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**RETHINKING TRADE MARK EXHAUSTION:
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WAY FORWARD?**

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Rethinking Trade Mark Exhaustion: Does Australia's New Defence Offer a Way Forward?

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I. The global convergence towards restrictive trade mark exhaustion rules

Around the world, trade mark exhaustion has long been recognised to be a highly controversial issue. It is, however, an issue that is rarely considered from a comparative legal perspective. There are a number of likely reasons for this. Most obviously, there is a lack of international harmonisation of trade mark exhaustion rules. The most that can be said is that Members of the World Trade Organization (WTO) have agreed to ensure that the scope of their domestic trade mark laws are limited, so as not to allow owners to prevent all acts of importation and/or resale of goods bearing their marks, to ensure that those domestic laws do not operate as disguised restrictions on international trade.¹ Beyond this, international and bilateral agreements are silent on the form that such limitations on trade mark owners' rights must take.² Therefore, it falls to WTO Members to make decisions as to the nature and scope of their trade mark exhaustion rules at a local level. These decisions will involve specific choices as to what rules will provide the optimal balance between competing economic policy considerations for that Member. In short, this will involve balancing the desirability of shielding trade mark owners from competition, preserving authorised distribution

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¹ This is the effect of two articles of the General Agreement on Tariffs and Trade 1994, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1A, 1867 U.N.T.S. 187, 33 I.L.M. 1153 (1994) (hereinafter, "GATT 1994"). Article XI(1) of GATT 1994 bars contracting parties from setting up prohibitions or restrictions other than duties, taxes or other charges on the importation of products from another territory. Article XX(d), however, provides that nothing in GATT 1994 "shall be construed to prevent the adoption or enforcement by any contracting party of measures necessary to ... secure compliance with laws which are not inconsistent with the provisions of this Agreement, including those relating to ... the protection of ... trade marks." This is itself subject to the requirement, also contained in article XX(d), that such measures not be "applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade." See generally LAZAROS G. GRIGORIADIS, TRADE MARKS AND FREE TRADE: A GLOBAL ANALYSIS ch. 4 (2014).

² See, e.g., Agreement on Trade-Related Aspects of Intellectual Property Rights art 6, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1867 U.N.T.S. 299, 33 I.L.M. 1197 ("nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights").

networks and limiting certain forms of “free riding” on the one hand, with the desirability of enhancing competition in markets and promoting net consumer welfare by discouraging unfair price discrimination on the other hand.³

At the broadest level, this means that WTO Members are free to determine, in accordance with their local economic interests, whether they will adopt a system of international exhaustion, national exhaustion, or, in the case of trading blocs like the EU, regional exhaustion.⁴ Members are also free to make specific choices as to the form and scope of their local rules permitting the parallel importation and/or resale of legitimate branded goods. Three examples show the array of options that are available. First, there is the threshold question of how to define the “legitimacy” of the trade marked goods that can be imported/resold. This might involve making determinations as to when goods can be said to be first put on the market, and dealing with situations where the ownership of the same mark is divided across multiple jurisdictions. Second, Members need to make decisions as to how the importation/resale of legitimate goods is to be addressed where such acts might generate a degree of consumer confusion. Specifically, how might a member deal with situations where the legitimately branded goods are sold in a degraded condition, or have been altered (for example, to comply with local regulatory requirements)? How might a Member deal with repackaged or relabelled goods? What is the relevance, if any, of the fact that the owner has sold goods under the same mark in different jurisdictions, where there are material quality differences (“MQDs”) between such goods? Third, Members will need to make choices as to whether the importation and/or resale of legitimate goods ought to be restrained where such acts, even if they do not generate consumer confusion, might harm the reputation of the trade mark owner. Further, this range of issues might be managed in particular Members through various legal techniques: for example, through limitations contained in registered trade mark laws, through the development of case law fleshing out the scope of those limitations, through the development of “unfair competition” type principles that apply whether or not the mark in question is registered, or a combination of all of the above.

Given the policy choices and legal options available to WTO Members, it is not surprising that local laws on trade mark exhaustion differ from each other substantially in their scope and technical details. It is also unsurprising that most critical commentary on exhaustion has tended to focus on the rules of particular jurisdictions in isolation, with relatively little regard for the approaches taken elsewhere. Over recent years, however, a body of comparative legal scholarship on trade mark

³ This balancing exercise has been well canvassed in the literature. *See, e.g.*, Carsten Fink, *Entering the Jungle of Intellectual Property Rights: Exhaustion and Parallel Importation*, in *INTELLECTUAL PROPERTY AND DEVELOPMENT: LESSONS FROM RECENT ECONOMIC RESEARCH* (Carsten Fink & Keith E. Maskus eds., 2005).

⁴ *See generally* SHUBHA GHOSH & IRENE CALBOLI, *EXHAUSTING INTELLECTUAL PROPERTY RIGHTS: A COMPARATIVE LAW AND POLICY ANALYSIS* ch. 4 (2018).

exhaustion has started to emerge.⁵ Drawing on this scholarship, it is possible to identify a number of points of convergence among the exhaustion laws of key jurisdictions. Most notably, it is readily apparent that parallel importation and the sale of second-hand goods have come to be treated with a high degree of scepticism, in both legislatures and courts, around the world.

To explain, although a strong case has been made by legal scholars⁶ and in economist-led government inquiries⁷ over recent years for Members to embrace a liberal, competition-enhancing approach to exhaustion rules, the issue has come to be addressed by legislatures and courts in a restrictive manner. In multiple jurisdictions, rules ostensibly designed to permit parallel importation are consistently made subject to substantial qualifications and restraints. For example, courts and legislatures have taken a narrow approach to what constitutes “legitimate” goods in cases involving branded samples and testers,⁸ and in cases of divided ownership across jurisdictions.⁹ When dealing

⁵ Notable recent examples from the last five years include GHOSH & CALBOLI, *supra* note 4; GRIGORIADIS, *supra* note 1; RESEARCH HANDBOOK ON INTELLECTUAL PROPERTY EXHAUSTION AND PARALLEL IMPORTS (Irene Calboli & Edward Lee eds, 2016), Andrea Zappalaglio, *International Exhaustion of Trade Marks and Parallel Imports in the U.S. and the EU: How to Achieve Symmetry?*, 5 QUEEN MARY J. INTELL. PROP. 68 (2015). For older interventions, see WARWICK A. ROTHNIE, PARALLEL IMPORTS ch. 2 (1993); Kaoru Takamatsu, *Parallel Importation of Trademarked Goods: A Comparative Analysis*, 57 WASH. L. REV. 433 (1982).

⁶ See, e.g., Irene Calboli, *Market Integration and (the Limits of) the First Sale Rule in North American and European Trademark Law*, 51 SANTA CLARA L. REV. 1241 (2011); Enrico Bonadio, *Parallel Imports in a Global Market: Should a Generalised International Exhaustion Be the Next Step?*, 33 EUR. INTELL. PROP. REV. 153 (2011); Frederick M. Abbott, *Second Report (Final) to the Committee on International Trade Law of the International Law Association on the Subject of the Exhaustion of Intellectual Property Rights and Parallel Importation*, 69TH CONFERENCE OF THE INTERNATIONAL LAW ASSOCIATION (2000), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1921856. Others have put forward a more cautious view of the benefits of adopting more liberal exhaustion regimes (noting the limited empirical evidence in this field). See, e.g., Keith E. Maskus, *Economic Perspectives on Exhaustion and Parallel Imports*, in RESEARCH HANDBOOK ON INTELLECTUAL PROPERTY EXHAUSTION AND PARALLEL IMPORTS (Irene Calboli & Edward Lee eds., 2016).

⁷ Australia provides the clearest example over the past 20 years. See PRODUCTIVITY COMMISSION, INTELLECTUAL PROPERTY ARRANGEMENTS 393–97 (2016), available at <https://www.pc.gov.au/inquiries/completed/intellectual-property/report/intellectual-property.pdf>; COMPETITION POLICY REVIEW: FINAL REPORT 165–67, 174–77 (2015), available at http://competitionpolicyreview.gov.au/files/2015/03/Competition-policy-review-report_online.pdf [hereinafter, HARPER REVIEW]; HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON INFRASTRUCTURE AND COMMUNICATIONS, AT WHAT COST?: IT PRICING AND THE AUSTRALIA TAX 76 (2013), available at www.aph.gov.au/parliamentary_business/committees/house_of_representatives_committees?url=ic/itpricing/report.html; INTELLECTUAL PROPERTY AND COMPETITION REVIEW COMMITTEE, REVIEW OF INTELLECTUAL PROPERTY LEGISLATION UNDER THE COMPETITION PRINCIPLES AGREEMENT 188–91 (2000), available at https://www.ipaustralia.gov.au/sites/default/files/ergas_report_september_2000.pdf.

