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PARALLEL IMPORTATION OF TRADEMARKED GOODS: A COMPARATIVE ANALYSIS

Kaoru Takamatsu*

The rapid development of international trade has raised a serious problem in trademark law. The importation of genuine goods by someone other than the designated exclusive importer is usually referred to as "parallel importation." For example, when a manufacturer wants to sell his branded products in a foreign country, he often appoints an exclusive distributor in that foreign country and sells the products through that distributor. The manufacturer, who owns identical trademark rights in his home country and in the foreign nation, either grants a license or assigns his trademark to the distributor. The problem of parallel importation arises when a third party purchases the trademarked products in the manufacturer's home country and imports them into that foreign country without the distributor's consent. Whether this importation constitutes in-

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1. Identical problems arise when patented or copyrighted goods are imported by a third party under the situation of parallel patents or parallel copyrights. See generally Ladas, Exclusive Territorial Licenses Under Parallel Patents, 3 INT'L REV. INDUS. PROP. & COPYRIGHT L. 335 (1972) (discussing parallel patent problems) [hereinafter cited as IIC]; Schatz, The Exhaustion of Patent Rights in the Common Market, 2 IIC, supra, at 1 (1971) (same); Kuwata, Kögyóshôyûken no sakuchisei to sono tâketeki ichizuke (Territoriality of Industrial Property and its Position), 12-2 HIKAYÔZASHI (COMPARATIVE LAW MAGAZINE) 1 (1979).

Because of the difference in functions and purposes between a trademark and a patent, the solutions to the problems of parallel importation of trademarked goods do not necessarily resolve problems arising from parallel patents.


fringement of the trademark right in the importing country has long been disputed. Fact patterns vary depending on the relation between domestic and foreign trademark owners. The problem becomes more complex if the products sold by a distributor are different in quality from those imported by a third party. Parallel importation has been discussed in terms of the functions of a trademark and in terms of major principles of trademark law such as territoriality and exhaustion. Antitrust considerations also emerge because of the public interest in free trade.

This Article reviews how major countries and common markets, including the United States, Japan and the European Community, have dealt with the problem of parallel importation. It then suggests common criteria to solve this problem in each nation. It concludes that the proper results in parallel importation cases will be reached if the problem is analyzed in terms of the major functions of trademarks.

I. APPROACH OF MAJOR COUNTRIES AND THE EUROPEAN COMMUNITY

A. United States

Initially, American courts refused to protect trademark holders from parallel importation. In *Apollinaris Co. v. Scherer*, a Hungarian manufacturer assigned the sole distributorship right along with the trademark right on “Hunyadi Janos,” a type of mineral water. The defendant purchased genuine Hunyadi Janos water in Germany and imported it into the United States. Unable to maintain its own higher price, the plaintiff applied for an injunction. The court found no infringement of the plaintiff’s trademark right because the defendant imported and sold genuine goods.

Section 11 of the Tariff Act of 1897 provided that no article which “copied or simulated” registered trademarks shall be admitted entry to

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3. 27 F. 18 (C.C.S.D.N.Y. 1886).

4. Id. at 20. The defendant was aware that the plaintiff was the exclusive distributor in the United States. The manufacturer had refused to sell Hunyadi Janos water to the defendant for the purpose of importing it into the United States. In addition, the labels affixed by the manufacturer to the bottles of Hunyadi Janos water said “this bottle is not intended for export.” However, the court held that the conduct of the defendant did not constitute unfair competition because the defendant was selling genuine goods and there was no confusion about the identity of the products nor any misrepresentation. Id. The court did recognize the possibility of intentional interference with the plaintiff’s contract relation if the defendant had conspired with the manufacturer. Id. at 20–21.
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the United States,\(^5\) but this provision was interpreted to apply only to counterfeited articles.\(^6\) Section 27 of the Trademark Act of 1905\(^7\) also prohibited importation of goods bearing marks which "copy or simulate" the United States registered marks, but this provision was also held inapplicable if genuine goods were imported by those other than the trademark owner in the United States.\(^8\)

The early view in the United States, then, was that the purchaser of an exclusive sales right, together with a trademark right, could not prevent a competitor from importing and selling identical merchandise bearing the same trademark so long as the competitor had legitimately acquired the trademarked merchandise abroad. This view was soon to change.

In *A. Bourjois & Co. v. Katzel*,\(^9\) a French cosmetic manufacturer which had established itself in the United States and acquired trademark rights sold its business in the United States to the plaintiff. It also sold its U.S. trademark rights in "Java." The defendant purchased genuine cosmetic products bearing the trademark "Java" and sold them in the United States. The trial court held that the defendant had no right to sell within the territory where the plaintiff was the exclusive owner of the trademark, and had infringed the plaintiff's trademark right.\(^10\) This decision was reversed by the Court of Appeals for the Second Circuit, which followed the early rule applied in *Apollinaris*.\(^11\)

Before the case was decided by the Supreme Court, Congress hurriedly enacted section 526 of the Tariff Act.\(^12\) Section 526, without using the

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\(^5\) Ch. 11, § 11, 30 Stat. 151, 208 (1897) (current version at 19 U.S.C. § 1526 (1976 & Supp. IV 1980)).


\(^7\) Ch. 592, § 27, 33 Stat. 730 (current version at 15 U.S.C. § 1124 (1976)).

\(^8\) Hunyadi Janos Corp. v. Stoeger, 285 F. 861, 864 (2d Cir. 1922); Fred Gretsch Mfg. Co. v. Schoening, 238 F. 780, 782 (2d Cir. 1916). In *Gretsch*, the American trademark owner was an exclusive distributor of the German products. The third party purchased genuine products in Germany. When he attempted to import them into the United States they were detained by a collector of the Port of New York. The court, referring to *Apollinaris*, held it was not infringement of trademark rights to sell genuine goods identified by the trademark because the public was not misled but was getting exactly what it paid for. *Id.* at 781.

\(^9\) 260 U.S. 689 (1923).

\(^10\) A. Bourjois & Co. v. Katzel, 274 F. 856, 860 (S.D.N.Y. 1920). The trial court emphasized that the American trademark owner had to pay a substantial amount of money for the purchase of the transferred business and for advertising the trademarked goods. *Id.* at 859.

\(^11\) A. Bourjois & Co. v. Katzel, 275 F. 539, 540–42 (2d Cir. 1921). While acknowledging that an American patentee may prevent importation of patented goods under a parallel patents situation, the Court of Appeals distinguished trademark rights from patent rights in that a trademark does not give the owner a monopoly but just indicates the origin of the goods. *Id.* at 543. See Boesch v. Graff, 133 U.S. 697 (1890).

term "copying" or "simulating," makes it "unlawful to import into the United States" any merchandise which "bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States." This legislation was designed to rectify the unsatisfactory protection of domestic assignees against parallel importation by competitors. Shortly after the enactment of section 526, the Supreme Court, without applying that statute, reversed the Court of Appeals' decision in A. Bourjois & Co. v. Katzel. The Court recognized that the public understood the trademarked goods as coming from the plaintiff. It held that the importation of genuine goods by the defendant should be excluded in view of the plaintiff's trademark right.

The Supreme Court decision in A. Bourjois & Co. v. Katzel and the enactment of section 526 of the Tariff Act gave an independent United States assignee of a trademark protection against parallel importation. The statutory provision was later held to be so broad that it prevented the importation of genuine merchandise even for personal use.

