

Bills Committee on Trade Marks Bill

Parallel Importation of Trade Mark Articles

Introduction

This paper sets out the rationale for adopting the principle of “international exhaustion” for parallel importation in Clause 19 of the Trade Marks Bill.

Background

What are “Parallel Imports”?

2. “Parallel imports” are products that are legitimately produced and marketed abroad with the consent of the owner of the intellectual property right but are then imported into a country or territory without the agreement of that owner or the exclusive licensee in the place of importation. They are not pirated or counterfeit products. Parallel importation usually happens when there is a price differential between the place of exportation and place of importation.

The Existing Law

3. Sections 27, 27A, 28 and 28A of the Trade Marks Ordinance (Cap.43) set out the rights conferred by the registration of marks for goods or services in Part A and Part B of the Trade Marks register respectively. The existing provisions in Cap. 43 are ambiguous as regards parallel imports. In practice, however, there is a proliferation of businesses selling, for example, parallel-imported cosmetics or automobiles.

International Convention

4. There is so far no international standard or consensus on the issue of parallel importation. The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) under the World Trade Organisation (WTO) emphasizes that nothing in the Agreement affects the issue of

exhaustion of intellectual property rights (Article 6, TRIPS). Hong Kong is therefore free to formulate its policy taking into consideration all relevant factors.

“International Exhaustion” – Clause 19 of the Trade Marks Bill

5. The doctrine of “international exhaustion” 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. This principle is adopted under Clause 19 of the Bill.

6. Clause 19(2) provides an exception whereby the trade mark owner can prevent parallel importation where the condition of the parallel-imported goods has changed or been impaired after they have been put on the market anywhere in the world and where the reputation or distinctiveness of the trade mark in question will be adversely affected through the circulation of such goods in Hong Kong. This is to provide protection for the reputation of established trade marks in Hong Kong as well as safeguarding consumers against deception.

Arguments for International Exhaustion

7. Hong Kong is an ardent supporter of free trade and global trade liberalisation. Globalisation of trade is an irreversible trend, particularly given the development of electronic commerce. We strongly believe that keeping all markets open is the key to economic growth. The Government believes in the free play of market forces. Traders should therefore not be unnecessarily deterred from sourcing their supplies. From the consumer's point of view, restriction of parallel imports would distort the market by restricting the choices of consumers whilst keeping prices artificially high. We have therefore formulated clause 19 to provide competition to ensure the availability of goods at best prices for consumers. Nonetheless, we have included in clause 19(2) safeguards for the trade mark owner (see para. 6 above).

8. Trade mark owners and their exclusive licensees or sole distributors understandably favour a stricter regime against parallel imports. Some have expressed concern that parallel importers would benefit from their massive overhead in advertisement as free riders and that their legitimate investments ought to be protected. There are also questions on the safety of products such as imported foreign pharmaceutical or food products.

9. However, if the primary function of a trade mark is to indicate the origin of the goods or services, there is no reason why the importation of what are genuine products should be prevented. The trade mark should not be used as a “badge of control”.

10. As regards concerns on the safety of parallel-imported goods, it should be noted that there are separate and specific pieces of legislation governing food and drug safety. For example, the Pharmacy and Poisons Ordinance (Cap.138) stipulates that the label, dosage form and other specifications of a drug need to be registered by the Pharmacy and Poisons Board before the drug may be distributed in Hong Kong. Criminal sanctions are specified for selling an unregistered drug.

Conclusion

11 Clause 19 of the Trade Marks Bill is in line with our free trade policy, the cornerstone of the success of Hong Kong. It provides trade mark owners and their licensees with adequate protection of their rights whilst safeguarding the interests of consumers.

Trade and Industry Bureau
November 1999

[d1\19\tm-parallel]