⁸ This can be seen in restrictive decisions of the Court of Justice of the European Union. See, e.g., Case C-324/09, L’Oréal SA v. eBay Int’l AG, 2011 E.C.R. I-6011 (testers and samples of perfume are not “put on the market” if supplied only for promotional purposes); Case C-127/09, Coty Prestige Lancaster Group GmbH v. Simex Trading AG, 2010 E.C.R. I-4965, ¶ 48 (no exhaustion of rights in relation to tester bottles of perfume supplied to retailers, since the owner had not consented to the placement of the goods on the market). See also Samsonite IP Holdings Sarl v. An Sheng Trading Pte Ltd., [2017] SGHC 18, ¶ 100 (Sing. High Ct.) (samples only “put on the market” if an “independent third party has acquired the right of disposal of the goods bearing the trade mark.”).

⁹ See, e.g., *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 292–93 (1988) (considering regulations interpreting the scope of the Tariff Act of 1930 § 526(a), 19 U.S.C.A. § 1526, and holding that parallel importation is possible only where the owners of the local and foreign marks are subject to common control, and not where the U.S. owner has licensed the foreign manufacturer to use the mark). See also J. THOMAS MCCARTHY, 5 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, § 29:49 (5th ed. 2018).

with cases involving undeniably legitimate branded goods, courts and legislatures have shown themselves to be highly protective of brand owner interests by imposing strict limits on importation and resale. For instance, when considering dealings with foreign-made goods with MQDs to those sold in local markets, courts have gravitated towards a low threshold of “materiality,” often relying on attenuated forms of consumer confusion as between the local and foreign branded goods, in order to enjoin defendants from importing and reselling the foreign goods.¹⁰ Courts, particularly in the EU, have shown a degree of hostility towards the repackaging and relabelling of legitimate products, setting up onerous and vaguely-expressed requirements with which an importer must comply so as not to infringe.¹¹ Such courts have also shown a willingness to intervene to prevent parallel importation if this might be thought to harm the reputation of the brand owner (e.g., in its luxury goods), both in the absence of consumer confusion or any empirical evidence that the conduct in question would cause reputational damage.¹² More generally, it is striking that many jurisdictions have structured their exhaustion rules in such a way to place the burden of proof as to certain matters on the defendant, where only the plaintiff would have access to the relevant evidence, thus making it difficult for importers and resellers to have any confidence in advance as to whether or not their conduct is non-infringing.¹³

While the reasons for legislatures’ and courts’ scepticism towards parallel importation are certainly worth exploring in greater detail,¹⁴ this focus of this paper is on a more forward-looking issue. Given how restrictive most jurisdictions’ laws on exhaustion have become, it is important to consider whether there are other ways WTO Members could approach exhaustion and, if so, what a

¹⁰ It is possible to point to a number of far-reaching U.S. examples, where the importation and sale of legitimate goods was held to constitute infringement on the basis of only slight MQDs. *See, e.g.,* Zino Davidoff SA v. CVS Corp., 571 F. 3d 238 (2d Cir. 2009); Martin’s Herend Imports, Inc. v. Diamond & Gem Trading USA Co., 112 F. 3d 1296 (5th Cir. 1997); Lever Bros. Co. v. United States, 981 F. 2d 1330 (D.C. Cir. 1993); Societe Des Produits Nestle SA v. Casa Helvetia, Inc., 982 F. 2d 633 (1st Cir. 1992); Ferrero USA, Inc. v. Ozak Trading, Inc., 935 F.2d. 1281 (3d Cir. 1991). *See also* Colgate-Palmolive Ltd. v. Markwell Finance Ltd., [1989] R.P.C. 497 (C.A.) (Eng.).

¹¹ *See* LIONEL BENTLY ET AL., INTELLECTUAL PROPERTY LAW 1151–56 (5th ed. 2018).

¹² *See* Case C-337/95, Parfums Christian Dior SA v. Evora BV, 1997 E.C.R. I-6013. *See also* Case C-59/08, Copad SA v. Christian Dior Couture SA, 2009 E.C.R. I-3241, ¶ 37 (restriction on distributors from selling lingerie to discount stores legitimate if the sales would impact on the quality of the goods, which included their aura of luxury).

¹³ *See, e.g.,* Case C-244/00, Van Doren + Q GmbH v. Lifestyle sports + sportswear Handelsgesellschaft mbH, 2003 E.C.R. I-3051 (onus is on the parallel importer to prove consent to the goods being put on the market). *See also* Copad, 2009 E.C.R. at ¶ 51 (no consent to goods being put on the market if goods distributed by licensee outside the scope of the license agreement in particular circumstances, but where the details of some of these circumstances could not be known by the importer).

¹⁴ In addition to the familiar arguments put forward in favour of restrictive exhaustion rules (discussed *supra* note 3), it might be argued that courts and legislatures have gravitated to this position because of concerns that parallel importation potentially involves “unfairness” or “free riding” (a point noted in ANNETTE KUR & MARTIN SENFTLEBEN, EUROPEAN TRADE MARK LAW: A COMMENTARY ¶ 6.101 (2017)). Other reasons might be that courts and legislatures do not wish to be seen to be condoning the distribution of goods that have been sourced in breach of upstream licence agreements, or that they have been receptive to the argument that exhaustion rules should offer a degree of “overprotection” to brand owners to prevent or discourage the importation and sale of counterfeit goods.

model for reform might look like. In this regard, it is highly instructive to look at recent developments in Australia. With the introduction of a new defence to infringement contained in section 122A of the Trade Marks Act of 1995, which came into effect on August 25, 2018,¹⁵ Australia now has the most liberal trade mark exhaustion regime of any major jurisdiction. In summary, the new defence to infringement applies if the parallel importer or reseller *reasonably believed* that the mark was originally applied to the goods by or with the consent of the owner, or a range of other parties, with “consent” being defined in exceptionally broad terms. In a reversal of the typical onus of proof, if an importer/reseller forms such a reasonable belief it will not be liable for infringement unless it persists in its conduct after information as to the *lack* of consent to application of the mark is brought to its attention. And, crucially, the defence does not in any way turn on whether the imported/resold goods have been altered, repackaged or relabelled, or if there are MQDs between the imported/resold goods and those supplied locally by or under the licence of the mark owner.¹⁶

Part II provides context for the new Australian exhaustion laws, showing that Australia, over the course of the twentieth century, had recognised the benefits of facilitating the parallel importation of legitimate goods, but that since the mid-1990s an overly restrictive approach had come to be taken by the legislature and courts. Part III then offers a detailed examination of the liberal new section 122A defence, analysing its scope by reference to the more restrictive pre-2018 case law, and showing how it operates more favourably to importers and retailers than any other set of exhaustion rules in the world. Part IV then uses the recent Australian reforms as a springboard for a broader reconsideration of whether trade mark exhaustion rules in other jurisdictions should be liberalised, showing that the Australian approach is underpinned by different ways of thinking about exhaustion—namely, as to the proper scope of registered owners’ rights, as to what sort of conduct by importers and owners we want to incentivise, and as to how risk should be allocated between such parties.

II. How did Australia arrive at its current position?

Australia has long had a clear policy position in favour of allowing the parallel importation of legitimate goods, recognising the harm to local consumers caused by excessive restrictions on such

¹⁵ *Trade Marks Act 1995* (Cth) s 122A (Austl.) (introduced by the *Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Act 2018* (Cth) sch 1, item 2 (Austl.)).

