was lifted.[136] The New Zealand government was approached by the United States Embassy[137] when it was considering lifting the ban and it is most likely that this had an impact on the decision, given the importance of the United States as a trading partner and the severe retaliatory measures that the United States has taken against countries which it has seen as having inadequate intellectual property rights legislation. For example, US action was taken against the Republic of Korea in 1985 under Section 301 of the Trade Act 1974,[138] because of complaints of the limited scope of that country's patent, trade mark and copyright laws. Brazil was the target of action in 1987 when the United States increased tariffs on certain Brazilian exports to procure changes in Brazil's protection of pharmaceutical patents.[139] More recently, Washington threatened to apply 100 percent tariffs to Chinese exports to the United States unless China took action to tighten and enforce its intellectual property rights regime.[140] Thus the threat of US trade retaliation in the form of increased duties or import restrictions most probably played a part in the Government's decision making process.

However, it has also been New Zealand's approach to ensure a strong intellectual property rights regime. The prohibition of parallel importing protects the trade interests of those countries which have a high content of goods protected by intellectual property rights. The protection of intellectual property rights is an area of increasing importance for New Zealand exporters. New Zealand has, therefore, favoured a comprehensive intellectual property rights system, including prohibitions on parallel importing, to further New Zealand trade and encourage investment. As Mark Steel, Manager of the Business Policy Division of the Ministry of Commerce has said:

> Protection for intellectual property rights is an important element of the Government's policies for promoting investment and innovation. For example, if appropriate protection for the products of intellectual endeavour is provided, businesses are more likely to take the risks involved in research and development and to feel secure about being able to commercially exploit the knowledge gained.

135 Demaret, ibid, 162. See also the Gatt (Uruguay Round) Bill 1994 passed to meet New Zealand's obligations under the TRIPS agreement.

136 A Brown, "The New Copyright Legislation - an Analysis" Intellectual Property Copyright Act 1994 and GATT Legislation, Legal Research Foundation, February 1995, 13-30 at 21.

137 Philip Mowles for Secretary of Ministry of Commerce. Personal Communication. Letter dated on 15 January 1997.

138 Section 301 permits the President of the United States to seek the elimination of "unjustifiable or reasonable" trade practices.

139 M Blakeney, "The Impact of the TRIPS Agreement in the Asia-Pacific Region" European Intellectual Property Review 10 [1996] 544, 544-555.

140 M Steel, "The GATT Legislation" Intellectual Property Copyright Act 1994 and GATT Legislation, Legal Research Foundation, February 1995, 1-12 at 2.

Accordingly, successive Governments have committed themselves to promoting intellectual property rights protection, both through active involvement in the negotiation of the TRIPS Agreement and through a commitment to review of New Zealand's industrial property rights legislation.[141]

Thus, it is consistent with New Zealand's increasing awareness of the importance of intellectual property rights, that the ban on parallel importing be retained.

V. Conclusion

Copyright law regarding parallel importation is a fairly settled area. Sections 35 and 12(3)(a) of the Copyright Act effectively retain the general prohibition on parallel importation. *Barson Computers* settles the point that the copyright owner is protected regardless of whether the grey market goods were made by him/her or by a licensee. Furthermore s 12(3)(a) of the 1994 Act ends any misunderstanding as to the hypothetical manufacturing requirement.

Trade mark law is not quite so favourable to the registered proprietor or user. Here, unlike copyright law, the trade mark holder will be unable to prevent the unauthorised importation of goods where he himself manufactured them overseas. What is not so clear, is the situation where international corporate groups are involved, or the position of the local distributor. For example, will the registered user be able to prevent parallel imports where the registered proprietor cannot? Following *Delphic* it is most likely that he/she will not. Yet *Fender* is authority that a local distributor who has been assigned the trade mark rights, will be able to stop grey market goods if he has established himself as an independent entity with valuable goodwill.

An unresolved area in both copyright and trade mark law is that of second hand goods. New Zealand High Court cases indicate that the unauthorised importation of used goods can constitute copyright and trade mark infringement. However *Composite Developments* and *David Craw* are suspect authorities since neither discuss relevant case law and both are misinterpretations of the Copyright Act and Trade Mark Act respectively.

Basically, the issue comes down to whether one supports the influx of parallel imports into the New Zealand market or not. In other words, it depends on whether one is on the side of the holder of the intellectual property rights or the public and their demand for inexpensive brand merchandise. Both Salmon and Fraser JJ are on the side of the intellectual property rights owner and construed the law accordingly, making no distinction between second hand and new goods.

Conversely, Burchett, Sheppard, Wilcox and Gummow JJJ were of the belief that the economic rights protected by copyright and trade mark law did not extend that far. To find that they did, would have been an "unwarranted extension" of the Act and "an undue restriction of the freedom of trade".[142]

Justifications for retaining the ban on parallel importing in the Copyright Act 1994 are not clear cut. The economic analysis by the NZIER was inconclusive and admittedly, not scientifically accurate. Nonetheless the Institute believed it would be impossible, even with more time and

141 Ibid, 1-2.
142 Fender (1989) 15 IPR 257, 265 per Burchett J.

resources, to establish with precision the effects, if the ban was lifted. It is interesting the Australian Prices Surveillance Authority came to a firm conclusion that parallel imports should be allowed into Australia. However, not too much weight can be placed on these findings since New Zealand is a different market with its own unique conditions. The NZIER's general feeling was that the New Zealand computer software market was becoming more competitive, parallel importing already occurred without resistance in the used car parts arena and the parallel importation of books from Australia into New Zealand was not feasible anyway.

As to international trade considerations there are no directions in the TRIPS agreement, or any other international agreement regarding parallel importation. However there was implicit pressure from developed countries such as the United States to retain the ban. The damage to industry if strong intellectual property regimes are not intact, has meant the United States has been willing to take severe trade retaliatory measures to ensure overseas countries' legislation is up to standard.

Also, as one of those developed countries, New Zealand has a keen interest in protecting its local industry from parallel importation and thereby encouraging investment and innovation.