How are the cases widening the rights of parallel importers to use registered trade marks?

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Parallel Importation

- "Parallel" implies importation of a 'genuine' product to sell alongside the TM proprietor's own sales in country of import.
- Potentially a highly profitable trade – in particular in pharmaceuticals, where price differences (and arbitrage opportunities!) arise from different national price regulations.
- Three aspects which CJEU has historically had to consider:
  - Unaltered product – sold under the same mark as the TM proprietor uses in country of origin
  - Repackaged product – sold under same mark, but packaging modified to meet requirements in country of destination
  - Rebranded product – sold under the (different) mark which TM proprietor uses in country of destination

Parallel Importation – where next?

- Is there a **further** (sub)class of PI trade – rebrand and sell under TM of the product manufacturer's :
  - Licensee?
  - Customer?
- Or, on the other hand, is there scope for rights owners to divide markets to frustrate PI by
  - Adopting different TMs in different jurisdictions; and
  - Splitting the ownership/control of those TMs ?
- Recent UK C/A cases *SEP v Doncaster* and *Flynn v DrugsRUs* have been exploring these possibilities

TFEU - Free movement v. IP rights

Familiar provisions in the Treaty on the Functioning of the European Union – the rule, the proviso, and the proviso to that proviso

Article 34: Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between Member States.

Article 36: The provisions of Articles 34 and 35 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of … the protection of industrial and commercial property.

Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member State

The parallel importation cases test the limits of these provisions!

Application of TFEU in TM and PI cases

- Enforcement of IP rights to restrain infringement can prima facie offend against TFEU Art.34.
- In the normal case, where infringing product has no connection with the proprietor, an injunction will be "justified" under the saving for IP rights in Art.36.
- But in the case of parallel importation, Art.36 second sentence may be engaged – would enforcement of a TM then be a "disguised restriction" on trade?

PI of unaltered product:  law

- EU case law looks to whether the "essential function" or "specific object" of the right has been taken to justify relief.
- Parallel importation of an unaltered product under TM proprietor's original mark – no interference with "essential function" or "specific object" of the TM.
- Centrafarm v Winthrop: the "specific object" of a TM is

  inter alia to ensure to the holder the exclusive right to utilise the mark for the first putting into circulation of a product. And to protect him thus against competitors who would take advantage of the position and reputation of the mark by selling goods improperly bearing the mark

- So enforcement of TM not justified to restrain import of TM owner's own goods from another member state under same mark, since TM owner has already enjoyed the specific object

PI of unaltered product:  law

- The basic "exhaustion of rights" principle is now expressly written into UK law:

  TMA94 s.12 – "Exhaustion of rights conferred by registered trade mark"

  - (1) A registered trade mark is not infringed by the use of the trade mark in relation to goods which have been put on the market in the European Economic Area under that trade mark by the proprietor or with his consent.
  - (2) Subsection (1) does not apply where there exist legitimate reasons for the proprietor to oppose further dealings in the goods (in particular, where the condition of the goods has been changed or impaired after they have been put on the market).

- But not clear whether/how s.12(2) covers repackaged, and s.12 certainly not applicable to rebranded, goods.
  Those cases require consideration of underlying CJEU law.

Repackaging – the BMS case

- In *Bristol-Myers Squibb v Paranova*, importer purchased pharmaceuticals sold under a TM in one member state and resold them under that same TM in another member state.
- BUT outer packaging was removed and replaced, to comply with different national rules on pack sizes in destination country. Same TM re-applied.
- TM proprietor complained that goods had thereby been interfered with, so reapplication of mark was an infringement.
- BMS case held repackaging to comply with such rules was permissible provided that the essential function of the trade mark was not impaired (and laid down five requirements for this to be satisfied). Reaffixed TM then did not mislead.

Re-branding - *Pharmacia v Upjohn*

- What if TM proprietor uses different TMs in different member states?
  - Is TM proprietor entitled to enforce his TMs to stop parallel importer from applying to goods a mark which they never previously bore? The TM proprietor had never enjoyed the "essential function" of <u>that</u> mark in relation to the rebranded goods.
  - Or is the enforcement of these multiple marks a "disguised restriction on trade" and not justified, so that the proviso to Art.36 bites?
- Facts in *Pharmacia*: Upjohn used *'Dalacin'* in Denmark, Germany and Spain, *'Dalacine'* in France and *'Dalacin C'* in the other Member States. (Not a deliberate attempt at market subdivision! – arose from settlement of a previous TM dispute)
- Pharmacia bought Dalacine/Dalacin C, rebranded as Dalacin

Rebranding – *Pharmacia* (2)

- CJEU considered that if re-packaging were permissible in the light of *BMS*, then where the same entity was using different trade marks in different member states then re-branding should also be permissible. Else a "disguised restriction".
- (Perhaps not an easy analogy – in *BMS*, the "essential function" of the TM in issue had already been enjoyed – not so where different TMs are involved).
- But CJEU added a "necessity" test – was it necessary to rebrand in order to place the product on the market. And:
  - There is a difference between what is "necessary" (para 43) and what is done solely in order to secure a "commercial advantage" (para 44). Rebranding is permissible in the former case, not the latter.
  - It is for the national court in any particular case to strike a balance.