¹⁶ Issues of consumer confusion will be relevant if an action is brought against the importer/reseller in passing off or under the Australian statutory consumer protection regime. However, even in this context, courts are likely to take countervailing pro-competition policy considerations into account. *See generally* ROBERT BURRELL & MICHAEL HANDLER, *AUSTRALIAN TRADE MARK LAW* ch. 13 (2d ed. 2016).

trade.¹⁷ This position was reflected in domestic trade mark laws as they developed over the course of the twentieth century. However, problems with the initial drafting of the current statute, the Trade Marks Act of 1995, and a series of subsequent Federal Court decisions interpreting that statute, started to undermine this policy position. Understanding this background is necessary to appreciate the problems the new section 122A defence was intended to overcome, and why the new defence is so broad in its scope.¹⁸

Before 1995, Australian legislation did not contain provisions dealing with the exhaustion of a registered trade mark owner's rights. Rather, exhaustion was an issue left to the judiciary. In 1929, in the English case of *Champagne Heidsieck et Cie Monopole Société Anonyme v. Buxton*,¹⁹ it was held that the importation into, and subsequent sale in, the U.K. of genuine French champagne bearing a registered U.K. trade mark that had been applied to the goods in France by the registered owner constituted neither an infringement of the registered trade mark nor passing off (notwithstanding the fact that the owner had sold similarly-marked champagne, but of a different quality, to its U.K. consumers). The court was particularly scathing of the idea that dealing with legitimate goods could ever constitute trade mark infringement.²⁰ In time, *Champagne Heidsieck* came to be recognised in Australia as turning on the absence of any "trade mark use" by the defendant—"trade mark use," or use "as a trade mark," having being held by Australian courts to be an essential requirement for infringement.²¹ Reading *Champagne Heidsieck* in this manner thus resulted in the establishment of an international exhaustion rule in Australia. It was a rule that was comfortably applied by lower courts in cases involving similar facts to *Champagne Heidsieck*²² and was noted by commentators as being sufficiently flexible to deal with new fact scenarios involving parallel importation and the

¹⁷ See Mark Davison, *Parallel Importing in Australia: What Is the Objective and Is It Being Achieved?*, 38 MONASH U. L. REV. 173, 175–76 (2012) [hereinafter, Davison, *What Is the Objective*]. On the domestic economic factors supporting this position, see *supra* note 7.

¹⁸ See generally Robert Burrell & Michael Handler, *A Requiem for Champagne Heidsieck: Trade Mark Use and Parallel Importation*, 26 AUSTL. INTEL. PROP. J. 110 (2016) (hereinafter, Burrell & Handler, *A Requiem*).

¹⁹ [1930] 1 Ch. 330 (Ch.) (Eng.).

²⁰ *Id.* at 338, 341.

²¹ See *Shell Co. of Austl. Ltd. v. Esso Standard Oil (Austl.) Ltd.* (1963) 109 CLR 407, 422–23 (Kitto J, with whom Dixon CJ, Taylor J and Owen J agreed) (Austl.). Although both the U.K. and New Zealand had, by this time, amended their laws to ensure that the sort of conduct in issue in *Champagne Heidsieck* amounted to prima facie infringement, Australia had consciously decided not to go down this path. See REPORT OF COMMITTEE APPOINTED TO CONSIDER WHAT ALTERATIONS ARE DESIRABLE IN THE TRADE MARKS LAW OF THE COMMONWEALTH ¶¶ 26–27 (1954). As a result, *Champagne Heidsieck* remained good authority as to the scope of the Australian infringement provision.

²² See *Delphic Wholesalers Pty Ltd. v. Elco Food Co. Pty Ltd.* (1987) 8 IPR 545 (Vict. Sup. Ct.) (Austl.); *R. & A. Bailey & Co. Ltd. v. Boccaccio Pty Ltd.* (1986) 4 NSWLR 701 (N.S.W. Sup. Ct.) (Austl.); *Atari Inc. v. Fairstar Elecs. Pty Ltd.* (1982) 50 ALR 274 (Fed. Ct.) (Austl.). See also *Wingate Mktg. Pty Ltd. v. Levi Strauss & Co.* (1994) 49 FCR 89, 111 (Full Fed. Ct.) (Austl.) (considering the sale of second-hand goods).

resale of second hand goods.²³ Having said this, it is possible to point to one case in this period in which the Federal Court was unwilling to apply *Champagne Heidsieck* to permit the importation of genuine goods that had been purchased in the U.S. where the Australian registered mark was owned by an authorised local distributor of the U.S. manufacturer's goods,²⁴ although this decision was rightly criticised as having turned on the irrelevant point that the Australian distributor had generated independent goodwill.²⁵ As a related matter, Australian courts had come to recognise that parallel importers could separately be liable for passing off if they made misrepresentations about the goods they were selling (e.g., that the goods were covered by warranties, or about the goods' compatibility with local technical standards).²⁶ However, such courts did not have the opportunity to consider whether, notwithstanding the authority of *Champagne Heidsieck*, the existence of MQDs between the imported and local goods could give rise to passing off, as U.S. and U.K. courts had come to find.²⁷

In the early 1990s, a Working Party set up by the government to review Australia's trade mark laws recommended that exhaustion should be addressed specifically by way of a new statutory defence to infringement. Seemingly guided by the more restrictive approach to parallel importation that had come to be taken in other countries, as well as submissions supporting such an approach,²⁸ the Working Party recommended that the new defence permitting parallel importation of legitimate goods apply only if the following three conditions were met:

- (i) the mark has been applied to the goods by or with the consent of the trade mark proprietor;
- (ii) in the case of new goods the condition of the goods has not been changed or impaired; and
- (iii) where the goods are also being supplied by or with the consent of the registered proprietor, the goods the subject of the importation are not materially different from the first-mentioned goods.²⁹

²³ See Sam Ricketson, *The Licensing of Trade Marks and the Operation of Section 103 of the Trade Marks Act 1955 (Cth): Some Aspects of the Pioneer Case*, 14 U. W. AUSTRALIAN L. REV. 30, 67–69 (1979). See also D. R. SHANAHAN, AUSTRALIAN LAW OF TRADE MARKS AND PASSING OFF 515–19 (2d ed. 1990).

²⁴ *Fender Austl. Pty Ltd. v. Bevk* (1989) 25 FCR 161 (Austl.).

²⁵ See Mark Davison, *Parallel Importing of Trade Marked Goods—An Answer to the Unasked Question*, 10 AUSTRALIAN INTELLECTUAL PROP. J. 146, 151–52 (1999).

²⁶ See, e.g., *Star Micronics Pty Ltd. v. Five Star Computers Pty Ltd.* (1990) 18 IPR 225 (Fed. Ct.) (Austl.) (false representations as to warranty coverage and compatibility of goods with local power source).

²⁷ See *supra* note 10 (on U.S. case law); ROTHNIE, *supra* note 5, at 40–44 (on passing off cases from British Commonwealth countries).

²⁸ See, e.g., Law Council of Australia, Intellectual Property Committee, *Response to Working Party Paper* 11–12 (Feb. 1992) (copy on file with author).

²⁹ WORKING PARTY TO REVIEW THE TRADE MARKS LEGISLATION, RECOMMENDED CHANGES TO THE AUSTRALIAN TRADE MARKS LEGISLATION 75, 78 (Recommendation 22D(4)) (1992) (hereafter, WORKING PARTY REPORT). The Working Party made a separate recommendation that use on second-hand goods should be permitted, “provided that the mark has

The government did not implement this recommendation. Rather, the Trade Marks Act of 1995, as enacted, specified that infringing use needed to be use “as a trade mark” (section 120) and provided a defence to infringement for the use of a trade mark on goods “if the trade mark ha[d] been applied to, or in relation to, the goods by, or with the consent of, the registered owner of the trade mark” (section 123(1))—significantly, with no further qualifications.

It might have been thought that the new statutory requirement that infringing use be use “as a trade mark” would have entrenched the *Champagne Heidsieck* line of authority. However, by the time of the 1995 Act, a different line of High Court cases considering “use” outside of the context of infringement had emerged, which cast doubt on the idea that an importer or reseller of legitimate branded goods was not engaging in trade mark use.³⁰ This line of cases, as well as academic criticism of the judicial interpretation of *Champagne Heidsieck* as turning on the absence of trade mark use,³¹ helped bring about a substantial change under the 1995 Act. Over a series of decisions between 1999 and 2016, the Full Court of the Federal Court interpreted use “as a trade mark” in section 120 to *include* the importation and resale of legitimate goods, overturning *Champagne Heidsieck* in the process.³² For reasons explored elsewhere, these decisions are regrettable. Not only are they based on a misunderstanding of *Champagne Heidsieck* and the evolution of the trade mark use inquiry over the course of twentieth century Australian law, but they also eviscerated a key doctrine of Australian law that could have been used in a flexible manner to give effect to the desired policy goal of facilitating the parallel importation and resale of legitimate goods.³³ In doctrinal terms, the main consequence of these decisions was to make the section 123(1) defence to infringement the only provision relevant to determining when a registered owner’s rights were exhausted.

