

To: The Bills Committee of Trade Mark Bills
Legislative Council

From: Radio Association of Hong Kong
HK & Kowloon Electrical Appliances Merchants Asso. Ltd.
Hong Kong Photo Marketing Asso. Ltd.
Hong Kong Association of Photographic Equipment Importers Ltd.
The Motor Traders Asso. of HK
The Cosmetic & Perfumery Asso. of HK Ltd.

Joint Submission to the Bill Committee on Trade Marks Bill

1. Introduction

This paper is submitted by the undersigned Associations, who together have 512 corporate members and 1008 personal members. Our members employ over 65,000 persons in Hong Kong and in 1999, the combined business turnover of our members amounted to over \$100 billions.

We support the Government's initiative to modernise Hong Kong's trade mark law but we have serious objections to Clause 19 of the Bill which is designed to introduce "International exhaustion" of trade mark rights.

This paper examines the implications of Clause 19 of the Bill, sets out the reasons why we have serious objections to it and urges the Government to fully consider our views and carry out further research before submitting the Trade Marks Bill to the Legislative Council for passage into law.

2. Clause 19 of the Bill

Clause 19 of the Bill adopts the principle of "International exhaustion" which means that the rights of the intellectual property rights owners will be exhausted once his goods have been put to the market anywhere in the world with his consent (whether express or implied or conditional or unconditional). "International exhaustion" would mean that trade mark owners and their distributors/licensees would be unable to oppose the importation into Hong Kong of authorised goods under the same trade mark through different distributors/licensees in other countries.

It has been argued that the liberalisation of "Parallel imports" will encourage investment and add to consumer welfare in the form of wider choice and lower prices. In the considered view of the undersigned Associations, these arguments are fallacious. They are supported by neither empirical evidence nor adequate research. They certainly have failed to take into account the complexity of the trades. In our submission, we will explain why the liberalisation of "Parallel imports" will have adverse consequences for consumers, discourage investment, and produce negative economic effects.

Hong Kong has been rated by many international organizations such as the Heritage Foundation (HF) as one of the freest economies in the world. This reputation has been achieved without the liberalisation of "Parallel imports". Over the years, our members have made a significant contribution to help Hong Kong achieve this fine reputation. There is so far no international standard or consensus on the issue of parallel importation. Many countries in the world who are prominent proponents of free trade have made reasoned decisions not to extend international exhaustion (para 3.5). There is therefore no valid link between the liberalisation of "Parallel imports" and free trade.

3. Adverse Consequences for Consumers

3.1 The proponents of international exhaustion make the fundamental mistake of assuming that the Hong Kong market is not sufficiently open and that the liberalisation of "Parallel imports" will lower prices without affecting quality, service standard and other value for money criteria. This is simply not true. It is extremely misleading to state that prices of parallel imports are cheaper. They are not necessarily cheaper and there is plenty of evidence in the market place to substantiate this. There is in fact intense competition among brands. Even within the same brand, many products vary in nature, quality, composition or standards, according to the different requirements of different markets. While there are occasions when there may appear to be a price differential on the surface, this difference is more often than not accounted for by different product characteristics, different models, different product life, different accessories, varying service standards and different warranty specifications. In certain cases, parallel imports of goods designed for another market may be totally unsuitable for use in Hong Kong as they do not comply with local technical safety or labelling requirements. In other cases, the product package may not contain all the accessories normally included in branded products intended for use in Hong Kong and may not offer the same service guarantee. Parallel imports generally have a shorter shelf-life and the quality may have deteriorated or been damaged in the course of improper transportation or storage. In the case of electrical products, suppliers of parallel imports produce their own certificates without formal commissioning and testing, thus lowering the overall protection for consumers. Consumers are generally not equipped to make a technical distinction between these products and, would therefore be frustrated if they find that this product does not possess the features they expect of this particular brand. When we compare prices, we must compare like with like, but, unfortunately, proponents of international exhaustion appear content to equate oranges with apples.

3.2 Of more importance than value for money is the significant health and safety hazard associated with the parallel importing of perishable consumer goods which are out of date and/or produced for different market requirements. Many recent complaints provide examples of the real risk which exists. It is important to require that labels and description of the products should be in the local language to eliminate the health and safety risks associated with the mis-use of the products. Suppliers of parallel imports do not normally provide this service. Furthermore, Clause B.8 (3) of the Electrical Products (Safety) Regulation provides for a self declaration of conformity issued by the product manufacturer

and in the case of suppliers of parallel imports, this self declaration may not necessarily be comprehensive or may even be misleading, e.g. it may not include the cord or plug which is affixed to the product.