The Supreme Court's decision in A. Bourjois & Co. v. Katzel is generally recognized as having overruled prior case law allowing parallel importation. This is questionable, however, because the Supreme Court emphasized that the public understood that the trademarked goods came from the domestic trademark owner rather than from the foreign manufacturer. The early cases can be distinguished as dealing with situations in which the public considered foreign manufacturers to be the origin of the trademarked goods.

16. Id. at 692. Justice Holmes drew an analogy between a patent and a trademark in terms of their monopolistic protection. Id. However, it should be noted that the purpose of the trademark protection does not lie in the maintenance of owners' monopolistic power in the market.
A. Bourjois & Co. v. Katzel answered many questions, but at least four issues remained unsettled: (i) whether an antitrust violation occurs when territorial protection of trademark rights is used for worldwide market divisions; (ii) whether parallel importation may be prohibited if the foreign and domestic trademark owners have a parent-subsidiary relation; (iii) whether a licensee, rather than an assignee, of a trademark may exclude parallel importation; and (iv) whether section 526 of the Tariff Act, which protects only Americans and American corporations, is contrary to the principle of national treatment found in the Paris Convention. These issues are discussed below.

1. Parallel Importation and Antitrust

The first two questions arose in United States v. Guerlain, Inc. In Guerlain, the defendants, who were closely associated with a French manufacturer, were assigned certain trademark rights and were importing trademarked goods. Each defendant, in accordance with section 526 of the Tariff Act, filed certificates with the Bureau of Customs registering their trademarks for the purpose of preventing parallel importation. The Department of Justice brought civil actions against the defendants, charging a violation of section 2 of the Sherman Act. The district court held that section 526 of the Tariff Act operated only to the advantage of an independent American trademark owner and that it did not enable the American part of an international enterprise to prevent parallel importation of genuine goods. The court found that the defendants had violated the Sherman Act.

The effect of Guerlain on later legislation is important, despite the eventual dismissal of the antitrust charges. In 1972, new Customs Regulations were adopted that interpret and supplement section 526 of the Tariff Act. Under these regulations, parallel importation may not be

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23. The Sherman Act made it illegal to "monopolize, or attempt to monopolize . . . any part of the trade or commerce among the several States, or with foreign nations." Ch. 647, § 2, 26 Stat. 209 (1890) (codified as amended at 15 U.S.C. § 2 (1976)).
25. 155 F. Supp. at 87–88. The court emphasized that the trademarks registered by the defendants in the United States did not indicate defendants as the true source of the goods but rather indicated that the goods came from France. Thus, the court stated parallel importation would not deceive the public about the authenticity or origin of the goods. 155 F. Supp. at 81–82.
26. See note 22 supra.
prohibited if the foreign and the United States trademark owners are the
same entity, or are in a parent-subsidiary relation, or are subject to com-
mon ownership or control. Thus, in a fact pattern like Guerlain, a do-
mestic trademark owner can no longer depend on the protection of section
526 of the Tariff Act.

2. Parallel Importation and Licensees

A licensee who is not an owner of the trademark in the United States is
not entitled to protection under section 526 of the Tariff Act. Some
courts have indicated that an American distributor, although not the
owner of a trademark in the United States, may be protected from parallel
importation based on prohibitions against unfair competition or unlawful
interference with contract relations. Parallel importation itself, how-
ever, should not constitute unfair competition unless such importation of
genuine goods confuses or deceives the public.

3. Parallel Importation and the Paris Convention

The Paris Convention, of which the United States is a member, pro-
vides that legal protections of industrial property are to be applied without
regard to nationality among the member nations. In light of this princi-

28. 19 C.F.R. § 133.21(c) (1981). "Common ownership" is defined as meaning "individual or
aggregate ownership of more than 50 percent of the business entity." Id. § 133.2(d)(1). "Common
control" is "effective control in policy and operations and is not necessarily synonymous with com-
on ownership." Id. § 133.2(d)(2).

29. Owners of trademarks "registered in the Patent and Trademark Office" may file such trade-
marks with the Secretary of the Treasury to obtain section 526 protection. 19 U.S.C. § 1526(a)
(Supp. IV 1980).

30. See, e.g., Perry v. American Hecolite Denture Corp., 78 F.2d 556 (8th Cir. 1935), in which
an American distributor processed imported products to improve their quality. Thus, the products
sold by the American distributor were different in quality from those sold by the parallel importer.
This difference justified prohibition of parallel importation because otherwise the public would be
confused and deceived about quality. Id. at 560–61. In DEP Corp. v. Interstate Cigar Co., 622 F.2d
621 (2d Cir. 1980), the court suggested that an exclusive distributor who has no trademark right may
have a cause of action against a parallel importer based on the theory of intentional interference with
contract relations. Id. at 624. Cf. Apollinaris Co. v. Scherer, 27 F. 18, 20–21 (C.C.S.D.N.Y. 1886)
(holding that third party has no obligation to refrain from importing genuine goods even though aware
of the existence of exclusive distributorship agreement; parallel importation by itself should not con-
stitute interference with distributor's contract relations).

1959) (holding that third party may import trademarked products if the American distributor does not
own the trademark right in the United States.).

32. Article 2 of the Paris Convention provides:

(1) Nationals of any country of the Union shall, as regards the protection of industrial prop-
eerty, enjoy in all the other countries of the Union the advantages that their respective laws now
grant, or may hereafter grant, to nationals; all without prejudice to the rights specially provided

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ple, section 44(h) of the Lanham Act provides that the same remedies are available to both American and foreign registrants. However, section 526 of the Tariff Act protects only those trademarks owned by a citizen or by a corporation or association organized within the United States. Foreigners who own American trademarks cannot avail themselves of section 526 of the Tariff Act. Even though the Tariff Act provides only administrative remedies to American trademark owners, section 526 substantially violates the principle of national treatment under the Paris Convention.

4. Summary

Parallel importation of genuine goods may be excluded only when an American distributor owns the trademark right in the distributor's own name and is independent from the foreign trademark owner. Recent regulations have limited the impact of section 526 of the Tariff Act, but a basic question still remains. Section 526 was originally enacted to protect the American purchaser of a business from fraud by the foreign assig-
nor. Defrauded purchasers have remedies under the law of contracts, however. Section 526 has operated to stop parallel importation by a third party who has nothing to do with the possible fraud. Unless the public is confused or deceived about the origin or quality of the trademarked goods, parallel importation should be allowed. In this respect, section 526 should be modified.

37. See 62 Cong. Rec. 11,603 (1922) (debate on § 526).
38. The Supreme Court in A. Bourjois & Co. v. Katzel excluded parallel importation based on the American owner's trademark right. 260 U.S. 689, 692 (1923). This holding should be limited to cases in which the trademark indicates the American distributor as the origin of the goods. These cases will be very rare.
40. Id., art. 37(5).
41. Id. Thus, an exclusive licensee of a trademark who is registered as the exclusive use right owner may demand an injunction and claim damages against infringement of the registered trademark. See id., art. 36 and 38.
42. Kanzei Teiritsu hō, Law No. 54 of 1901.
43. Id., art. 21(1).4

B. Japan

The Trademark Law of Japan was completely revised in 1959. Under the Trademark Law, "importing a thing on which the registered trademark or a trademark similar thereto is indicated" constitutes infringement upon the trademark right or exclusive use right. An exclusive use right is one registered with the Patent Office as an exclusive license and receives the same protection as a trademark right.

