PARALLEL IMPORTS – HOW TO MANAGE THE PROBLEM

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Parallel importation occurs when - a genuine product of a particular trade mark owner or his licensee - which is intended for sale in a particular country or territory is imported by a third party into that country or territory for which it was not intended.

Parallel imports inevitably compete with the version of the same product which is intended and produced for the same region with the same trade mark.

In this “grey goods” scenario, the trade mark owner or licensee does not dispute the authenticity of the product, but the contention is actually that the products were imported into the country or region without the trade mark owner or licensee’s consent. Parallel importation does not actually involve imitation, counterfeiting, or sub-standard goods.

Parallel trading can contravene property rights but is not altogether always illegal. Protection from the adverse effects of parallel trading differs with country, region and jurisdiction.

Exhaustion Doctrines

Exhaustion of Intellectual Property Rights (“IPR”) generally means that the holder cannot use the exclusivity powers conferred by these rights in order to oppose the further commercialization of genuine products incorporating or protected by such rights once these products have been placed in the market by him or with his consent.

The degree to which an IPR owner can exclude parallel import will depend on national or regional treatment of the exhaustion of rights.

Regional Protection - Economic Community of West African States

Until very recently - 2008, the Economic Community of West African States (ECOWAS) did not have any known policy on the exhaustion doctrine applicable to it .
ECOWAS Competition Rule is formulated to encourage the free flow of goods and services at the lowest prices amongst member states at the regional level; thereby ensuring regional exhaustion. The ECOWAS Competition Rules direct member states to take all necessary measures to reform legislation inconsistent with the policy . The Competition Rules also expressly void any agreement between enterprises, decisions by associations and concerted practices which may affect trade.

National Protection – NIGERIA

In Nigeria, the Trade Mark Act 1965 ("Trade Marks Act or "the Act") Section 5 (2) of the Act confers on the owner of the registered mark, the exclusive right to use the trade mark in marketing or selling his goods. The Act also confers on the registered owner of the trade mark the right to initiate an action to seek redress for infringement of his trade mark right if a person not being a permitted user of the trademark uses the mark in relation to any goods in respect of which the trademark is registered.

The protection given to the proprietor of a mark was stated by the Supreme Court of Nigeria in the case of **Dyktrade v Omnia** where the court stated that;

"'Trade mark' when registered will entitle the proprietor to sue or institute an action for any infringement of the trade mark. Registration entitles the proprietor to the exclusive use of the trade mark and also the right to sue for passing off the goods of the proprietor".

The court further held that a person who has acquired the status of a proprietor of the mark, such as the owner, the importer, exporter or shipper has a legal right to be protected.

However, Section 7 & 8 provides an exception to the exclusive right of the registered owner of a trade mark - the proprietor of the mark is precluded from restraining the use of a mark identical or nearly resembling its goods to which a predecessor in title has continuously used from a date previous to the registration of the mark by the proprietor.

In **Ferodo Ltd v. Ibeto Ind. Ltd** the Supreme Court of Nigeria addressed the all important issue of "consent" where it held that

" A trade mark if registered gives the proprietor the exclusive right to use the trade mark in marketing or selling his goods. And without his ***consent*** *(sic) if anyone else uses an identical mark or any mark so nearly resembling it as likely to deceive or cause confusion, will entitle the proprietor to sue for infringement of the trade mark, or to sue in action for passing off or both"*

Apart from the protection granted to the owner of a registered trade mark, the Act also provides the proprietor of an unregistered trademark a right to a cause of action in passing off.
The protection offered by the Act is a right to a cause of action for unlawful interference with its exclusive right to use the mark, and the right to prevent any other person from passing off his goods.

Free Circulation Rule? – The Merchandise Marks Act

The policy of free circulation is derived from the doctrine of "exhaustion of rights". An English High Court decision described free circulation of goods as fundamental for the creation and development of the common market.

Under the Nigeria Merchandise Marks Act ("the Act") [SS 5(1) (4)] which also regulates trademark goods application of marks to goods **without assent** of the registered proprietor is illegal. This Act seeks to protect registered trade mark owners, against fraudulent use of their trade marks by competitors who give false trade descriptions of their goods by either alteration, addition, effacement or otherwise of goods by labeling, packaging or branding such goods so as to confuse the public to mistake such product as that of the registered trademark user.

Foreign Registered Owner v. Local registered User - "The Honda" cases

Contentions over parallel imports arise between a local licensed distributor (a Licensee), the importing party (licensed in another jurisdiction or not) (parallel importer) and remotely, the foreign owner or proprietor of the mark. Under Nigerian law, the Trade Marks Act protects the proprietor or its licensee.

Generally the Licensee may seek legal redress against an importer of similar goods into the country where he is entitled to exclusively operate by virtue of his contractual arrangement with the foreign owner of the trade mark.

The licensee has an obligation to protect the mark within the territory within which he operates, and this right includes the right to sue an importer of similar goods into his licensed territory, even if the importer of the similar goods is licensed by the same Foreign Registered Owner to use the mark in another territory.

