

# Unparalleled importing and trademarks in Australia

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In an attempt to make it easier to engage in parallel importing, the Australian Trade Marks Act has recently been amended by the insertion of a new section 122A.<sup>1</sup> Essentially, new section 122A permits trademarked goods to be imported and sold where a reasonable person would conclude from reasonable inquiries made before the importation, or sale, that the trademark had been applied to<sup>2</sup> the goods by, or with the consent of, the owner in Australia or some other person who had significant influence over the way the trademark was used in Australia. It does not appear to be necessary that the trademark was actually applied by the trademark owner or with such consent; only that a reasonable person would conclude that the trademark had been so applied.

This highly prescriptive and quite extraordinary provision is not wholly unprecedented: it has been derived from a New Zealand model.<sup>3</sup>

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1 Inserted by the Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Act 2018 (Cth), Sch 1, item 2 repealing s 123(1) and inserting s 122A. For the text of s 122A, see n 100 below.

2 For ease of exposition, I shall refer only to the trademark being applied to the goods, bearing in mind that the trademark need not be applied physically to the goods themselves but may be used in relation to the goods such as on labels, swing tags or in advertising: Trade Marks Act 1995 (Cth) s 7(4) and, for example, *Pioneer Kabushiki Kaisha v Registrar of Trade Marks* [1977] HCA 56; 137 CLR 670 at 684.

3 Trade Marks Act 2002 (NZ), ss 97 and 97A. There does not appear to be any judicial interpretation of these provisions following *Leisureworld Ltd v Elite Fitness Equipment Ltd* [2006] NZHC 849 and the subsequent amendment in 2013 of the provisions into their current form; Paul Sumpter, 'Some Observations on Trans-Tasman Trade Mark Law' (2016) 27 AIPJ 88 at 101.

The Australian legislature's position is that parallel imports promote competition by undercutting international price discrimination and so are desirable.<sup>4</sup> Section 122A can be seen therefore as a response to limitations in the existing law. It is perhaps an indication of the Parliamentary frustration that the changes to the rules on parallel importing under trademark law are the very first matter Parliament chose to deal with in response to the Productivity Commission's wide-ranging inquiry into Australia's intellectual property laws.<sup>5</sup> How well those problems have been addressed remains to be seen.

### Source not quality

Prior to the enactment of the Trade Marks Act 1995, the Australian trademarks legislation did not deal with parallel imports expressly. Rather, judicial interpretation had established the rule that a parallel importer did not infringe because the importer did not *use* the trademark *as a trademark*. The parallel importer was not using the trademark to signify that the parallel importer was the source of the goods. Rather, the trademark on the goods correctly identified the source or origin of the goods as the owner of the trademark.

The fact that the goods had been put on the market in a foreign place to which the Australian trademark rights did not extend was irrelevant.<sup>6</sup>

Thus, in the *Champagne Heidsieck* case,<sup>7</sup> Heidsieck was not able to use its registered trademarks in England for 'Dry Monopole', or passing off, to block the importation from France of champagne that Heidsieck itself had

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4 Explanatory Memorandum to the Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Bill 2018 ('Explanatory Memorandum') at [7]–[8].

5 Productivity Commission, *Intellectual Property Arrangements: Final Report*, Report No 78 September 2016 ([www.pc.gov.au/inquiries/completed/intellectual-property/report](http://www.pc.gov.au/inquiries/completed/intellectual-property/report)) 'PC Final Report'.

6 The approach may be contrasted with patent law that operated on the basis of implied licence that could be excluded by appropriate conditions imposed on the purchaser at the time of purchase: *Betts v Willmott* (1871) LR 6 Ch App 239 and *National Phonograph Company of Australia Limited v Menck* (1911) 12 CLR 15. The High Court has recently granted special leave to consider whether Australian law should continue to apply that approach or adopt the doctrine of exhaustion: *Calidad Pty Ltd v Seiko Epson Corporation* [2019] HCATrans 225. The power to block parallel imports through copyright has been excluded, or heavily qualified, over time by the introduction of a number of separate statutory defences for sound recordings, computer programs, books and accessories such as labels: Copyright Act 1968, ss 44A–44F and 112A to 112DA.