The Customs Duties Act of Japan prohibits the importation of goods that would infringe a domestic patent, utility model, industrial design, trademark, or copyright. The owner of a trademark or an exclusive use right may demand that the Customs Bureau exclude imported goods which infringe the owner's trademark right. However, neither the Trademark Law nor the Customs Duties Act expressly prohibits parallel importation of genuine goods.

Initially, the Japanese courts took a strong stance against parallel importation. In Nestle Nihon K.K. v. Sankai Shōten, a Swiss manufacturer owned the trademark "Nescafe," and its Japanese subsidiary was registered as an exclusive use right owner of the trademark. The Japanese subsidiary imported Nescafe coffee from its parent company. A third party also imported genuine Nescafe coffee. The court held that the third party's possession of the coffee infringed the exclusive use right of the Japanese subsidiary and affirmed the temporary injunction preventing the
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third party from selling Nescafe coffee in Japan.\textsuperscript{45} The Tokyo District Court in Nestle seems to have assumed that any unauthorized importation of genuine goods infringes domestic trademark rights.

The series of Parker Pen cases are the most significant statement of Japanese parallel importation law. Schulyro Trading Company was an exclusive distributor of Parker pens in Japan, and it registered an exclusive use right on the "Parker" trademark in Japan. When a third party imported Parker pens from Hong Kong, Schulyro obtained the equivalent of a temporary injunction from the Tokyo District Court.\textsuperscript{46} Schulyro then filed with the Customs Office an application to prevent importation of goods that infringed the trademark "Parker." When another party tried to import pens from Hong Kong, the Customs Office refused to issue an import permit without Schulyro's consent. The third party responded by bringing an action against Schulyro in Osaka District Court, seeking a declaration that Schulyro had no right to bar importation of genuine Parker pens.

The decision of the Osaka District Court\textsuperscript{47} was comprehensive and has been influential. The court first acknowledged that Schulyro did not manufacture the Parker goods, but only imported them, and found that the goods imported by others were exactly the same in quality as those Schulyro imported. The court rejected the principle of territoriality of trademark rights as being irrelevant to the problem of parallel importation.\textsuperscript{48} Instead, it examined the function of trademark protection. The court recognized that the purpose of trademark law is to protect marks as indications of source and as a guarantee of quality.\textsuperscript{49} While refusing to adopt

\textsuperscript{45} The court found that the third party's possession of the coffee was not for personal use. \textit{Id.}, \textit{summarized in Digest, supra note 44, at 67}. It did not mention whether importation of genuine goods solely for the personal use of the importer also constitutes infringement. One commentator has supported the court's decision because it based the difference of quality between the Nescafe imported by the third party and that sold by the subsidiary. T. Doi, KOGYOSHOYUKEN CHOSAKUKEN TO KOKUSAI-TORIHIKI (INDUSTRIAL PROPERTY AND COPYRIGHT IN INTERNATIONAL TRANSACTIONS) 323 (1967). The court, however, did not refer to the difference in quality.

\textsuperscript{46} Schulyro Trading Co. v. K.K. Aki Shokai (unreported case, Tokyo Dist. Ct., June 1, 1964), \textit{summarized in Digest, supra note 44, at 68}. The court granted the injunction without giving a reason for doing so. \textit{Id.} at 70.


\textsuperscript{48} \textit{Id.}, \textit{reprinted in JAIL, supra note 47, at 120}. See notes 98–102 and accompanying text infra (discussion of territoriality principle).

\textsuperscript{49} The court emphasized the public aspect of trademark protection:

[T]he direct object of protecting trademarks is to ensure the functions of trade-marks and thereby, it is also aimed at the ultimate protection of public interest as well as the trademark owner's interest. In this regard, the trademark protects rights which have a very strong social and public nature in comparison with other intangible property. In a system which applies the registration principle, even ignoring the fact that the trademark fundamentally has the nature of
the exhaustion theory of trademark rights, the court applied the criminal law theory of "illegal in substance" (jisshitsuteki-ihōsei no riron) to the problem of parallel importation. The court considered several factors in deciding whether the parallel importation was illegal in substance: (i) the internationally well-known trademark "Parker" indicated the manufacturer, and not the domestic distributor, as the origin of the goods; (ii) the other Parker pens were equal in quality to those sold by Schulyro; (iii) Schulyro's goodwill as the exclusive distributor was based on the reputation of Parker goods in the world market; (iv) parallel importation of genuine goods by third parties may well promote fair and free competition in price and servicing of the products; and (v) the parallel importer did not take advantage of Schulyro's advertisements of Parker goods. In addition, the parallel importer did not employ unfair practices.

The court held that there was nothing illegal in substance in the case, and rendered the judgment that Schulyro had no right to exclude importation and sale of pens bearing the genuine Parker trademark.

Though this case was dismissed on appeal for other reasons, the High Court, in dicta, affirmed the holding of the District Court. The Parker case brought substantial legislative change. In 1972 the

234 Hanrei Taimuzu 57 (1970), reprinted in English in JAIL, supra note 47, at 129.
50. See notes 132–137 and accompanying text infra (discussion of exhaustion theory).
51. The court explained this point as follows:

However, we think that for a party to be entitled to enjoin a third party's act on the basis that it infringes his trademark he must prove not only that such act was done by a person having no right to do so but also that in substance, it was an unlawful act. In case the same person has registered an internationally well-known trademark both domestically and abroad, in determining whether a third party's [sic] importation of goods bearing such registered trademark will constitute not only superficially but also substantially an unlawful act, we think that it is not inconsistent with the principle of the independence of trademarks to take into consideration such facts as that the trademark is well-known all over the world, that the said goods were produced in a foreign country by a rightful person, were sold after affixing the relevant trademark, and so forth.

234 Hanrei Taimuzu 57 (1970), reprinted in English in JAIL, supra note 47, at 130.
52. Id., reprinted in English in JAIL, supra note 47, at 131–32.
53. Id., reprinted in English in JAIL, supra note 47, at 134.
54. N. MC. K.K. v. Schulyro Trading Co., Osaka High Ct., Aug. 6, 1971, 267 Hanrei Taimuzu (Law Times Reports) 242. While this case was pending on appeal to the High Court, Parker Co. terminated the exclusive distributorship agreement with Schulyro and the registration for the exclusive use right on the trademark "Parker" was cancelled. At the same time, the application to exclude importation filed with the Customs Office was withdrawn. The High Court, therefore, vacated the judgment and dismissed the case because Schulyro no longer held the exclusive use right. Id. at 242.
55. Id. at 243.
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Customs Division of the Ministry of Finance of Japan issued a new notice under the Customs Duties Act. This notice provided that parallel importation by third parties may not be excluded at the Customs Office where the domestic trademark owner also holds the foreign trademark and is supplying the goods to the parallel importer, or where the domestic and foreign trademark owners should be considered the same entity by virtue of their special relationship. \(^{57}\) \textit{Parker} dealt with parallel importation where both the domestic and the foreign trademarks were owned by the same person. Under the new notice, parallel importation is allowed not only in a case like \textit{Parker}, but also where the foreign and domestic trademarks are owned by parent-subsidiary companies. The notice also makes clear that parallel importation of genuine goods for an importer's personal use will not be treated as infringement of trademark rights.\(^{58}\)

In 1972, the Fair Trade Commission of Japan, which administers the Japanese Antimonopoly Act, published guidelines for sole import distributorship agreements.\(^{59}\) The guidelines stipulate that it is an unfair business practice to unduly hinder parallel importation of goods covered by a distributorship agreement.\(^{60}\) Thus, parallel importation of genuine goods cannot be enjoined by a Japanese sole distributor as a matter of the antitrust law.