In many respects, section 123(1), which turned solely on whether the mark had been applied to the goods by or with the owner’s consent, had an expansive sphere of operation. For example, in its 2016 decision in *Scandinavian Tobacco Group Eersel BV v. Trojan Trading Co. Pty Ltd.* the Full Court of the Federal Court held that the section 123(1) defence was made out where the registered

been applied to the goods by or with the consent of the registered proprietor at the time the mark was applied to the goods.” *Id.* at 78 (Recommendation 22D(5)).

³⁰ See, e.g., *Pioneer Kabushiki Kaisha v. Registrar of Trade Marks* (1977) 137 CLR 670 (Austl.); *W.D. & H.O. Wills (Austl.) Ltd. v. Rothmans Ltd.* (1956) 94 CLR 182 (Austl.).

³¹ See Mark Davison, *Parallel Importation: Unlawful Use of Trade Marks*, 19 FED. L. REV. 420 (1990).

³² See *Scandinavian Tobacco Group Eersel BV v. Trojan Trading Co. Pty Ltd.* (2016) 243 FCR 152 (Austl.); *Paul’s Retail Pty Ltd. v. Lonsdale Austl. Ltd.* (2012) 294 ALR 72 (Austl.). These decisions confirmed obiter dicta in *Paul’s Retail Pty Ltd. v. Sporte Leisure Pty Ltd.* (2012) 202 FCR 286 (Austl.), *E. & J. Gallo Winery v. Lion Nathan Austl. Pty Ltd.* (2009) 175 FCR 386 (Austl.) and *Transp. Tyre Sales Pty Ltd. v. Mont. Tyres Rims & Tubes Pty Ltd.* (1999) 93 FCR 421 (Austl.).

³³ See Burrell & Handler, *A Requiem*, *supra* note 18, at 117–20.

owner had applied its marks to the packaging of its cigars outside Australia, and the importer had subsequently repackaged these goods, re-applying the marks in a form that complied with Australian “plain packaging” requirements.³⁴ This decision was consistent with understandings that had been expressed in case law and scholarship that section 123(1) was also broad enough to apply in cases where the mark had been applied with the owner’s consent to goods that had been repaired or reconditioned before import or resale,³⁵ and to goods with MQDs to goods supplied to the Australian market by the mark owner.³⁶ Further, there can be little doubt that section 123 would have been established where the registered owner applied its mark to samples or testers, even if these had never been put on the market,³⁷ or where the importer or reseller had marketed the owner’s legitimate goods in a manner that might have affected the “prestige” of the mark.³⁸ It is also worth emphasising that, in this period, Australian courts were not prepared to apply expansive notions of “misrepresentation” to find parallel importers liable for passing off or contravention of statutory prohibitions on engaging in misleading or deceptive conduct.³⁹ For example, in *Scandinavian Tobacco* the Full Court gave short shrift to the argument that Australian consumers would expect that any repackaging must have been done under the authority of the mark owner, saying that such arguments did “not rise above mere conjecture.”⁴⁰

However, section 123(1) had a number of serious deficiencies that substantially narrowed its scope—these are more likely to have been the result of drafting oversights than Parliament’s intention to restrict the circumstances in which parallel importation was permissible. Most obviously, section 123(1) required the necessary “consent” to the application of the mark to be that of the

³⁴ *Scandinavian Tobacco*, 243 FCR at 167–71.

³⁵ Cf. *Wingate Mktg. Pty Ltd. v. Levi Strauss & Co.* (1994) 49 FCR 89 (Full Fed. Ct.) (Austl.) (sale of reconditioned Levi’s jeans held not to constitute trade mark infringement). Although *Wingate* was decided under former legislation, it was held at trial in *Scandinavian Tobacco Group Eersel BV v. Trojan Trading Co. Pty Ltd.* (2015) 330 ALR 678 (Fed. Ct.) that section 123 “vindicate[s] th[e] very idea found in *Wingate*.” *Id.* at 696.

³⁶ See Burrell & Handler, *A Requiem*, *supra* note 18, at 121–24.

³⁷ Cf. *Parfums Christian Dior (Austl.) Pty Ltd. v. Dimmeys Stores Pty Ltd.* (1997) 39 IPR 349 (Fed. Ct.) (Austl.) (finding a serious issue to be tried as to infringement under section 120, but not considering the potential application of the section 123 defence).

³⁸ This is because Australian law does not provide a cause of action for the dilution of a well-known mark, or the taking of unfair advantage of the reputation of a mark, in the absence of confusion as to origin. See generally Michael Handler, *Trade Mark Dilution in Australia?*, 29 EUR. INTEL. PROP. REV. 307 (2007).

³⁹ Since Jan. 1, 2011, the key statutory prohibition has been contained in the *Competition and Consumer Act 2010* (Cth) sch 2, s 18 (Austl.).

⁴⁰ *Scandinavian Tobacco Group Eersel BV v. Trojan Trading Co. Pty Ltd.* (2016) 243 FCR 152, 172 (Austl.). See also *Pioneer Elecs. (Austl.) Pty Ltd. v. Woodlands Res. (Austl.) Pty Ltd.* (2000) 49 IPR 299 (Fed. Ct.) (Austl.) (interlocutory injunction not granted to restrain the sale in Australia of genuine DVD players imported from China on the basis of thin evidence of alleged misrepresentations as to safety and warranties). Cf. *Pioneer Elecs. Austl. Pty Ltd. v. Lee* (2000) 108 FCR 216 (Fed. Ct.) (Austl.) (injunction to restrain passing off granted where the importer falsely represented that the imported goods had been approved by an authorised distributor, and where the goods were not safe for sale in Australia). See generally Arlen Duke, *The Empire Will Strike Back: The Overlooked Dimension to the Parallel Import Debate*, 37 MELB. U. L. REV. 585, 594–96 (2014).

“registered owner,” a term defined as “the person in whose name the trade mark *is* registered.”⁴¹ This meant that if the mark had been applied to goods by a foreign parent company, but the Australian registration was owned by an Australian subsidiary or distributor, the defence did not apply, given the absence of any consent by the Australian registered owner.⁴² More worryingly from an antitrust perspective was that, because “registered owner” was defined in the present tense, a foreign manufacturer and registered owner of the Australian mark could block the parallel importation of those goods into Australia by assigning the mark to an Australian distributor or shell company *after* the application of the mark but before the act of parallel importation (at which point in time the foreign manufacturer was no longer the “registered owner” for the purposes of establishing consent under section 123(1)).

An equally significant problem was that the defence turned on the question of the “consent” to application of the mark, rather than the legitimacy of the goods sought to be imported or resold. As confirmed by the Federal Court, this meant that where the registered owner had granted a licence to the application of the mark on certain conditions—for example, that the goods were to be sold in a particular country,⁴³ or that only a limited number of goods could be manufactured—any conduct in breach of such conditions vitiated the owner’s consent to the initial application, making the importation of such goods into Australia infringing. The problem here was that the goods produced in such circumstances would often be indistinguishable from those produced in accordance with the terms of the licence agreement,⁴⁴ and a parallel importer would often have no way of knowing whether the goods they had purchased (likely from a downstream intermediary) had been made in breach of an upstream agreement. For example, imagine a situation where a licence agreement restricted the licensee to the manufacture of 1,000 goods bearing the Australian registered trade mark and prohibited the sale of overruns, and the licensee was approached by two parties, A and B, to sell them 100 goods each. The licensee sold goods 901–1,000 to A and goods 1,001–1,100 to B (this

⁴¹ *Trade Marks Act 1995* (Cth) s 6 (Austl.) (emphasis added).

⁴² See, e.g., *Lonsdale Austl. Ltd. v. Paul’s Retail Pty Ltd.* [2012] FCA 584, [47] (Fed. Ct.) (Austl.).

⁴³ See, e.g., *Paul’s Retail Pty Ltd. v. Lonsdale Austl. Ltd.* (2012) 294 ALR 72 (Full Fed. Ct.) (Austl.) (no “consent” to application of the mark where the head licence agreement allowed the licensee to apply the mark to goods manufactured in China for sale in Europe, and where the licensee arranged for branded goods to be manufactured in China, but where the licensee subsequently sold those goods in China to a Cypriot party for further sale in Europe (the fact that the transfer of property in the goods took place in China meant that the licensee was in breach of the agreement); *Paul’s Retail Pty Ltd. v. Sporte Leisure Pty Ltd.* (2012) 202 FCR 286 (Full Fed. Ct.) (Austl.) (no “consent” to application where the licensee was permitted to apply the mark to goods in India for sale in India, but where the licensee was approached by a Pakistani company to make branded goods for it and to sell those goods to it in Pakistan, which the licensee did, thus breaching the licence agreement).