In **Honda Place Limited, Honda Motor Company Limited of Japan Vs Globe Motors Holding Limited & ors**; the original Japanese foreign trade mark owner and its local main licensee sued a sub dealer gone "rogue" parallel importer of the Japanese products with the mark "HONDA" from United States; both the Japanese origin goods and the US goods were brought into the Nigerian market the latter without the consent of the original Honda Motor Company of Japan. The claimants sued against the importation of the cars "manufactured and assembled for the American market and ill adapted for the Nigerian conditions and fuel specifications" the claimants sought to protect their "reputation and business". The fulcrum of the defendants case was to reject the notion that license for Nigeria affected its right to import genuine goods "from elsewhere outside Japan"

A licensee or proprietor of a mark can approach the court to restrain parallel importation on the grounds that such importation is in breach of his contractual right in an agreement with the owner of the mark. The Nigerian court has recognized and protected the right of a licensee or proprietor of a mark to the exclusive distribution of its goods in Nigeria.

At the Federal High Court in the case of **Honda Company Ltd and Anor. v. Bright Motors and 4 Ors** granted injunctive orders to restrain sale and importation of Honda products into Nigeria except through the authorized main dealer of Honda products in Nigeria. The court also granted an order to restrain the Defendants from selling the Honda cars imported into the country and for the cars to be warehoused with a warehouse nominated by the Plaintiffs pending the determination of the suit.

Exhaustion Doctrine in the European Union compared;

The principle of "exhaustion of rights" was developed by the European Court of Justice ("ECJ") in a series of cases . The ECJ was of the view that the fact that a registered trade mark user has an exclusive right to the use of the registered trade mark does not completely safeguard such trade mark user from parallel importation. There are however limitations to the exclusive rights principle with respect to the enforcement of registered trademarks. These limitations were derived from the doctrines of "exhaustion of rights" and policy of competition laws of the European Union and the United Kingdom. . The European Competition law was created by the European Union Treaty with the aim of establishing a single or internal market amongst the member countries by eliminating obstacles to the free circulation of goods

In **Terrapin V. Terranova and Merck V. Stephar** the ECJ directed that once goods are put on the market by a registered proprietor or with his consent, the free circulation rule is said to apply. The registered trade mark rights cannot therefore be used to prevent further dealings on the goods. In this instance, the rights of the trade mark proprietor will be said to have exhausted and the goods can therefore be moved freely amongst the European Union member countries. The ECJ stated that this principle of exhaustion of rights is not applicable outside the EU member states.

The European Commission guarantees intellectual property rights of its member states; Article 30 of the EC Treaty however disallows the use of these rights to create territorial restrictions or to restrict free movement of goods within the EU.

Fair Trade Vs Monopoly

In most developing countries, parallel trade is considered not only as a tool for promoting competition in foreign markets and a tool to prevent possible anti-competitive behaviours of an exclusive distributor it is also regarded as an opportunity for economic growth. In Nigeria, there is currently no competition law in the country. It is therefore a challenge to prohibit or control monopoly of a particular product in the Nigerian market.

Commentators on the issue of parallel imports are of the view that price discrimination or distribution inefficiencies in authorized distribution channels artificially restrict competition to the disadvantage of consumers in countries with higher or unstable commodity prices. There is also the view that parallel imports enhance competition and efficiency, thus benefiting consumers in importing countries .

REMEDIES AVAILABLE AGAINST PARALLEL IMPORTS

As we highlighted above it is difficult as a general rule to prevent parallel importation in Nigeria. However, in view of the absence of a national exhaustion regime in Nigeria there are certain measures that parties can take.

1. Documentation - a Pre – dispute remedy

Both foreign holder and local representative can ensure that pre contractual rights are well documented and consents explicitly withheld waived or howsoever in order to ensure the effective enforcement of IPR or wholesome competition whichever the case may be.

2. Pursuit of remedy in Court for unlawful interference with Economic rights.

Action against a parallel importer if it is shown that there is a legal interest, which is sought to be protected, and that the licensee has suffered an injury or damage as a result of the Importers acts of interfering with its rights, privilege and benefits conferred on him by law. Injunction may be sought to restrain an offender from further interfering with the legal or economic interest of the owner of the trade mark, and an order of court for the delivery or destruction of the marked goods. The owner of the mark or licensee could also seek monetary damages or compensation for loss of profit as far as can be established.

3. Enforcement of Contractual obligation

The enforcement of the terms of any agreement between the parties It is important to state that there is a growing acknowledgement by national governments and international organizations that appropriate structure and vigorous enforcement of contracts between the parties can promote international trade.

CONCLUSIONS

(i) The regional exhaustion principle has been developed consistently in Europe since the 1970s and has helped to ensure economic growth in that region, the same cannot be said of the West African region. The failure to domesticate the ECOWAS Competition Rules by ECOWAS member states (including Nigeria) does not give the rules the force of law and ECOWAS therefore cannot be said to practice the regional exhaustion doctrine in reality.

(ii) In Nigeria, the Competition Bill (Nigeria Antitrust (Enforcement, Miscellaneous Provisions, etc) Bill 2008) is yet to be passed into law; the ECOWAS Competition Rules is yet to be domesticated in order to have effect as a municipal law in Nigeria. In view of this the principle of “regional exhaustion of rights” or “free circulation of goods” cannot be said to apply in Nigeria.

(iii) For the rights of a Proprietor of a Trademark to be protected by national intellectual property rights laws such as the Nigeria Trade Marks Act and the Nigeria Merchandise Marks Act, the extent of protection should be such that would not hinder the free movement of goods to ensure a harmonious, balanced and sustainable development of economic activities.

(iv) Owners of marks should grant non-exclusive rights to proprietors in West African countries. This will enable the owners have multiple channels for the distribution of its goods, reducing the possibility of parallel importation of its goods.

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