The Supreme Court of Japan has not yet addressed the problems inherent in parallel importation. The lower courts, however, have accepted the \textit{Parker} decision.\(^{61}\) The District Court decision in \textit{Parker} apparently solved the problem of parallel importation in Japan.

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57. \textit{Id.} ¶ 5. The same paragraph indicates that parallel importation may be enjoined if the parallel imported goods are different in quality from those sold by the authorized distributor.
58. \textit{Id.} ¶ 4.
60. \textit{Id.} at ¶ 1(4).
61. In K.K. Asahi v. Asahi Tsūshō K.K., Aug. 31, 1973, Tokyo Dist. Ct., 301 Hanrei Taimuzu (Law Times Reports) 268, the court recognized that the issue of lawful parallel importation arises where (i) the foreign trademark owner has an identical trademark in Japan and grants an exclusive use right, or (ii) the domestic trademark owner has a close relation with the foreign trademark owner, either legally, as in a sole distributor arrangement or economically, as in a parent-subsidiary relation. In Heiwadō K.K. v. K.K. Kinseiidō, May 31, 1978, Tokyo Dist. Ct., 368 Hanrei Taimuzu (Law Times Reports) 351, the court distinguished \textit{Parker} and found an infringement of the trademark right by the parallel importer. The domestic trademark owner had acquired the trademark right on "Technos" before it entered into a relationship with the foreign trademark owner. However, the licensee of the domestic trademark owner used the mark "Technos" on goods it assembled from parts imported from the foreign trademark owner. The court should have determined whether the public recognized that the trademark "Technos" indicated the domestic trademark owner as the origin of the goods and whether the imported goods were different in quality from those assembled by the domestic owner's licensee. \textit{See II AJ} (discussion of the origin and quality functions of a trademark).
C. European Countries

Switzerland is the first country in Europe that faced the problem of parallel importation. Because it has made no statutory provision that regulates parallel importation of genuine goods, the problem has been dealt with by case law. Most of the case law has arisen from the activities of multinational corporations. Initially, the courts took a strict position and enjoined parallel importation of goods manufactured by a member of an international group to which the Swiss trademark owner also belonged.\(^6\)

This conclusion followed from a finding that the public did not regard the trademark as indicating the group itself.\(^6\) A few years later, in a criminal case, the court rendered a judgment in favor of a parallel importer.\(^6\)

In *Philips A. G. v. Radio Import GmbH*,\(^6\) the court for the first time acknowledged the legitimacy of parallel importation in a civil case. The court in *Philips* emphasized that the trademark “‘Philips,’” used in Switzerland, had come to identify the products of the Philips organization. The court found no risk that the public misunderstood the origin of the goods, and concluded that the domestic trademark owner could not enjoin parallel importation of Philips products made by the German subsidiary of the Philips organization.\(^6\)

Recently the Swiss Federal Supreme Court had another chance to consider the problem of parallel importation. In *Sunlight A. G. v. Bosshard Partners Intertrading A. G. (Sunlight II)*,\(^6\) the court enjoined the parallel importation on the ground that the public attributed the trademarked goods to the specific Swiss subsidiary of a multinational corporation. The trademark meant more to the public than mere identification of the multinational.\(^6\)

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62. *E.g.*, Judgment of Feb. 12, 1952, Fed. Sup. Ct. (Switz.), 78 Entscheidungen des Schweizerischen Bundesgerichts, Amtliche Sammlung [BG] II 164, 78 Arrêts du Tribunal fédéral Suisse. Recueil officiel [ATF] II 172 [Sunlight I], reprinted in English in L. EBB, REGULATION AND PROTECTION OF INTERNATIONAL BUSINESS 482 (1964). Note that in this case all of the trademarked products sold by the domestic trademark owner were made in Switzerland and that the quality of goods made by the domestic owner may have been different from those manufactured by the foreign company.

63. *Id.*, reprinted in English in L. EBB, supra note 62, at 486.


66. *Id.* While the conclusion of *Philips* is contrary to that of former case law, *Philips* is consistent with the basic holding of *Sunlight I*. The conclusion of both cases depended on whether the public understood that the trademark indicated the domestic trademark owner as the origin of the goods. Compare S. LADAS, supra note 32, § 738, at 1350 (synopsis of *Philips*) with L. EBB, supra note 62, at 486–87 (translation of *Sunlight I*: discussion of public perception).


68. *Id.*, reprinted in English in 11 IIC, supra note 1, at 250–51.
In West Germany, as in other civil law countries, the problem of parallel importation has been entrusted to the courts. The first case that came before the German Federal Supreme Court was *Maja*. In that case, a Spanish manufacturer owned the trademark “Maja” in both Spain and Germany. The manufacturer appointed a sole distributor of its goods in Germany and granted it an exclusive license. When a third party imported Maja goods from Spain, the German sole distributor sued the parallel importer. The Federal Supreme Court, affirming the judgment in favor of the parallel importer, held that the owner’s control over the trademarked goods ends when he puts the goods on the market whether or not this happens in Germany or Spain. This decision is unique in that the holding is based on the “exhaustion” theory of trademark rights. In *Maja*, the foreign and domestic owners of the trademark were the same, a fact which simplified the issue.

*Cinzano & Co. GmbH v. Java Kaffeegeschäfte GmbH & Co.* is the leading parallel importation case in Germany. In *Cinzano*, the German trademark was owned by a German subsidiary of an Italian manufacturer. The products were imported by a third party from Spain and France, and differed in quality from those sold by the German subsidiary. In addressing the exhaustion theory, the court held that the distribution of trademarked goods in Spain and France could be judged under the domestic trademark law as if the German trademark owner itself had marked those goods and placed them on the market. This was because the companies in those countries derived their authority to mark the products from the Italian manufacturer. As to the principle of territoriality, the court recognized it as merely a rule of international conflict of laws which is not useful in solving the problem of parallel importation. The court declared that the only function of a trademark is to indicate the commercial origin of goods, and held that the public in Germany understood the Italian manufacturing group to be the source designated by the trademark. It concluded that the parallel importation by the third party did not consti-

70. Id., summarized in English in 54 TRADE-MARK REP. at 453 (1964).
71. See notes 132-137 and accompanying text infra (discussion of exhaustion theory).
73. Id., reprinted in English in 4 IIC, supra note 1, at 435. The court stated that the exhaustion theory of trademark rights is “merely a short figurative designation for the legal concept that it is incompatible with the limited purpose of the trademark monopoly to impede on grounds of trademark law the continued distribution of goods that have been marked and placed on the market with the consent of the trademark owner.” Id.
74. Id., reprinted in English in 4 IIC, supra note 1, at 436.
tute an infringement of the domestic trademark rights. The problem of parallel importation under German law is said to have been completely resolved.

Austria was once thought to be one of the few countries where an action against parallel importation was likely to succeed. The decision in Agfa-Gevaert GmbH v. Schark changed this attitude. In that case, the plaintiff owned the trademark "Agfa" in Austria and was an exclusive Austrian distributor of Agfa goods, which were manufactured by its German parent company. The defendant imported Agfa goods directly from Germany. The plaintiff brought an action for injunctive relief. The Supreme Court relied on the exhaustion theory of trademark rights to affirm the judgment refusing the injunction. The court did recognize that the functions of a trademark are to designate the origin of goods and to guarantee the public's expectations of quality.