⁴⁴ They might also be indistinguishable from goods to which the mark had been applied with consent, but had been subsequently distributed in breach of the licence agreement. See *Facton Ltd. v. Toast Sales Group Pty Ltd.* (2012) 205 FCR 378 (Fed. Ct.) (Austl.).

latter sale being in breach of the licence agreement). Subsequently, A and B sold their goods to C, who then sold them to D for importation into Australia. To D, the 200 goods would appear to be identical and genuine, but only those acquired through A could legally be imported into and sold in Australia. The problem was compounded by section 123(1) being structured so as to place the onus on the defendant to prove the mark had, in fact, been applied with the requisite consent—knowledge that would, in most cases, be outside the scope of any information reasonably available to either the importer or any intermediary selling the goods.

The problems with section 123(1) were noted not only by commentators,⁴⁵ but also in a number of economist-led government inquiries into Australia’s competition and intellectual property laws in 2015–16.⁴⁶ In particular, the Productivity Commission, the Australian government’s independent advisory and review body on economic matters, expressed its concern that the restrictive wording of section 123(1) and the outcomes of recent Federal Court decisions were in tension with Australia’s preferred policy position of facilitating parallel importation and consumer access to genuine goods.⁴⁷ While the Australian government supported the key recommendations of these inquiries that the exhaustion rules in the Trade Marks Act ought to be reformed,⁴⁸ what is remarkable is how receptive the government was to the criticisms that had been expressed about Australia’s exhaustion regime in enacting reform. In repealing section 123(1) and introducing a new, far-reaching defence to infringement in section 122A, the Australian government has established the most generous approach towards parallel importation and the resale of second hand goods of *any* major jurisdiction.⁴⁹

⁴⁵ See Burrell & Handler, *A Requiem*, *supra* note 18, at 124–30; Arlen Duke & Matthew E. Taylor, *Parallel Import Restrictions: Core Intellectual Property Rights or Unjustified Restraints on Trade?*, 22 COMPETITION & CONSUMER L.J. 254 (2015); Warwick Rothnie, *Trade Marks and Parallel Imports*, 22 COMPETITION & CONSUMER L.J. 39, 44, 47 (2014); Davison, *What Is the Objective*, *supra* note 17, at 183–86.

⁴⁶ PRODUCTIVITY COMMISSION, *supra* note 7; HARPER REVIEW, *supra* note 7.

⁴⁷ PRODUCTIVITY COMMISSION, *supra* note 7, at 393–94, 396–97.

⁴⁸ Australian Government, *Response to the Productivity Commission Inquiry into Intellectual Property Arrangements* 14 (2017), available at https://www.industry.gov.au/sites/g/files/net3906/f/government_response_to_pc_inquiry_into_ip_august_2017.pdf.

⁴⁹ The reform agenda was largely controlled by IP Australia, the government agency that administers the Trade Marks Office. IP Australia first released an Exposure Draft of the Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill 2017 (Cth), available at https://www.ipaustralia.gov.au/sites/default/files/exposure_draft_of_the_intellectual_property_laws_amendment_productivity_commission_response_part_1_and_other_measures_bill_2017_0.pdf (proposing the repeal of section 123(1) and containing a draft section 122A defence). It received submissions on the Exposure Draft (available at <http://ipaustalia.libguides.com/c.php?g=404687&p=4450363%20-%20s-lg-box-wrapper-20498311>), to which it publicly responded, indicating that changes to the proposed section 122A would be made. See IP Australia, *IP Australia Response to Public Consultation on Exposure Draft of Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Matters) Bill and Regulations 2017*, 1–6 (2018), available at https://www.ipaustralia.gov.au/sites/default/files/ip_australia_response_to_consultation_on_draft_ip_laws_amendment_pc_response_part_1_legislation.pdf. These changes were reflected in the Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill 2018 (Cth) sch 1, item 2 (Austl.) that was

III. Australia’s liberal new exhaustion regime

Section 122A of the Trade Marks Act of 1995 relevantly provides as follows:

- (1) In spite of section 120, a person who uses a registered trade mark in relation to goods does not infringe the trade mark if:
 - (a) the goods are similar^[50] to goods in respect of which the trade mark is registered; and
 - (b) before the time of use, the person had made reasonable inquiries in relation to the trade mark; and
 - (c) at the time of use, a reasonable person, after making those inquiries, would have concluded that the trade mark had been applied to, or in relation to, the goods by, or with the consent of, a person (a *relevant person*) who was, at the time of the application or consent (as the case may be):
 - (i) the registered owner of the trade mark; or
 - (ii) an authorised user of the trade mark^[51]; or
 - (iii) a person permitted to use the trade mark by the registered owner; or
 - (iv) a person permitted to use the trade mark by an authorised user^[52] ... ; or
 - (v) a person with significant influence over the use of the trade mark by the registered owner or an authorised user; or
 - (vi) an associated entity^[53] ... of a relevant person mentioned in subparagraph (i), (ii), (iii), (iv) or (v).
- (2) A reference in paragraph (1)(c) to consent to the application of a trade mark to, or in relation to, goods includes, without limitation, a reference to:
 - (a) consent subject to a condition (for example, a condition that the goods are to be sold only in a foreign country); and
 - (b) consent that can be reasonably inferred from the conduct of a relevant person.

introduced into Parliament. The Bill was referred to the Senate Economics Legislation Committee on May 10, 2018. The Committee received submissions (available at https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/IntellectualProperty2018/Submissions) and ultimately recommended that the Bill be passed by the Senate, without amendment. See SENATE ECONOMICS LEGISLATION COMMITTEE, INTELLECTUAL PROPERTY LAWS AMENDMENT (PRODUCTIVITY COMMISSION RESPONSE PART 1 AND OTHER MEASURES) BILL 2018 [PROVISIONS] 21–22 (2018), available at https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/IntellectualProperty2018/Report.

⁵⁰ “Similar” goods are defined to include goods that are “the same.” *Trade Marks Act 1995* (Cth) s 14(1)(a) (Austl.).

⁵¹ An “authorised user” is a particular type of licensee. *Id.* s 8(1). See generally BURRELL & HANDLER, *supra* note 16, at 568–71, 582–88.

⁵² See *Trade Marks Act 1995* (Cth) s 26(1)(f) (Austl.) (on an authorised user’s powers).

⁵³ See *Corporations Act 2001* (Cth) s 50AAA (Austl.) (on when an associate will be an “associated entity” of a principal).

Like the former section 123(1), the new section 122A defence focuses on whether there was consent to the application of the mark to the goods the defendant wishes to import and/or resell. The Australian government did not consider it appropriate to add a requirement, such as exists in EU, New Zealand and Singaporean law, that the owner’s goods must have first been “put on the market” by or with the owner’s consent.⁵⁴ The effect of the Full Court of the Federal Court’s importer-friendly *Scandinavian Tobacco* decision has been retained, with section 122A not imposing any new conditions on the repackaging or relabelling of legitimate goods, or the selling of goods in an otherwise altered state. In addition, the Australian government, like the Productivity Commission before it, was not persuaded by arguments that the new defence should apply only where the goods sought to be imported and/or resold did not have MQDs to those supplied by the owner or its licensee to the Australian market.⁵⁵ In other words, all of the liberal features of the former defence to infringement have been retained.⁵⁶ What is striking is how much further the new section 122A goes—not just compared with the former defence, but also compared with the exhaustion rules of all other major jurisdictions. This can be seen in three key ways.