7 *Champagne Heidsieck et Cie Monopole Société Anonyme v Buxton* [1930] 1 Ch 330; 47 RPC 28 applied in Australia in *R & A Bailey & Co Ltd v Boccaccio Pty Ltd & Pacific Wine Co Pty Ltd* (1986) 4 NSWLR 701; 6 IPR 279.

put on the market bearing the trademark. Heidsieck had argued that the right of exclusive use conferred by registration under the Act gave it as the registered owner:<sup>8</sup>

‘the right to object to any person selling or dealing with goods produced by the owner of the trade mark with the trade mark affixed, except on such terms and subject to such conditions as to resale, price, area of market, and so forth, as the owner of the trade mark might choose to impose.’

Clauson J ruled, however, that a registered trademark was a ‘badge of origin’ not, as Heidsieck contended, a ‘badge of control’. His Lordship explained:

‘the exclusive right to use the mark conferred on the registered proprietor by [the Act] is the right to use the mark *as a trade mark*-i.e., as indicating that the goods upon which it is placed are *his goods* and to exclude others from selling under the mark wares *which are not his*.’<sup>9</sup>

Heidsieck was the owner of the trademark in both France and England. As Heidsieck had put the trademark on the champagne in France, the trademark on the bottles imported into England told no lies about the source of the product.

A second point is worth noting in light of later developments. The goods Buxton imported were Heidsieck’s ‘Brut’ variety. Heidsieck did not sell the ‘Brut’ variety in England; it was reserved exclusively for France. The ‘Brut’ product, despite its name, was somewhat sweeter than the products Heidsieck itself offered for sale in England. This difference in the quality of the champagne did not matter for the purposes of trademark law. So far as trademark law was concerned, the trademark correctly identified the trade source.<sup>10</sup>

### *The 1955 Act*

The *Champagne Heidsieck* case was decided under the Trade Marks Act 1905 (UK). The first (reported) Australian cases involving parallel imports do not appear to have occurred until some 50 or so years later. By then, the governing legislation in Australia was the Trade Marks Act 1955.

Although the 1905 Act in the UK had been repealed and replaced by the Trade Marks Act 1938 with an express defence against infringement based on consent,<sup>11</sup> that course had not been followed in Australia. Some limited

8 See [1930] 1 Ch 330 at 338; 47 RPC 28 at 35.

9 [1930] 1 Ch 330 at 339 (emphasis supplied); 47 RPC 28 at 35.

10 The difference in quality *might* have made a difference in passing off, but the goods were clearly labelled ‘Brut’ and, as Heidsieck had allowed them to circulate in England for a number of years unmolested, the public had learned to recognise the ‘Brut’ label as identifying the different style: [1930] 1 Ch at 336–337; 47 RPC at 33–34.

11 Trade Marks Act 1938 (UK), s 4(3)(a).

defences were included in the Australian Act, such as use in good faith of the defendant's name or place of business or of some description of the character or quality of the goods or services.<sup>12</sup> As the test of infringement still required use as a trademark,<sup>13</sup> therefore, whether parallel imports infringed still fell to be determined by whether they involved use of the trademark as a trademark.

Apart from interlocutory skirmishes suggesting that the slightly different terminology used in the Trade Marks Act 1955 compared to the Trade Marks Act 1905 might lead to a different result,<sup>14</sup> therefore, Australian courts accepted and applied the rule in *Champagne Heidsieck* under the Trade Marks Act 1955. So, the registered trademark for Bailey's Original Irish Cream was not infringed by the importation from the Netherlands of bottles bearing the trademark. The bottles in question had been made by the trademark owner in Ireland and imported into the Netherlands by its exclusive distributor.<sup>15</sup>

In *Pioneer*, the Registrar had refused to register Pioneer Australia as a registered user of Pioneer Japan's trademarks registered in Australia unless it agreed to an endorsement that it would not invoke the customs seizure provisions against goods properly marked by Pioneer Japan except where the Pioneer companies only made and marked the goods in Australia, and did not import them.<sup>16</sup> The Registrar explained that he was concerned that trademark owners were improperly using the registered user provisions to block the importation of genuine goods against the public interest.