In the Netherlands, the Hoge Raad, the highest Dutch court, once held that where German and Dutch trademarks were owned by the same company, the company could not, as an exercise of its Dutch trademark rights, enjoin the distribution of genuine goods imported from Germany. More recently one lower court followed the conclusion of the Hoge Raad and rendered a judgment in favor of the parallel importer. The lower court held that the difference in quality would not prevent parallel importation because the composition of goods is a question of company policy which the parent company may exercise at will to influence its subsidiaries. The composition may be lawfully modified even within

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75. The court indicated that emphasizing the "guarantee function," i.e., using trademarks to guarantee quality, would lead to isolation of the market by means of trademark laws. Id., reprinted in English in 4 IIC, supra note 1, at 437. However, differentiation in quality due to local demands is reasonable, and the public should also be protected from confusion about the quality of goods.

76. Beier, Comment, 4 IIC, supra note 1, 440, at 441.

77. Beier, Comment, 2 IIC, supra note 1, 225, at 225.


79. Id., reprinted in English in 2 IIC, supra note 1, at 223. See notes 132–137 and accompanying text infra (discussion of exhaustion theory). The court emphasized the economic unity between the parent and subsidiary in applying the exhaustion theory beyond the border of the nation. The court also indicated that the "Agfa" trademark did not distinguish goods of the subsidiary from those of the parent company but rather just distinguished the goods of the Agfa group of enterprises from those of a different origin.


82. Judgment of Apr. 1, 1969, Commercial Ct. (Neth.), reprinted in English in 1 IIC, supra note 1, at 149.
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the Netherlands under the same trademark.\textsuperscript{83} In the Netherlands then, parallel importation cannot be enjoined where the domestic and foreign trademark owners are the same.\textsuperscript{84}

A liberal attitude toward parallel importation is also apparent in Britain\textsuperscript{85} and Sweden.\textsuperscript{86}

D. The European Community

In 1957 six European nations signed the treaty establishing the European Economic Community (the "Rome Treaty").\textsuperscript{87} The Rome Treaty contains several competition provisions.\textsuperscript{88} One of these provisions is Article 85, which prohibits "any agreements between enterprises" that are likely to restrict competition within the common market.\textsuperscript{89} The European Court of Justice, created by the Rome Treaty, has rendered a series of decisions treating parallel importation as a problem of free movement of goods within the Common Market.\textsuperscript{90} These decisions allow parallel im-

\begin{itemize}
  \item Id., reprinted in English in 1 IIC, supra note 1, at 150.
  \item The Dutch court enjoined parallel importation when the domestic and foreign trademarks were owned by different persons. Judgment of Nov. 14, 1963, Ct. App. of the Hague. The court should have examined the legal and economic relations between the foreign and domestic trademark owners.
  \item The Benelux Uniform Law on Trade Marks is now effective in Belgium, Luxembourg, and the Netherlands. Under this law, a single Benelux trademark right is granted within the territory of the three countries. Article 13A of this Act provides that the Benelux trademark owner cannot enjoin parallel importation of genuine goods which were put on the market by the owner or his licensee. Benelux Convention on Trade Marks, 704 U.N.T.S. 342, 351–52. It is not clear from a literal reading of this provision whether exhaustion of domestic trademark rights occurs if the trademarked goods are distributed outside the Benelux countries. The answer is considered to be in the affirmative. Waelbrock, Trademark Problems in the European Common Market, 54 TRADE-MARK REP. 333, 344 (1964); see also Racymaekers, Assignment, Licensees, and Abandonment of Trademarks in the Benelux, 68 TRADE-MARK REP. 15 (1978).
  \item See generally T. White, Kerly's Law of Trade Marks and Trade Names 293 (1966) (discussing registration of trademarks). A famous case allowing parallel importation in Britain is Champagne Heidsieck v. Buxton, 47 Pat. Cas. 28 (1930). See also Revlon Inc. v. Cripps & Lee Ltd. reprinted in 11 IIC supra note 1, at 372 (1980 decision by High Court of Justice, Chancery Division favoring parallel importation).
  \item Article 30 generally prohibits quantitative restrictions on imports within the member States. Id. at 26. Article 36 allows such import prohibitions or restrictions only if necessary to protect industrial property. However, Article 36 stipulates that "such prohibitions or restrictions must not constitute either a means of arbitrary discrimination or a disguised restriction on trade between Member States." Id. at 29.
  \item Id. at 47–48.
  \item See generally Kemp, The Erosion of Trademark Rights in Europe: Phase II, 69 TRADE-MARK REP. 460 (1979) (discussing European Court of Justice decisions); Loewenheim, Trademarks and European Community Law, 9 IIC, supra note 1, at 422 (same); Maday, The Hag and the Negram
\end{itemize}
portation unless the domestic and foreign trademark owners are completely unrelated and their trademark rights arose independently of each other.

The first case was *Establissements Consten v. Commission of the European Economic Community*. In that case, a German manufacturer appointed a French trading company as its sole French distributor and granted registration of its trademark in the distributor’s name in France. A third party imported genuine goods from Germany. The distributor sued the parallel importer for violating his trademark rights. The Court of Justice recognized that an agreement permitting the sole distributor to register the trademark in his name, thus giving him the exclusive right to use that trademark in that country, could be subject to the prohibition of Article 85 of the Rome Treaty. The court, affirming the decision of the Commission in favor of the parallel importer, held that the distributorship agreement granting domestic trademark ownership for the purpose of dividing markets and restricting competition was illegal under Article 85.

This conclusion parallels the development of case law on parallel importation in most European countries. The Court of Justice reached the same conclusion from the viewpoint of free competition.

In *Sirena S.r.l. v. Eda GmbH*, the Court of Justice took another step regarding parallel importation. In that case, a domestic trademark owner had obtained the trademark from a foreign manufacturer, but did not have any further contact with that manufacturer. A third party imported genuine goods. Because the domestic trademark owner manufactured the products independently, they must have differed in quality from those made by the foreign manufacturer. The Court of Justice, however, applied Article 85 to the case and rendered a judgment for the parallel importer. The court considered that a mere assignment of a trademark some thirty years ago satisfied the requirement of “agreements between undertakings” under Article 85. The court’s analysis in *Sirena* was incomplete, however. The court should have determined how the public re-


92. Id., COMMON MKT. REP. (CCH) ¶ 8046, at 7651-53. As to the trademark owner’s allegation relying on Article 36 of the Rome Treaty, the court stated: “Article 36 limits the application of the provisions on the liberalization of trade contained in Title I, Chapter 2, of the Treaty, but it does not limit the application of Article 85.” Id., COMMON MKT. REP. (CCH) ¶ 8046, at 7654.


94. Id., COMMON MKT. REP. (CCH) ¶ 8101, at 7111-13. The mere assignment of a trademark in the past with no continuing relation between the parties should not constitute an “agreement” prohibited by Article 85. See Kemp, supra note 90, at 464; Waelbroeck, supra note 90, at 114.
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garded the trademark. The court should have also considered that the domestic trademark owner developed its own products, which must have been different in quality from those imported by the third party.

The superiority of the Rome Treaty over national trademark laws was again shown in Van Zuylen Frerer v. Hag AG. In that case a German firm owned the trademark “Hag” in Germany and in other European countries, and assigned its trademark rights in Belgium and Luxembourg to its Belgian subsidiary. At the end of World War II, the Belgian subsidiary was sequestered as enemy property and the “Hag” trademark in Luxembourg was assigned to an independent Luxembourg company. In 1972, the German firm marketed its Hag coffee in Luxembourg. The independent Luxembourg company sued the German firm for infringement of its domestic trademark right. The Court of Justice held that the independent Luxembourg trademark owner could not enjoin the parallel importation by the German firm. In so holding, the court relied on Article 36 of the Rome Treaty rather than on Article 85. If the court in Hag the court should have considered that the domestic trademark owner developed its own products, which must have been different in quality from those imported by the third party.