First, section 122A(1)(c) provides that a large number of parties other than the registered owner can now apply the mark, or consent to the application of the mark, to the goods in question in order to enliven the operation of the defence. Most notably, in addition to various licensees and sub-licensees, and members of the same corporate group as the mark owner,⁵⁷ it is now the case that “a person with *significant influence* over the use of the trade mark by the registered owner or an authorised user”⁵⁸ can apply the mark or consent to its application. This concept, which owes its

⁵⁴ Notably, the version of section 122A(1)(b) in the Exposure Draft of the Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill 2017 (Cth) contained this requirement. In its response to submissions on the Exposure Draft, IP Australia indicated that it had reconsidered its position, stating that the requirement was unnecessary and that other remedies (e.g., for conversion, or breach of contract) would be available for affected owners, leading to the removal of the draft clause. See IP Australia, *supra* note 49, at 2. In doing so, IP Australia implicitly rejected INTA’s submission that the draft section 122A(1)(b) needed to be retained and even strengthened to ensure that the importation and resale of samples and testers did not enliven the defence. See International Trademark Association, *Submission to IP Australia on the Draft Legislation: Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill and Regulations 2017*, 3 (2017), available at http://ipaaustralia.libguides.com/ld.php?content_id=38408694.

⁵⁵ Cf. International Trademark Association, *supra* note 54, at 1. The Productivity Commission had earlier considered that in cases of imported goods with MQDs to those supplied locally, sufficient information would be available to Australian consumers (e.g., as to country of origin, and price differentials) to assist them. See PRODUCTIVITY COMMISSION, *supra* note 7, at 395–96.

⁵⁶ Admittedly, not all of the problems with the former section 123 have been fixed. See Robert Burrell & Michael Handler, *Submission 5 to the Senate Economics Select Committee, Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill 2018*, 4 (2018), available at https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/IntellectualProperty2018/Submissions.

⁵⁷ See also *Trade Marks Act 1995* (Cth) s 122A(3) (Austl.) (providing that for the purposes of determining whether a person is “permitted to use the trade mark” under section 122A(1)(c)(iii)–(iv), the relevant party should “disregard how that permission arose”).

⁵⁸ *Trade Marks Act 1995* (Cth) s 122A(1)(c)(v) (Austl.) (emphasis added).

origins to New Zealand's exhaustion laws,⁵⁹ is remarkably broad. As the Australian government has explained, "significant influence:"

is intended to capture any significant contractual or commercial relationship where one party influences the registered owner or authorised user or vice versa. It is intended to cover contractual arrangements, non-contractual legal arrangements (e.g., deeds or equitable interests), and a wide variety of informal understandings (e.g., where the influence is exercised through the promise of future business or the threat of withdrawing future business; or where the influence is bought through an understanding that a benefit will be provided to a third party).⁶⁰

The key effect of this provision is that it will ensure that the operation of the parallel importation defence cannot be circumvented by a foreign manufacturer structuring its business affairs so that the Australian subsidiary or distributor is, or later becomes, the registered owner of the Australian mark.⁶¹ A common example of such a practice involves a foreign manufacturer assigning its registered Australian mark to a local distributor, on the condition that the distributor sources its goods exclusively from the manufacturer, and that upon termination of the distribution agreement the mark is to be reassigned to the manufacturer.⁶² It was on the basis of such a conditional assignment that, in the Federal Court case of *Fender Austl. Pty Ltd. v. Bevk*,⁶³ the Australian exclusive distributor of U.S.-made Fender guitars was able to restrain the parallel importation of genuine Fender guitars into Australia. This sort of outcome would no longer be possible under section 122A, given the foreign manufacturer would invariably be exercising substantial, ongoing influence over the business activities and use of the mark by the Australian distributor/registered owner.⁶⁴

⁵⁹ See Trade Marks Act 2002, s 97A (N.Z.). See generally Rob Batty, *Parallel Importing and Trade Mark Use: A Tale of Two Uses*, 25 N.Z. U. L. REV 467 (2013).

⁶⁰ Explanatory Memorandum, Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill 2018 (Cth), [21]. This is also reflected in section 122A(4) of the *Trade Marks Act 1995* (providing that for the purposes of assessing "significant influence" the relevant party is to "disregard how that influence arose").

⁶¹ Explanatory Memorandum, Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill 2018 (Cth), [23].

⁶² See MARK DAVISON & IAN HORAK, SHANAHAN'S AUSTRALIAN LAW OF TRADE MARKS AND PASSING OFF 735–36 (6th ed. 2016).

⁶³ (1989) 25 FCR 161 (Austl.).

⁶⁴ Similarly, it was thought that on the facts of *Transp. Tyre Sales Pty Ltd. v. Mont. Tyres Rims & Tubes Pty Ltd.* (1999) 93 FCR 421 (Full Fed. Ct.), the overseas manufacturer's assignment of its registered mark to its Australian distributor after the manufacturer's application of the mark to its tyres prevented the defendant from relying on the former section 123(1) to import tyres after the date of the assignment (although this was not argued before the court). It is now clearly the case that an importer can rely on the new section 122A(1)(c) in these circumstances, since this requires attention to be paid to whether the mark was applied by a "relevant person" (e.g., the registered owner) *at the time of the application*, rather than the time of the prima facie infringing act.

Second, the effect of section 122A(2) is to expand the notion of “consent” in section 122A(1)(c) to include “conditional consent.” That is, where under a licence agreement the registered owner (or another “relevant person”) consents to the licensee applying the mark to goods, provided that the licensee complies with certain conditions set out in the agreement, “consent” remains established for the purposes of section 122A(1)(c). Looked at the other way, nothing now turns on whether the licensee has breached conditions in the licence agreement for the purposes of the application of the defence. This overturns the outcome of the Full Court of the Federal Court’s 2012 decision in *Paul’s Retail Pty Ltd. v. Sporte Leisure Pty Ltd.*⁶⁵ In that case an Indian licensee of registered Australian marks was entitled to apply the marks to clothing in India for sale in India. The licensee was approached by a Pakistani company to supply it with branded clothes, and agreed to fulfil this order in breach of the territorial restriction in the licence agreement. Since it could no longer have been said that the marks had been applied with the consent of the registered owner, the former section 123 did not assist the Australian importer, which had acquired the Pakistani goods via a Singaporean intermediary. Under the new section 122A(1)(c), the registered owner would be deemed to have given consent to the licensee’s application of the mark.⁶⁶ Importantly, the impact of the new section 122A(2) goes well beyond breaches of geographical restrictions in licence agreements. It will also mean that the application of marks to production overruns (as illustrated in Part II above), or to goods of different qualities to those stipulated in a licence agreement, would also now be deemed to be applications with consent for the purposes of section 122A(1)(c).⁶⁷ Indeed, the government does not appear to contemplate any limit to the sort of conditions that can be taken into account.⁶⁸ In these circumstances, it needs to be emphasised that permitting the parallel importation of goods does not deprive the trade mark owner of a remedy, since it will always have an action against the licensee for breach of contract.

Third, in a remarkable change to the law, the application of the defence no longer turns solely on the factual question of whether or not the mark was applied to the goods by or with the consent of a relevant party. Rather, the defence now turns on the *reasonableness* of the defendant’s conduct. Specifically, the combined effect of section 122A(1)(b) and (c) means that the defence will apply if

⁶⁵ (2012) 202 FCR 286 (Austl.).

⁶⁶ The new section 122A would also lead to a different outcome based on the facts in *Paul’s Retail Pty Ltd. v. Lonsdale Austl. Ltd.* (2012) 294 ALR 72 (Full Fed. Ct.) (Austl.) (discussed *supra* note 43), assuming that the marks applied to the goods sold to the licensee in China in breach of the territorial restriction had been substantially identical to the marks registered in Australia.

⁶⁷ See Law Council of Australia, Intellectual Property Committee, *Submission to IP Australia on Draft Legislation: Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill and Regulations 2017*, 5–6 (2017), available at http://ipaaustralia.libguides.com/ld.php?content_id=38408550.

