Should Parallel Trade Be Curbed? 
A Comparison Between the UK and Hong Kong Approaches

Introduction

Parallel imports (sometimes referred to grey goods) refer to branded goods that are imported into and sold in a market where prior consent of the owner of the trademark in that market is not obtained. They are genuine, not pirated goods. Some parallel imports are welcomed by consumers as they are cheaper and/or with various options. However, there is no international consensus on whether parallel importation should be banned as parallel imports may cause certain degree of impacts on those legitimate interests of trademark owners or their distributors whilst such goods may benefit the consumers at the same time.

Parallel imports: UK’s approach

The UK Supreme Court has recently considered the question about whether “grey goods” can give rise to criminal liability under Section 92(1) of the Trade Marks Act 1994 (“the 1994 Act”) in a joint appeal from three criminal cases of R v M, R v C and R v T [2017] UKSC 58.

A person commits an offence under Section 92 (1)(b) of the 1994 Act if, with a view to gain for himself or with intent to cause loss to another, and without the consent of the trade mark owner, he sells, offers or exposes for sale goods which bear, or the packaging of which bears, a sign identical to a registered trade mark. Section 92 is a remedy separate from those available for infringement of the exclusive civil rights that the trade mark owners have.

Brief facts of R v M, R v C and R v T

The defendants concerned were engaged in bulk import and subsequent sale of goods being registered trademarks of leading fashion brands, manufactured abroad, in countries outside the European Union. The goods were manufactured with the permission of the trademark owners, but were then sold without the trademark owners’ consent because some of the goods were in excess of the numbers or below the quality permitted by trademark owners.

The defendants described these as “grey market” goods and distinguished them from pirate goods manufactured without the permission of the trademark owners. They also argued that criminal sanction should only apply when the mark is applied without consent, not when it is applied with consent but sold without that consent.
Outcome of the case

The English Supreme Court disagreed with the defendants’ interpretation. Upon reading S.92(1)(b) of the 1994 Act plainly, the judges unanimously consider that it would be “strained and unnatural” that if this section does not extend to the trade of grey goods. This is because this section concerns situations where goods, bearing a registered trade mark, are sold without the owner’s consent, not just where a registered trade mark is applied without their permission. The Supreme Court’s decision makes it clear that criminal sanctions may follow from dealing in both counterfeit and grey goods. This will come as good news to trade mark owners since they have an additional tool for enforcing their legitimate right.

Parallel imports: Hong Kong’s approach

Whilst the English Supreme Court expressed that parallel imports will be caught by Section 92 of the 1994 Act, the situation is completely different in Hong Kong.

S.20 of the Trade Marks Ordinance (Cap.559) (“TMO”)

Section 20 of the TMO provides that it is not infringement to use a registered trade mark in relation to goods which have been put on the market anywhere in the world under that mark by the owner, or with the owner’s consent, be it express or implied, conditional or unconditional. It is based on the doctrine of international exhaustion, stipulating that the rights of a trade mark owner will be exhausted once his goods have been put on the market anywhere in the world under that trade mark by the owner or with his consent.

Yet parallel importers are able to benefit from proprietor’s significant investment in advertisement at no cost, potentially affecting the trade mark owners’ legitimate investments. There is also health and safety concerns regarding consumer products such as imported pharmaceutical or edible products, because the different origins of the products could affect the materials used and the statutory regulations on production procedures may vary.

To address the above concerns, the trade mark owners can still object to parallel importation after the goods have been put on the market under certain exceptions, which includes:

1. Change or impairment to the conditions of the goods; and
2. Detrimental effect caused to the reputation or distinctive character of the registered trade mark in question as a result of the circulation of such goods in Hong Kong.

For Hong Kong, given the potential safety concern of parallel-imported goods, especially in pharmaceutical and food industries, consumers should pay close attention when purchasing grey goods and whether the products are able to best suit their needs.
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**Important**: The law and procedure on this subject are very specialised and complicated. This article is just a very general outline for reference and cannot be relied upon as legal advice in any individual case. If any advice or assistance is needed, please contact our solicitors.

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