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intended to hold that an owner of a trademark in one country cannot enjoin the marketing of goods bearing an identical trademark that was lawfully affixed in another country, it went too far. The function of a national trademark should always be taken into account in dealing with parallel importation.

In Terrapin (Overseas) Limited v. Terranova Industrie C.A., the Court of Justice addressed the question of parallel importation where the domestic and foreign trademarks have no common origin. A German manufacturer owned the trademark on a certain product, and a third party imported a similar product with a similar trademark which was lawfully registered in Britain. The Court of Justice allowed the domestic trademark owner to enjoin the importation of goods bearing the lawfully affixed trademark. Thus, parallel importation can be prevented within the Common Market where there is no economic or legal relation between the domestic and foreign trademark owners and where their respective rights have arisen independently of each other.

Further development can be found in the recent decision of the Court of Justice in Centrafarm B.V. v. American Home Products Corp. In that case, an American company owned two different trademarks in two nations: "Seranid" in Britain and "Seresta" in Holland. It sold the same products under these two trademarks through its local subsidiaries. A third party purchased products in Britain with the trademark "Seranid" and imported them into Holland after changing the trademark to "Seresta." The Court of Justice allowed the American company to prevent the importation by the third party. It noted, however, that such

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99. The court stated:
To prohibit the marketing, in one Member State, of a product legally bearing a trademark in another Member State for the sole reason that an identical trademark having the same origin, exists in the first State, is incompatible with the provisions for the free movement of goods within the Common Market.

1974 E. Comm. Ct. J. Rep. 731, COMMON MKT. REP. (CCH) ¶ 8230, at 9125. The Hag decision has been criticized. See, e.g., Loewenheim, supra note 90, at 426; Waebroeck, supra note 90, at 118.


101. Id., COMMON MKT. REP. (CCH) ¶ 8362, at 7606.


103. Id., COMMON MKT. REP. (CCH) ¶ 8475, at 8593. This case also concerns the problem of repacking trademarked products. In Hoffmann-LaRoche A.G. v. Centrafarm, 1978 E. Comm. Ct. J. Rep. 1139, COMMON MKT. REP. (CCH) ¶ 8466, the Court of Justice held that where a proprietor owns the same trademark in two nations, the proprietor may lawfully prevent a product to which the trademark has been applied in one nation from being marketed in another nation after it has been repacked and after the original trademark has been affixed to the new packaging by a third party. However, the Court of Justice noted that this prevention of marketing constitutes a "disguised restriction of trade" within the meaning of the second sentence of Article 36 if the following conditions are satisfied:

— It is established that the use of the trademark right by the proprietor, having regard to the
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prevention may constitute a "disguised restriction" on trade under Article 36 if the owners of different trademarks adopted such a practice in order to partition markets. 104

Apart from decisions by the Court of Justice, the unification of trademark laws within the Common Market started as early as the 1960s. 105 Although the 1964 Preliminary Draft of a Convention for a European Trademark has never developed into effective law, the Commission has worked for regulations on trademark laws to promote competition and the free movement of goods within the Common Market. The results of the Commission's work were two proposals submitted to the Council of the European Communities on November 12, 1980. One was entitled "Proposal for a First Council Directive to Approximate the Laws of the Member States Relating to Trademarks" (the "Directive"). The other was entitled "Proposal for a Council Regulation on Community Trademarks" (the "Regulation"). 106

The Directive is designed to harmonize and approximate the national trademark laws within the Common Market, and the Regulation creates a Community trademark which is valid over all areas of the Common Market. 107 Both the Directive and the Regulation have provisions on exhaustion of trademark rights. They both provide that a trademark owner is not entitled to prohibit the use of the trademark for goods that have been put on the market under that trademark by the proprietor or with the proprietor's consent. 108 This exhaustion principle, together with several signifi-

marketing system which he has adopted, will contribute to the artificial partitioning of the markets between Member States;
— It is shown that the repackaging cannot adversely affect the original condition of the product;
— The proprietor of the mark receives prior notice of the marketing of the repackaged product; and
— It is stated on the new packaging by whom the product has been repackaged.

_Id., COMMON MKT. REP. (CCH) ¶ 8466, at 8401. Because of the generality and vagueness of the first condition above, the position of the Court of Justice toward the problem of repacking is not so clear. See generally Beier, The Doctrine of Exhaustion in EEC Trademark Law—Scope and Limits, 10 IIC supra note 1, at 20 (discussing repackaging and parallel importation).


105. See Beier, Objectives and Guiding Principles of the Future European Trademark Law, 8 IIC, supra note 1, at 1.

106. Both proposals can be found in COMMON MKT. REP. (CCH) ¶¶ 5826, 5837. See generally Schwartz, The Rationale of the Approximation Directive and the Regulation on Community Trademarks, 12 IIC, supra note 1, at 319 (discussing the proposals).

107. COMMON MKT. REP. (CCH) ¶¶ 5826, 5837. The Community trademark system would coexist with national trademark laws of member states. The Directive supplements the Regulation in that the Directive removes, to some extent, restrictions imposed by the national trademark laws. Id.

II. DISCUSSION

Parallel importation is sometimes defined simply as importation of goods bearing a trademark legally affixed in a foreign country but not authorized by a domestic owner of the identical trademark. There are a large number of fact patterns in parallel importation cases, however. It might be wise to classify these fact patterns into groups. While commentators have suggested several classifications, the following classification is most convenient.

The first major category is cases in which the domestic and foreign trademarks are owned by the same person. Within this category, two types of cases are possible: (1) those where the owner opposes importation; and (2) those where the owner’s domestic licensee opposes importation. Within each category, different cases may be presented depending upon whether the imported goods are of the same quality as the domestic goods.

The other major category is cases in which the domestic and foreign trademarks are owned by different people. If the domestic and foreign trademark holders are legally or economically related, the case may depend on the quality of the imported goods. Other possibilities are presented if the domestic and foreign owners are unrelated, but the trademarks have a common origin. Finally, the domestic trademark owner may have obtained the trademark independently of the foreign owner, with whom it has no legal or economic relation.

Under the case law examined above, the legality of parallel importation depends, to some extent, on the fact patterns. In general, if the trademark

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European Community trademark occurs when the trademarked goods have been put into circulation within or outside the Common Market. Schwartz, supra note 106, at 329 (1981).

109. The exceptions to the principle of exhaustion as set forth in the Directive are: "(a) where there are legitimate grounds for opposing importation into the Community of goods put on the market outside it; (b) where the condition of the goods is changed or impaired after they have been put on the market; (c) where the goods are repackaged by a third party." Article 6(2), reprinted in COMMON MKT. REP. (CCH) § 5826, at 4725-4. While the second and third exceptions are reasonable in light of case law, the first one is so general that interpretation by courts is needed. The Regulation is equipped with similar exceptions to the principle of exhaustion. Article 11(2), reprinted in id. § 5837, at 4731-7.