In some cases, Pioneer Australia imported and distributed the electronics products fully assembled. In others, it imported parts, units and components and assembled them into finished products. In addition, it imported accessories and spare parts for servicing.

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12 Trade Marks Act 1955 (Cth), s 64. See, eg, *Angove's Pty Ltd v Johnson* (1982) 43 ALR 349; *Caterpillar Loader Hire (Holdings) Pty Ltd (t/as Willoughby's Caterpillar Loader Hire Service v Caterpillar Tractor Co* (1983) 1 IPR 265.

13 Trade Marks Act 1955 (Cth), ss 58 and 62; *The Shell Company of Australia Limited v Esso Standard Oil (Australia) Limited* (1963) 109 CLR 407 at 422–423 and 425.

14 *Atari Inc v Dick Smith Electronics Pty Ltd* (1980) 33 ALR 20. In contrast, the High Court has ruled that the concept of a trademark as a badge of origin remains the same notwithstanding changes in wording: *WD & HO Wills (Australia) Ltd v Rothmans Ltd* (1956) 94 CLR 182 at 188 (1905 Act) and *E & J Gallo Winery v Lion Nathan Australia Pty Ltd* [2010] HCA 15; 241 CLR 144; 86 IPR 224 at [33]–[48] (in the context of a non-use action under the Trade Marks Act 1995).

15 *R & A Bailey & Co Ltd v Boccaccio Pty Ltd & Pacific Wine Co Pty Ltd* (1986) 4 NSWLR 701; 6 IPR 279. See also *Atari Inc v Fairstar Electronics Pty Ltd* (1982) 1 IPR 291. The label in the *Bailey's Irish Cream* case attracted copyright as an original artistic work and so, under the then prevailing legislation, infringed copyright. That is no longer the case, however, see *Polo/Lauren Company LP v Ziliani Holdings Pty Ltd* [2008] FCAFC 195; 173 FCR 266.

16 *Pioneer Kabushiki Kaisha v Registrar of Trade Marks* [1977] HCA 56; 137 CLR 670 at 676.

Ultimately, the Registrar conceded that he had no power to impose the postulated condition.<sup>17</sup> Aickin J considered that Pioneer Australia was using the trademarks as trademarks and rejected the numerous grounds against registration advanced by the Registrar as misconceived. His Honour's decision decisively settled for the purposes of Australian law that trademark licensing (whether through a registered user or otherwise) was legitimate provided that the trademark owner maintained control over the licensee's use so that the trademark was not deceptive.<sup>18</sup> In the event, the Registrar's concerns appear to have been misplaced as a subsequent case held that a registered user was unable as a matter of trademark law to block goods marked and supplied overseas by the trademark owner.<sup>19</sup>

The Australian courts did develop a limitation on the scope of the *Champagne Heidsieck* rule: it did not apply where the registered trademark in Australia was owned by a different person to the owner in the foreign country whence the parallel imports had been sourced.<sup>20</sup>

Fender Musical Instruments Corporation makes and sells guitars in the United States, among other things, under the trademark 'Fender'. It had appointed Fender Australia Pty Ltd, an independently owned company, as its exclusive distributor for Australia. Subsequently, the manufacturer assigned its registered trademarks for 'Fender' in Australia to the distributor.

Nonetheless, Fender Australia continued to import the guitars it sold under the 'Fender' brand from Fender Musical Instruments in the US. Fender Australia modified the imported products, however, to conform to Australian electrical requirements and engaged in other quality control measures such as taking responsibility for warranty support. After the assignment of the trademark to it, it also affixed a sticker to the products identifying it as the owner 'for Australia' of the registered trademark.

Bevk imported into Australia and offered for sale 'Fender' guitars that he had bought in the US. Some were new; others were obviously 'second-hand'. Burchett J held that the importation of the new guitars, but not the second-hand guitars, infringed.

Burchett J held that the rule in *Champagne Heidsieck* did not apply for the new goods because the trademarks on the imported goods had not been affixed by the proprietor of the Australian trademark and there was no basis to infer its consent to application overseas. His Honour distinguished the *Revlon* case in England.<sup>21</sup> In *Revlon*, the English Court of Appeal had allowed

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17 *Pioneer Kabushiki Kaisha v Registrar of Trade Marks* [1977] HCA 56; 137 CLR 670 at 680.