⁶⁸ See Explanatory Memorandum, Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill 2018 (Cth), [26].

the defendant, before undertaking any activity that constitutes “use” of the mark (which includes importation of marked goods, and extends to every act of sale and advertising), makes “reasonable inquiries in relation to the trade mark” and, on the basis of those inquiries, comes to a reasonable conclusion that the mark was applied by or with the consent of one of the listed parties. That is, the defence can potentially apply even where the mark was not, in fact, applied by or with the (conditional) consent of one of the listed parties.⁶⁹

The problem that the “reasonable inquiries” elements of section 122A seek to overcome is that it may be impossible for a parallel importer to be absolutely certain that the goods are, in fact, legitimate. All that the importer can do is make reasonable inquiries as to whether the trade mark had been applied by or with the consent of one of the parties listed in paragraph (c), and act on that information in a reasonable manner. As IP Australia has explained, without such a provision parallel importation would remain “unacceptably risky” and that the supply of parallel imports to Australian consumers would remain stifled, thus undermining the government’s policy.⁷⁰ What might constitute “reasonable inquiries” is to be left to the judiciary, but the government’s view is that:

Requesting and receiving a certificate of authenticity from the supplier would be sufficient in most circumstances. However, the extent of the inquiries will be determined by the facts of the situation. For example, where the supplier is widely known or suspected to supply counterfeit goods or where the goods are being offered at suspiciously low prices or through dubious trade channels, more searching inquiries may need to be made, such as contacting the trade mark owner to confirm consent. Conversely, by way of example, if the goods are purchased from a retailer widely known to be the licensed distributor of the trade mark owner at the normal price of genuine goods in the relevant market, then no further inquiries may be needed.⁷¹

By making the application of the defence turn on the reasonableness of the defendant’s inquiries and conclusions, the defence is far-reaching. It is possible that it will mean that goods that a reasonable importer would consider to be legitimate, but which are in fact counterfeit, can be

⁶⁹ This has the potential to lead to a different outcome to that reached in *QS Holdings Sarl v. Paul’s Retail Pty Ltd.* (2011) 92 IPR 460 (Fed. Ct.) (defendant found liable for the sale of counterfeit goods, where the defendant had no opportunity to argue under the former s 123 that it had conducted itself reasonably in the circumstances by dealing with a reputable supplier and that its dealings with the counterfeit goods were innocent). *See also* Jared Owens, *Sportswear Chain Paul’s Warehouse Was a “Victim” of Foreign Fake Ring*, THE AUSTRALIAN, Sept. 15, 2011, at 3.

⁷⁰ IP Australia, *supra* note 49, at 3.

⁷¹ Explanatory Memorandum, Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill 2018 (Cth), [15].

imported into and circulate in Australia.⁷² However, it needs to be appreciated that the new defence does *not* provide an ongoing licence to import and sell counterfeit goods. The reason for this is that an importer will engage in multiple acts of “use,” at different points in time, for the purposes of section 122A(1)(b). The act of importation will constitute the first act of “use,” and every subsequent sale will also constitute a new “use” of the mark, as will every subsequent advertisement of the goods. If the trade mark owner learns, after the act of importation, that the importer or retailer is continuing to advertise and sell goods to which the mark was not, in fact, applied by or with the consent of a party listed in section 122A(1)(c), the owner can bring this information to the attention of the importer/retailer. Provided that the quality of the information is such that a reasonable person in the importer/retailer’s position would, at that point, no longer be able to conclude that the mark was applied by or with the consent of a listed party, paragraph (c) no longer applies. That is, an importer/retailer’s persistence after adequate notice will mean that such a party cannot, from that time forward, rely on the defence. Further, although any acts by the importer/retailer before this time will not constitute trade mark infringement, the owner can always pursue actions against the makers of the counterfeit goods or those who supplied them to the Australian importer. To the extent that this information might be difficult to obtain, an owner can seek a *Norwich Pharmacal* order⁷³ from the Federal Court against the Australian importer/retailer.⁷⁴ This order can compel a party to disclose the identity of the supplier or maker of goods and, crucially, can be made against a party that is entirely innocent of any wrongdoing.⁷⁵

IV. A new way forward?

Australia’s new trade mark exhaustion regime is admittedly complex, and is likely to give rise to a number of operational uncertainties, at least in the short term. Apart from the fact that section 122A introduces new concepts that will need to be fleshed out by the courts,⁷⁶ it remains unclear how the defence intersects with the Customs seizure regime contained in Part 13 of the Trade Marks Act.⁷⁷ It is also unclear whether an importer/retailer protected by the defence up to the point in time

⁷² Subject, of course, to any regulatory requirements as to safety and fitness for purpose with which any goods sold in Australia must meet. *See, e.g., Competition and Consumer Act 2010* (Cth) Pt 3-3 (Austl.).

⁷³ *See generally* *Norwich Pharmacal Co. v. Customs and Excise Comm’rs*, [1974] A.C. 133 (H.L.) (appeal taken from Eng.).

⁷⁴ *See Federal Court Rules 2011* (Cth) Div 7.3 (Austl.).

⁷⁵ *See generally* BURRELL & HANDLER, *supra* note 16, at 617.

⁷⁶ For example, courts will need to determine when an influence is “significant,” how broadly to read the notion of “consent subject to a condition,” and what constitutes “reasonable inquiries.”

⁷⁷ The problem is that if an owner provides the Comptroller-General of Customs with a notice objecting to the importation of goods infringing a registered trade mark under section 132, the Comptroller-General must, under section 133(2), seize goods bearing that trade mark (or a substantially identical or deceptively similar variant) “unless he or she

it is put on notice that the goods are not legitimate might nevertheless be liable for passing off or contravention of the statutory prohibition on engaging in misleading or deceptive conduct during this period, and what remedies a court would be prepared to award.⁷⁸ Despite this, it is clear that Australian law now affords the highest degree of protection to parallel importers and resellers of second hand goods of any major jurisdiction. A trade mark owner's rights are now exhausted in a wide range of circumstances, with few qualifications, and the law is now structured so as to give parallel importers and resellers confidence that they can lawfully engage in their acts based on the knowledge available to them. Looked at from a comparative legal perspective, Australia has bucked the global trend towards increasingly narrow exhaustion rules that impose substantial restrictions on the parallel importation and resale of goods, as described in Part I.

The Australian experience is worth considering not simply because of the specific terms of the new section 122A defence. At a broader level, it provides a useful springboard for a more fundamental reconsideration of how exhaustion rules *could* apply in other jurisdictions—particularly those that recognise the economic benefits in prioritising competition among sellers of goods and the enhancement of net consumer welfare over the facilitation of price discrimination and the preservation of authorised distribution networks. This is because the Australian approach is based on different ways of thinking about exhaustion, and about whose interests should be prioritised in formulating exhaustion rules, when compared with other jurisdictions. Three such ways are worth briefly exploring in this concluding Part.

First, the Australian approach is informed by a clear principle about the proper *scope* of registered trade mark law. This is that the rights of registered owners should not be expanded to allow them to control the trade in their own marked goods in an attempt to address the full range of issues thrown up by parallel importation and commercial resale. The Australian approach is based on the fundamental premise that registration laws should prevent conduct that would disrupt the source-identification function of the owner's mark. Logically, such conduct must involve a defendant using the mark, or a sufficiently similar variant, on *the defendant's* goods. Dealing in the mark owner's goods does not disrupt this function. This means that any attempt to deal with issues such as the importation and sale of repackaged or modified goods, or goods with MQDs to those supplied to the local market, within the registered trade mark system will involve *expanding* an owner's rights beyond those to which the owner is entitled to protect the source-identification function of its marks.

is satisfied that there are no reasonable grounds for believing that the notified trade mark is infringed by the importation of the goods.”

⁷⁸ See generally BURRELL & HANDLER, *supra* note 16, at 503, 512, 529–31.

This is not to say that such expansions are unjustifiable. However, they come with significant risks, since they necessarily involve setting up specific conditions on the conduct of parallel importers and resellers, non-compliance with which will result in their dealings with an owner's goods becoming infringing. Not only is this a blunt legal technique to use,⁷⁹ but it also puts a premium on formulating "conditions" that are not over-protective of mark owner interests⁸⁰ and are not worded so vaguely that they provide insufficient guidance to would-be importers and resellers as to what constitutes legitimate conduct.⁸¹ In short, the potential problem with the "conditions-on-use" based approach is that, as the Productivity Commission recognised, it simply asks the registered trade marks system "to do too much."⁸²

Australia has made a conscious decision to go down a different path. Rather than seeking to address issues of repackaging, modifications, and MQDs by expanding the scope of registered trade mark rights, it leaves issues of potential "unfair competition" to other legal regimes that are better suited to addressing these issues. Specifically, affected owners can always bring actions for passing off or for contraventions of statutory prohibitions on engaging in misleading or deceptive conduct, or on making misleading representations that goods are of a particular standard, quality or composition, or have had a particular history or previous use.⁸³ These actions do not rely on the *a priori* identification of permitted categories of conduct for importers and resellers; rather, they place the onus on the mark owner to demonstrate that the importer or reseller's conduct is, in all the circumstances of the particular case, likely to mislead consumers. A particular advantage of this approach is that it is not all-or-nothing: a court can tailor remedies to ensure that, provided that the defendant does not market the owner's goods in a misleading manner (e.g., by the use of appropriate disclaimers), the practice of parallel importation and resale of legitimate goods can continue.⁸⁴ The Australian approach should, at the very least, prompt further debate about whether it balances the interests of owners and importers more effectively than the conditions-on-use based approach adopted in the registration systems of other jurisdictions.