110. See, e.g., S. LADAS, supra note 32, at 1326, 1349; Beier, Territoriality of Trademark Law and International Trade, 1 IIC, supra note 1, at 50.
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rights are held by one person or if the domestic and foreign owners are related, the exercise of domestic trademark rights to block parallel importation is apt to be denied.\textsuperscript{111} On the other hand, if the domestic and foreign trademark owners have no relation and both trademarks are acquired independently, a domestic trademark owner is more likely to succeed in blocking parallel importation.\textsuperscript{112}

While fact patterns have some impact on courts' decisions regarding parallel importation, the principles courts use to analyze parallel importation also affect the decisions. The principles or doctrines that have often been used to solve the problem of parallel importation are examined below.

A. Principles

1. Functions of a Trademark

Examination of the functions of a trademark helps to establish criteria for solving the problem of parallel importation. Even the courts that relied on the exhaustion theory examined the functions of a trademark.\textsuperscript{113} Furthermore, most courts deciding in favor of parallel importers reviewed the purpose of trademark laws and the functions of trademarks.\textsuperscript{114} Courts and commentators have formulated three possible functions of a trademark.\textsuperscript{115} These functions are: (i) an origin function, (ii) a guarantee function, and (iii) an advertising function.

The origin function of a trademark identifies the goods of a trademark owner and distinguishes them from goods of others. This does not mean that a trademark always indicates a particular manufacturer or distributor of the trademarked goods, however. Rather, the origin function operates so that the public can recognize that all goods with the same trademark come from the same source or come through the same channel.\textsuperscript{116}


\textsuperscript{116} Schechter, supra note 115, at 816.
When the public purchases certain trademarked goods, it assumes that all goods bearing that trademark are of equal quality. This is the guarantee function of a trademark. This function does not guarantee high quality, but rather operates to guarantee equal quality of goods with the same trademark.

A trademark also works as an important element in advertising. While the origin and guarantee functions work for the benefit of the consumers, the advertising function mainly benefits the proprietor of a mark.

Most courts dealing with parallel importation acknowledge both the origin and guarantee functions as purposes of trademark laws. On the other hand, some courts extend legal protection to the origin function only. This can be called the single function theory. The guarantee function is not protected because a trademark owner may legally vary the quality of goods under the same trademark.

As a general rule a single function theory is unsound. The public chooses certain trademarked goods, believing the marks represent a certain level of quality. The public should be protected against deception regarding quality.

While the advertising function of trademark rights is important, the origin and guarantee functions are more important because they protect the public from deception. Therefore, the problem of parallel importation should be solved by applying the origin and guarantee functions to the fact pattern at hand.


118. In the United States, the Lanham Act refers to the control over the quality of trademarked goods if that trademark is licensed. 15 U.S.C. § 1127 (1970). Legally a trademark owner may sell goods of different quality under the same trademark. This, however, would confuse the public about the quality of the trademarked goods and would destroy the goodwill created for the goods.


122. However, it is unlikely that a trademark owner would distribute products of varying quality under the same trademark in the same market. In addition, a national trademark law may obligate the trademark owner to maintain the same quality for the products, as in the People’s Republic of China. See Offner, Trademark Law of the People’s Republic of China: Applicability to Foreign Nations, 13 J. INT. L. & ECON. 601 (1979).

123. On the other hand, Beier, supporting the single function theory, states that the guarantee function is a mere reflection of the origin function and is a matter for criminal law or unfair competition law. Beier, Territoriality of Trademark Law and International Trade, 1 IIC, supra note 1, at 64.

124. It must be remembered, however, that each nation has different trademark laws, so the function of trademarks can vary. Compare Offner, supra note 122 (stressing guarantee function in
2. **Competition Considerations**

Unlike patent rights, trademark rights do not, in substance, clash with antitrust philosophy. But if trademark rights are used to divide markets or for other anticompetitive purposes, their exercise becomes subject to the antitrust provisions of each nation or community.\(^{125}\) Thus, a trademark owner cannot avoid the scrutiny of antitrust law under the guise of the exercise of domestic trademark rights. In most cases, the motive for parallel importation lies in the fact that the trademarked goods are sold in the domestic market at a higher price than in the foreign market. Parallel importers are, in a sense, striking down the price discrimination or market division maintained by trademark owners. In this regard, allowing trademark owners to enjoin parallel importation could result in suppression of competition. Thus, consideration of competitive effects is a prerequisite to solving the problem of parallel importation.\(^{126}\)

3. **Principle of Territoriality**

Until the beginning of this century, trademark rights were considered an extension of the personality of the first user. Consequently, courts deciding parallel importation issues looked to whether the imported goods had a trademark lawfully affixed in a foreign country.\(^{127}\) The early decisions allowed parallel importation based on the principle of universality of trademark rights.\(^{128}\) As the property aspect of trademark rights grew, the principle of territoriality of trademark rights, which holds that the legitimacy of trademarks depends on where the goods are sold, prevailed over the principle of universality. Article 6(3) of the Paris Convention is said to have affirmed the growth of the territoriality principle.\(^{129}\)

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\(^{125}\) In the United States, these activities constitute misuse of trademarks. See notes 22–28 and accompanying text supra (discussing antitrust implications of trademark protections in the United States). Article 36 of the Rome Treaty also bars use of patents to divide markets. See generally S. LADAS, supra note 32, §§ 740–757 (discussing antitrust implications of trademark laws).

\(^{126}\) This does not mean that direct application of competition laws is necessary. Antitrust considerations are of assistance in determining whether a certain exercise of trademark rights is within the protection of the trademark law. Beier, *Territoriality of Trademark Law and International Trade*, I IIC, supra note 1, at 69.

\(^{127}\) See generally Derenberg, supra note 81 (discussing territoriality principle).

\(^{128}\) For example, the United States court in *Apollinaris* considered parallel importation as lawful so long as the trademark on the imported goods was lawfully affixed in the foreign country. *Apollinaris* Co. v. Scherer, 27 F. 18, 19 (C.C.S.D.N.Y. 1886).

\(^{129}\) Article 6(3) provides: 'A mark duly registered in a country of the Union shall be regarded as independent of marks registered in the other countries of the Union, including the country of...
Some conclude from this territoriality principle that a domestic trademark right is affected only by domestic facts and that whether the trademark was lawfully affixed in a foreign country should not be taken into account in deciding infringement of domestic trademark rights.\textsuperscript{130} This interpretation of the principles of territoriality would prohibit all parallel importation. But the territoriality of a trademark means only that trademark protection is determined by the national law of the country in which the owner seeks protection and that the protection is limited to the territory of that country.\textsuperscript{131} Thus, it is not against the principle of territoriality to consider foreign events in construing a domestic trademark law. Therefore, the principle of territoriality is of little use in solving the problem of parallel importation.

4. Exhaustion Theory

Exhaustion theory provides that trademark rights are exhausted once the trademarked goods have been duly put on the market, so the trademark owner can no longer exercise his trademark right on the marketed goods. This exhaustion theory has gained acceptance in Germany.\textsuperscript{132} The recent Common Market draft Regulation creating a community trademark\textsuperscript{133} and the Uniform Benelux Trademark Act\textsuperscript{134} also have provisions on exhaustion of trademark rights.

Some courts have applied the exhaustion theory in favor of parallel importers. For example, the Austrian court in Agfa expressly applied this theory to marketing of trademarked goods in a foreign country, and thus denied the exercise of domestic trademark rights to block parallel importation.\textsuperscript{135}

The exhaustion theory does not explain why a trademark right is exhausted upon marketing the trademarked goods. While there is no doubt that the distribution of trademarked goods in a domestic market exhausts the trademark right on those goods, the exhaustion theory is silent on whether a domestic trademark owner’s distribution of the trademarked goods is to be considered an exhaustion.\textsuperscript{136} Convention of Paris for the Protection of Industrial Property, March 20, 1883, 21 U.S.T. 1583, T.I.A.S. No. 6293.