Rebranding – "necessary" or mere "commercial advantage"?

- CJEU drew that distinction in *Pharmacia*, but without guidance as to how to tell the difference: left as a question of fact in each case
- So in *Boehringer Ingelheim v Swingward*, following a reference to the CJEU, Jacob LJ said at §30:

> *Quite what the Court had in mind by a "commercial advantage" I am afraid I do not understand. … And it seems clear that a "commercial advantage" could not consist of merely access to the market for the parallel imported goods, though out of context most people would call such access "a commercial advantage".*

Rebranding permitted: TM licensee

- UK C/A considered rebranding in *SEP v Doncaster*.
- TM owner Madaus (not a claimant in the case) made and sold pharama products under its marks **Céris** and **uriVesc** in France and Germany, and exclusively licensed its different UK trade mark **Regurin** to its distributor SEP.
- Doncaster parallel imported and rebranded, asserting that it was "necessary" for it to apply the UK mark.
- SEP was separate entity from the TM owner, and brought the proceedings in its own capacity as an exclusive licensee.
- This did not differentiate the case from Pharmacia – court seems to have assumed that if TM owner Madaus could not have objected to rebranding, its licensee could do no better.

Always "necessary" to rebrand?

- In *Boehringer*, CJEU had held that rebranding would be necessary "*if, without such repackaging, effective access to the market concerned, or to a substantial part of that market*" would be hindered.
- In *SEP*, Floyd LJ considered separately the branded and unbranded markets. Goods could only be sold in the branded market under the mark, and so it was "necessary" to rebrand in order to access that part of the market.
- Is this fallacious – an approach that can lead to only one answer? Consider:
  - If you want to access the vacuum cleaner market, there are many ways to do so (pricing policy, advertising your own brand, better distribution, etc.).
  - But if you want to access the sub-market for Dyson vacuum cleaners, you have to apply the mark Dyson to them – by very definition of that branded market.
- C/A decided that the rebranding was therefore "necessary" (but giving no weight to earlier conflicting decisions in Bundesgerichtshof and other EU courts where the necessity requirement failed).

Rebranding not permitted - Flynn

- In *Flynn v DrugsRUs*, the Defendants relied on *SEP*, but the facts were different in a crucial respect.
- Goods were made by Pfizer, marketed in EU as "Epanutin". However Pfizer withdrew from the UK market and sold its relevant marketing authorisations to Flynn.
- Flynn then took over responsibility for the products, which it sold under its own mark "Flynn" but had them made by Pfizer as a subcontractor, now under Flynn's quality control.
- DrugsRUs threatened to parallel import Epanutin and rebrand as "Flynn", alleging that it was in effect "the same product", so an injunction would be a disguised restriction on trade, and the facts were indistinguishable from *SEP v Doncaster*.

No rebranding - Flynn - origin

- The C/A rejected DrugsRUs' case. Key to this was Flynn's responsibility for its "Flynn" products and its ability to impose quality control. PI'd products would not be "Flynn" products.
- In Case C-9/93, *Ideal Standard*, the CJEU had held:
  - [37] … As was held in Hag II : "For the trade mark to be able to fulfil [its] role, it must offer a guarantee that all goods bearing it have been produced under the control of a single undertaking which is accountable for their quality"
  - … The **origin** which the trade mark is intended to guarantee is the same: it is not defined by reference to the manufacturer but by reference to the point of control of manufacture … [emphasis added]

So the relevant "origin" of Flynn products was not the same "origin" as products which DrugsRUs would PI from Pfizer.

No rebranding - Flynn - necessity

- The C/A therefore upheld the first instance decision before Rose J and granted an injunction to prevent this rebranding.
- NB Rose J had held that if she was wrong as to origin, she would have held that rebranding was “necessary” to access the branded market (for the reasoning by Floyd LJ in SEP).
- Flynn had cross-appealed the “necessity” case, saying it was fallacious and contrary to decisions in other EU jurisdictions, but the C/A did not find it necessary to decide this.
- Flynn’s pricing policy had been the subject of an adverse decision by the Competition and Markets Authority. The C/A did not pollute TM law with a new exception arising from this.

Same factory = same goods?

- Any contention that because the products came from the same factory, this permitted rebranding, would have surprising implications. Consider e.g. these products:

- Same manufacturer/PL – so could anyone swap the packaging?

Conclusions – where are we now?

- Parallel importers have had a good run:
  - Unaltered product – ok, exhaustion of rights
  - Repackaged, same TM – ok, subject to BMS
  - Rebranding – ok, subject to BMS and a "necessity" test that seems always to give the same answer
- But Flynn shows that there are limits to the permissibility of rebranding "the same goods". Is control by TM owner(s) shared or separate?

Two ways forward

- Parallel importers: where products are sold under different TMs in different EU states, rebranding may still be permissible even if TM is licensed to unconnected 3rd party distributors.
- Pending any review by the Supreme Court, the "necessity" test may be automatically met for the branded market.
- TM owners: use of different marks which are exclusively licensed to different distributors may not suffice to achieve market partitioning.
- However divestment of control, so resulting in a different "origin", may do. But even though intention is supposedly not now the test (*Pharmacia* at [41]), that kind of structuring may invite scrutiny – in a TM case, and by competition authorities.

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