⁷⁹ See ROTHNIE, *supra* note 5, at 40.

⁸⁰ See, e.g., WORKING PARTY REPORT, *supra* note 29, at 78 (Recommendation 22D(4)).

⁸¹ The EU affords the clearest example. See Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015 to Approximate the Laws of the Member States Relating to Trade Marks, 2015 O.J. (L 336) 12, art 15(2) (permitting an owner to control the further commercialisation of its goods if there are "legitimate reasons" to do so). However, the problem can also arise if a jurisdiction attempts to craft a more specific rule. See, e.g., Trade Marks Act 1998, s. 29(2) (Sing.) (infringement to deal with legitimate goods if their condition has been changed or impaired and the defendant's use "has caused dilution in an unfair manner of the distinctive character of the registered trade mark.").

⁸² PRODUCTIVITY COMMISSION, *supra* note 7, at 396.

⁸³ *Competition and Consumer Act 2010* (Cth) sch 2, ss 18, 29(1)(a), 29(1)(c) (Austl.).

⁸⁴ See ROTHNIE, *supra* note 5, at 40–42 (discussing *Consumers Distrib. Co. Ltd. v. Seiko Time Can. Ltd.*, [1984] 1 S.C.R. 583 (Can.) and *Sony K.K. v. Saray Elecs. (London) Ltd.*, [1983] F.S.R. 302 (Ch.) (Eng.)).

Second, the Australian approach to exhaustion reflects carefully developed thinking as to what types of commercial activities relating to the importation and resale of branded goods should be *incentivised*. It is notable that reform of Australia's exhaustion rules was the by-product of a number of inquiries led by economists, who emphasised the economic benefits in enhancing competition so that Australian consumers could gain access to lower-priced branded goods, and recommended that the law needed to be structured so as to remove as many disincentives to parallel importation as possible.⁸⁵ This is most obviously reflected in the fact that the new section 122A defence permits parallel importation even where the mark was applied with only the "conditional" consent of the owner or another relevant person, and requires only that the importer/reseller engage in "reasonable inquiries" in relation to the goods in question and come to a reasonable conclusion that they are genuine. These features recognise that a key problem faced by parallel importers is that precise information about the goods sought to be imported (e.g., whether or not they were made or distributed in breach of restrictions in licence agreements) will only ever be available in documents that neither the importer, nor any intermediary from which the importer purchases the goods, is ever likely to obtain access to. Whereas the former law was drafted so restrictively in this regard that it ended up adding substantial costs to the operations of importers of legitimate goods,⁸⁶ and possibly forced others to abandon their practices entirely,⁸⁷ the new Australian defence provides a structural incentive to importers to engage in their activities, based on their reasonable inquiries and resultant conclusions.

Less obviously, the Australian approach creates a range of incentives that might benefit the *mark owner*. A defence that requires the importer/reseller to have made "reasonable inquiries" could well encourage such parties to take more far-reaching steps than they have in the past to satisfy themselves as to the genuineness of the goods in question, such as going further than asking for certificates of authenticity from a supplier. More directly, the Australian approach provides a strong incentive to owners to be more vigilant in monitoring their licence and distribution agreements for breaches.⁸⁸ This would seem to be a more effective long-term strategy of addressing the problem of goods being made or circulating in breach of licence restrictions than focusing on the activities of the

⁸⁵ It is also notable how little influence the views of brand owner representatives had over these inquiries, and the subsequent reform process run by IP Australia and the Australian Senate. *See generally supra* note 49.

⁸⁶ *See, e.g.,* Costco Wholesale Australia Pty Ltd., *Submission 31 to the Productivity Commission, Intellectual Property Arrangements: Issues Paper* (2016), available at https://www.pc.gov.au/data/assets/pdf_file/0004/194494/sub031-intellectual-property.pdf.

⁸⁷ *See* Law Council of Australia, Intellectual Property Committee, *Submission to Competition Policy Review: Issues Paper 2–3* (2014), available at http://competitionpolicyreview.gov.au/files/2014/06/IPC_LCA.pdf.

⁸⁸ This is particularly important, since it is only by the owner bringing accurate information to the attention of Australian importers/resellers that the goods with which they are dealing are not, in fact, genuine that the protections afforded by the section 122A defence will cease to apply.

importers and retailers of the goods. In addition, the Australian approach might create an incentive to owners to rethink their use of “global” brands if local quality differences are so important. That is, it might encourage owners to use different sub-brands for their goods when sold with MQDs in different jurisdictions. A common complaint of trade mark owners is that the parallel importation of identically-branded goods from country X into country Y undercuts its market for those goods in Y, such that it is compelled to raise its prices to a potentially unviable level in X or exit the market there. The use of different sub-brands in X and Y would overcome this problem. It would also potentially lead to better-informed consumers who, as they move from one jurisdiction to another, gain clearer information about the quality differences between the owner’s goods in different markets.⁸⁹

Third, the Australian experience shows a different way of thinking about *risk allocation* as between the various parties involved in manufacturing, distributing and importing/reselling branded goods. What is striking about the majority of approaches taken around the world to parallel importation and the resale of second-hand goods is that they place much of the risk on the importer/reseller. These parties bear substantial costs in taking reasonable steps to verify the genuineness of the goods with which they seek to deal but, even then, matters outside the scope of such parties’ reasonable knowledge can make the act of importation/resale infringing, leaving them liable for damages. The new Australian approach changes this. By making the legality of the act of parallel importation or resale turn on the defendant’s “reasonable belief” as to the genuineness of the goods, this allows for a more equitable allocation of risk as between importers/resellers and owners. While importers/resellers will still need to undertake due diligence, owners no longer have the opportunity to seek windfall damages against “innocent” importers/resellers.⁹⁰ Instead, owners will need to need to look to other parties to recoup their losses, as well as continuing to monitor the flow of their goods into foreign markets. The advantage of the Australian approach is not only that it makes the act of parallel importation less risky, but also that it ensures that enforcement is targeted against parties that might be described as the real wrongdoers (i.e., the counterfeiters of goods, or those parties in breach of licence and distribution agreements higher up the supply chain). Ensuring that actions cannot be taken against importers and resellers that have conducted themselves reasonably also prevents exhaustion rules from over-compensating for the challenges that trade mark

⁸⁹ See Burrell & Handler, *A Requiem*, *supra* note 18, at 122.

⁹⁰ As such, this measure has more in common with criminal offence provisions relating to the selling of branded goods that do not apply where the defendant had no reason to suspect the genuineness of the mark, or believed on reasonable grounds that its use was not infringing. See, e.g., Trade Marks Act 1998, s. 49 (Sing.); Trade Marks Act, 1994, c. 26, § 92(5) (U.K.).

owners might face in identifying counterfeiters and in enforcing breaches of contractual arrangements in countries where manufacture is outsourced, where the rule of law might run thin.⁹¹

Clearly, a WTO Member's position on trade mark exhaustion will need to reflect that Member's thinking as to what rules best balance a range of competing economic policy considerations. However, it needs to be remembered that restrictive exhaustion rules are not inevitable. Rules that expand the scope of a registered trade mark owner's rights to enable it to restrain the practice of parallel importation, even in the absence of any consumer deception—thereby providing strong disincentives to the importation and resale of legitimate, branded goods—represent a conscious choice to privilege a mark owner's interests over those of others. It might well be that such a choice is not, in fact, in that Member's best economic interests.⁹² Australia's new, liberal approach to trade mark exhaustion shows what is possible when different perspectives, and a different set of values, are prioritised.

⁹¹ See Burrell & Handler, *A Requiem*, *supra* note 18, at 127.

⁹² For example, it is common for defenders of restrictive exhaustion rules to point to the harm that would be caused to specific industries (e.g., the pharmaceutical industry) if the liberalisation of such rules undercut the ability of owners to engage in price discrimination and the ability to control the circulation of goods across borders. Such an approach ignores the question of whether more liberal rules represent the best economic policy across all industries, and a preferable approach would seem to be for those groups likely to be affected by more liberal rules to lobby for industry-specific legislative “carve-outs” to preserve their position, based on robust economic evidence.