\textsuperscript{130}. Beier, Territoriality of Trademark Law and International Trade, 1 IIC, supra note 1, at 59.
\textsuperscript{131}. Id. The Austrian court in Agfa, for example, stated that the principle of territoriality is a conflict principle which derives from international private law and does not preclude domestic courts from considering foreign circumstances in construing domestic trademark law. Judgment of Nov. 30, 1970, Sup. Ct. (Aus.), reprinted in English in 2 IIC, supra note 1, at 223.
\textsuperscript{132}. See notes 69–75 and accompanying text supra (discussing West German case law).
\textsuperscript{133}. COMMON MKT. REP. (CCH) ¶ 5837, at 4731.
\textsuperscript{134}. Benelux Convention on Trade Marks, art. 13A, 704 L.N.T.S. 342, 351–52.
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goods in a foreign country exhausts his domestic trademark right. Furthermore, when the trademarked goods are processed or repacked after distribution, it is generally accepted that the trademark right is not exhausted and that the trademark owner may exercise his right on the processed or repacked goods. Therefore, the exhaustion theory grasps the superficial phenomenon of trademark rights but does not provide a substantial foundation for that phenomenon. In this sense, the exhaustion theory by itself cannot solve the problem of parallel importation.

B. Solutions to Each Fact Pattern

Thus, the problem of parallel importation is best solved by examining the functions of trademarks and considering the anticompetitive effects of barring parallel importation. Applying these principles to the fact patterns in which the problem of parallel importation arises reveals how those patterns should be resolved.

In the first general fact pattern, the same entity owns both the domestic and foreign trademarks. Three patterns of parallel importation are possible here. First, the owner itself attempts to enjoin importation by a third party of goods produced and distributed by the owner in another country. Second, a domestic licensee who only imports trademarked goods attempts to enjoin the importation of goods the owner or a foreign licensee has produced in a foreign country. Third, a domestic licensee who manufactures the trademarked goods locally attempts to enjoin importation of goods the owner or a foreign licensee has produced elsewhere. In each case, the imported goods may be of the same or of different quality than those sold by the domestic producer.

When the imported and domestically produced goods are the same in quality, the origin and guarantee functions of trademark suggest that parallel importation should be allowed. Because quality is the same, the guarantee function is satisfied. Because the imported and domestically produced goods derive from the same source, by licensing or otherwise, the public is not deceived as to the origin of the goods.

136. See generally Beier, The Doctrine of Exhaustion in EEC Trademark Law—Scope and Limits, 10 IIC, supra note 1, at 22 (discussing repackaging).
138. 1 J. McCarthy, supra note 115, at 92 (1973). This is the same when the trademarked goods are also manufactured locally by the domestic licensee. The licensee is linked with and controlled by the trademark owner, and the public, upon parallel importation, would not be concerned with the actual manufacturer but would be satisfied with the equal quality under the same trademark.
The problem is more difficult when the imported goods differ in quality from the domestically produced or marketed goods. Courts and commentators favoring a single function theory are not concerned with the guarantee function, and conclude that the trademark owner cannot prevent parallel importation. A Japanese court, however, enjoined parallel importation of coffee under the trademark "Nescafe" where the imported coffee differed in taste from the domestically distributed coffee. Where there is a substantial difference between the imported and domestic goods, this result is appropriate because the difference in quality may deceive consumers. If the difference is indicated on the label of the imported product, on the other hand, deception will not occur and parallel importation is appropriate. Parallel importation should also be allowed where the quality variance is intended to divide markets or allow price discrimination, rather than to meet variances in local demand.

In the second general fact pattern, the domestic and foreign trademarks are owned by different persons. Here too, examination of the function of trademarks points out the correct results. If the public will be deceived about the origin or quality of the trademarked goods, enjoining parallel importation is appropriate. Where the domestic and foreign trademarks are owned by entirely different entities, the public may be deceived about the origin of any imported goods, so enjoining parallel importation is appropriate. Where the domestic trademark owner is associated with the


139. E.g., Judgment of Apr. 1, 1969, Commercial Ct. (Neth.), reprinted in English in 1 IIC, supra note 1, at 150; Beier, Territoriality of Trademark Law and International Trade, 1 IIC, supra note 1, at 66.

140. Nestle Nihon K.K. v. Sankai Shoten (unreported case, Tokyo Dist. Ct., May 29, 1965). summarized in DIGEST, supra note 44. In the United States, the owner of a trademark may change the quality of the trademarked goods as long as the change does not amount to deception. Hanak, supra note 117, at 330.

141. One may argue that a composite trademark such as "New Nescafe" should be adopted to keep the value of the original trademark alive. But it would be a harsh obligation to change the trademark every time the composition of the trademarked goods is slightly changed. Furthermore, some trademarks might lose their value if another word is added to them.


143. The European Court of Justice in Terrapin/Terranova dealt with this situation. This fact pattern, however, may even be outside the problem of parallel importation. The European Court of Justice in Sirena and Hag presented a new fact pattern of parallel importation in which the domestic and the foreign trademarks have a common origin but both owners have no present relation, legally or economically. In this fact pattern also, parallel importation would probably mislead the public as to the origin of imported goods. Moreover, it is probable that the goods of the domestic trademark owner differ in quality from those of the foreign trademark owner. In this sense, the public may also be deceived as to the quality.
Parallel Importation

foreign owner, as in a distributorship agreement, or through a legal relation such as parent-subsidiary, parallel importation should be allowed, as the public is not deceived about the origin of the goods. However, even where the domestic and foreign trademark owners are closely related, parallel importation may be enjoined if the difference in quality is not clearly indicated on the imported goods or if the purpose of the quality variance is market division or price discrimination.

III. CONCLUSION

The problem of parallel importation has been solved through case law in most countries. Despite the slightly different views among various countries, this comparative case study suggests that the functions of a trademark are the appropriate criteria to settle this problem. The basic functions of a trademark are to designate the origin of the goods and to guarantee the quality of the goods. As long as the public is not deceived or misled about the origin or quality of the trademarked goods, a domestic trademark owner or licensee generally cannot enjoin parallel importation by a third party. A trademark right can be exercised only to prevent certain types of unfair competition which would cause confusion or deception about origin or quality.

144. Where domestic and foreign trademark owners have a parent-subsidiary relation or belong to the same group of enterprises, the public generally recognizes that the goods come from the parent-subsidiary as a whole or from the group en bloc. Beier, Territoriality of Trademark Law and International Trade, 1 IIC, supra note 1, at 71.

Where the domestic trademark owner is a distributor, the trademarked goods of both the distributor and the parallel importer come from the single source of a foreign manufacturer. So there is no deception as to the origin of trademarked goods. Furthermore, the public generally attaches no importance to the identity of a distributor. The United States Supreme Court in A. Bourjois & Co. v. Katzel found that the public understood that the goods came from the domestic distributor. 260 U.S. 689, 692 (1923). If the trademark comes to symbolize the distributor and if the consumers purchase the trademarked goods solely in reliance on the distributor, sales of the trademarked goods by the parallel importer may deceive such consumers. However, such a situation is almost inconceivable unless the distributor picks up its own trademark for the goods.