18 *Ibid* at 683.

19 *Delphic Wholesalers Pty Ltd v Elco Food Co Pty Ltd* (1987) 8 IPR 545.

20 *Fender Australia Pty Ltd v Bevk & Sullivan* [1989] FCA 386; 25 FCR 161 at 175; 15 IPR 257.

21 *Revlon Inc v Cripps and Lee Ltd* [1980] FSR 85 (CA Eng).

parallel imports of products put on the market overseas by another member of the same corporate group on the basis that the trademark was operating as a global house mark.<sup>22</sup> In contrast, Fender Australia was not a subsidiary of Fender Musical Instruments, but independently owned and associated only by contract, the new guitars were different in quality given the different electrical voltages and the trademark could not be said to be the ‘house’ mark of an international group.<sup>23</sup> On this part of the case, Burchett J concluded:<sup>24</sup>

‘Here, the mark affixed to the guitars purchased by Mr Bevk in the United States was affixed, not as a trade mark under the Trade Marks Act (Cth) with which the United States manufacturer had no concern, but as a trade mark in the United States under United States law. In that respect, the situation is similar to the situation in the *Colgate-Palmolive* case, as Falconer J described it (at 316).’

Consequently, the importation of new guitars from the US infringed the registered trademark in Australia.

Burchett J ruled, however, that imported second-hand guitars were not infringing:

‘A person who sells used goods, though by reference to a name they bore as a mark when sold new, does not by doing so represent that there is any connection in trade between him and the manufacturer or original distributor of the goods, nor that any goods so marked are wearing his badge: ... Nor does he represent that there is any connection in trade between the goods, in their character of used goods, and the registered proprietor of the mark.’<sup>25</sup>

The nature of the contractual arrangements between Fender Australia and Fender Musical Instruments in the US are not clear from the judgment. For example, it is not clear whether Fender Australia was free to choose which products from Fender US it supplied in Australia under the trademark ‘Fender’ or what would happen to its proprietorship if its appointment as the exclusive distributor ceased. Later decisions of

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22 The majority considered that the use of the trademark, ‘Revlon’ in the strapline ‘REVLON – New York – Paris – London’ signalled a business that operated globally, not just in the UK: [1980] FSR at 104.

23 *Fender Australia Pty Ltd v Bevk & Sullivan* [1989] FCA 386; 25 FCR 161 at 174–175; 15 IPR 257, 270–271.

24 *Fender Australia Pty Ltd v Bevk & Sullivan* [1989] FCA 386; 25 FCR 161 at 175; 15 IPR 257 at 271 referring to *Colgate-Palmolive Ltd v Markwell Finance Ltd* [1988] RPC 283 affirmed [1989] RPC 497. Burchett J also considered that his Honour’s conclusion was supported by the decisions *A Bourjois & Co Inc v Katzel* 260 US 689 (1923) in the US and, in Canada, *Breck’s Sporting Goods Co Ltd v Magder* (1971) 1 CPR (2d) 177.

25 *Fender Australia Pty Ltd v Bevk & Sullivan* [1989] FCA 386; 25 FCR 161 at 169; 15 IPR 257, 265 (citations omitted).

the Full Court can be seen to have undermined significant parts of both aspects of his Honour's ruling.

First, his Honour's ruling that the imported second-hand guitars did not infringe does not appear to have survived the Full Court's later ruling in the *Revise* case. That case involved the sale by Wingate of second-hand or reconditioned Levi's jeans, still bearing their original Levi's trademarks and also Wingate's 'Revise' trademark. The Full Court agreed that the presence of the 'Levi's' trademark on second-hand jeans did not infringe the trademark registration. There was no infringement, however, because the trademark had been applied to the jeans by the owner of the registered trademark.<sup>26</sup>

To the extent that his Honour's ruling on the new guitars depended on the *Colgate-Palmolive* case, however, a Full Court applying section 123 under the 1995 Act subsequently rejected the distinction between the trademarks under the Australian Act and the foreign law as 'an exercise in metaphysics'.<sup>27</sup>