3.3 While Clause 19 of the Trade Marks Bill does not cover counterfeits, there is a very real risk that the passage of the Bill will encourage the proliferation of counterfeits. It will become more difficult to trace the origins and the suppliers of the many products on sale in Hong Kong, and as our ability to detect and prevent counterfeits decreases, there will be an increased temptation for unscrupulous traders to exploit the opportunities that will become available. The law enforcement capabilities of the SAR Government are already being over-stretched. Very substantial additional resources will be required to provide the increased surveillance and enforcement activities required. It is not clear whether the existing laws are sufficient to provide adequate protection to consumers, nor which government body will be responsible for co-ordinating action to deal with the legitimate grievances from consumers who need protection against sub-standard, unsafe and counterfeit products. Neither has the SAR Government made public and estimate of the additional costs which may be involved in not only increased surveillance and enforcement but also in setting up a body to coordinate action to deal with consumers grievances. Without adequate law enforcement, there will be chaos in the market place, resulting in an overall reduction of protection for consumers. Furthermore, Hong Kong's reputation for the effective protection of intellectual property rights will be damaged.

3.4 To the best of our knowledge at the time of writing this submission, many of Hong Kong's major trading partners such as the United States, France, Germany and Italy do not extend international exhaustion unconditionally possibly because of the same concerns we have stated in our submission. For example, Article 7 of the European trade mark law is covered by Paragraph 24 of the German trade mark law. According to a judgement from the European Law Court in the so-called Silhouette case, the European right of exhaustion of the trade mark is mandatory. However, if the owner of the German trade mark sells his products in a third country, e.g., in China, then his right to prevent the use of his trade mark in Germany or Europe through a third party is not exhausted. Therefore, the trade mark owner can stop parallel import into the EU from a third country.

4. Discouraging Investment

4.1 Hong Kong based importers and licensees currently undertake a whole spectrum of value added activities, including market research, product development, formal commissioning and testing, wholesaling, promotion, advertisement, after-sales services and complaints hotlines. With the liberalisation of parallel imports, Hong Kong importers and licensees will be forced to reduce these activities in order to reduce costs to a level which will enable them to compete with suppliers of parallel imports who do not bear any of these costs. The overall effect will be a reduction in investment and a general lowering of the service standards which consumers in Hong Kong have now come to take for granted. Unfortunately, the elimination of certain essential activities, such as commissioning and testing, will have safety implications

and the reduction in investment in promotion and advertisement will create an adverse impact on other industries in Hong Kong.

- 4.2 It has been argued that, with the proposed liberalisation, there will be an increase in businesses engaged in parallel imports, thereby increasing investment and boosting employment. This argument does not bear close scrutiny because, with the overall size of the market remaining the same, an increase in employment in one sector will be at the expense of another sector. We hold the view that the liberalisation of parallel imports will reduce employment opportunities associated with quality assurance and may cause a general shift of employment from high value added activities, such as advertising and promotion, product development, commissioning and testing, to lower value added activities, such as retailing.

5. Adverse Economic Effects

- 5.1 Hong Kong is in transition to a high value added servicing economy and in this transition, the upgrading of our service quality and the maintenance of our reputation as a quality shopping centre are of paramount importance. The liberalisation of parallel imports poses a very real danger that we will suffer on both counts as it will undermine the effectiveness of trade marks in assuring quality and identifying origin. A continued drift toward low value added activities is economically unsustainable in a high cost society such as Hong Kong.

- 5.2 Many of Hong Kong's major trading partners do not apply international exhaustion and as a consequence, Hong Kong manufacturers and traders would be at a disadvantage when competing with their overseas counterparts who enjoy the unfair advantage of a protected home market. Hong Kong may become an international dumping ground for overseas suppliers who wish to offload their surplus and often outdated stocks.

- 5.3 If the market in Hong Kong becomes too undisciplined, brand owners may withdraw from this market because of low margins. This would diminish Hong Kong's attractiveness as a tourist centre.

6. The Way Forward

- 6.1 We urge the SAR Government to consider our views set out in this submission and submit that before proceeding with the Bill, the Government should carry out detailed studies and proceed only with sufficient safeguards.

- 6.2 Many of our major trading partners have taken a rational decision not to extend international exhaustion. It would be imprudent for the SAR Government to take a unilateral decision to proceed with the Trade Marks Bill, without carrying out a full assessment of why these countries have remained hostile to international exhaustion. In addition, the question of reciprocity requires examination in order to ensure that the legitimate business interests of Hong Kong traders are not compromised.

6.3 There has not been sufficient attention given to the administrative machinery which should be set up to eliminate the adverse consequences arising from the liberalisation of parallel imports. It is far from clear as to whether there will be a central body responsible for co-ordinating action to cope with legitimate grievances from consumers in the event of purchasing sub-standard, unsafe and counterfeit products. Nor has there been an estimate of the additional cost involved in setting up the necessary administrative machinery and also in mounting adequate surveillance and law enforcement activities to protect the welfare of consumers as well as to whom this cost will be transferred in the end.

7. Conclusion

The question of applying international exhaustion in Hong Kong is a major policy issue which deserves very careful examination because the economic consequences are serious and far reaching. In the view of the undersigned Associations, the arguments in favour are flawed. There are very serious and powerful arguments against the application of international exhaustion in Hong Kong. We urge the SAR Government not to submit the Trade Marks Bill to the Legislative Council until further research on issues raised in our submission has been carried out and adequate safeguards have been established to address our concerns.

We humbly make this submission for your consideration.

For and on behalf of
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