### *The 1995 Act*

Shortly before the *Fender* case was decided, a working party had been formed to consider modernisation of the Trade Marks Act. The working party issued a discussion paper in 1991<sup>28</sup> and its final report in 1992.<sup>29</sup>

After outlining competing theories for treatment of parallel imports,<sup>30</sup> the working party referred to uncertainty about how parallel imports would be

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26 *Wingate Marketing Pty Ltd v Levi Strauss & Co* (1994) 49 FCR 89 at 111 (Sheppard J, Wilcox J agreeing); 135–136 (Gummow J). It made no difference whether Wingate had reconditioned the jeans or sold them 'as is'. The trademarks had been applied by Levi Strauss and properly indicated Levi Strauss as the source of the goods when new. However, Wingate did infringe by using its own deceptively similar mark, 'Revise', in relation to the jeans. In the UK and in the context of a removal action for non-use, Mann J has explained that second-hand goods do not infringe because, having originally been put on the market with consent, the trademark owner's rights have been exhausted and so consent to marketing the second-hand goods is unnecessary: *Aiwa Co Ltd v Aiwa Corporation* [2019] EWHC 3468 (Ch) at [40]–[41].

27 *Transport Tyre Sales Pty Ltd v Montana Tyres Rims & Tubes Pty Ltd* [1999] FCA 329; 93 FCR 421; 43 IPR 481 at [90]. See n 40 below.

28 *Possible Changes to the Australian Trade Marks Legislation: A Discussion Paper*, AGPS, July 1991.

29 Working Party to Review The Trade Marks Legislation, *Recommended Changes to the Australian Trade Marks Legislation*, A Report to the Minister for Science and Technology, AGPS, July 1992.

30 In the Discussion Paper at 10, the doctrine of exhaustion was defined as 'whereby a proprietor's rights to control the disposition of goods bearing its mark are exhausted once the goods are put on the mark' in contrast to the doctrine of territoriality 'which provides that proprietor's rights in one country should be completely independent of the rights in another country'. The Working Party noted that situations where the mark was applied to the imported goods by an overseas licensee or a company in the same corporate group were 'akin to parallel imports'.

treated under trademarks law in Australia and sought comments on what the law should be.<sup>31</sup>

In its report, the working party stated that the majority of comments received favoured adoption of the doctrine of exhaustion. As a result, the working party recommended that a registered trademark should not be infringed by the use of the trademark on goods imported into Australia provided that:<sup>32</sup>

‘(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 in Australia under the mark 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.’

The Trade Marks Act 1994 included a provision that gave effect to the first two recommendations only. Section 132 provided a defence where the trademark had been applied by or with the consent of the registered owner, but only if the goods had not been changed or impaired after they had been put on the market.<sup>33</sup> The Trade Marks Act 1994 Act never came into force. Instead, it was repealed and replaced by the Trade Marks Act 1995.<sup>34</sup>

The Trade Marks Act 1995, section 123(1) simply provided:

‘(1) In spite of section 120, a person who uses a registered trade mark in relation to goods that are similar to goods in respect of which the trade mark is registered does not infringe the trade mark if the trade mark has been applied to, or in relation to, the goods by, or with the consent of, the registered owner of the trade mark.’

The provision as enacted was modelled on the corresponding provision embodied in the Trade Marks Act 1938 (UK).<sup>35</sup> By then, however, the UK 1938 Act had been replaced by the Trade Marks Act 1994 (UK). Section 12(1) of the 1994 Act substantially replicated the former provision. Section 12(2), however, limited the defence ‘where there exist legitimate reasons for the

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31 Discussion Paper, 10–12.

32 Report, recommendation 22D(4).

33 Trade Marks Act 1994 (Cth), s 132. Section 134 would have excluded second-hand goods from infringement only if they were clearly identified as second-hand goods and had not been so changed or repaired that they could no longer be regarded as possessing the main characteristics, attributes or qualities inherent in the goods when new.

34 The 1994 Act had been published as an exposure draft for consultation but was passed before those consultations were completed to enable Australia to join the World Trade Organization on 1 January 1995. At the time of its passage, the Australian Government undertook to complete the consultations and amend the legislation before it came into force.

35 Trade Marks Act 1938 (UK), s 4(3)(a).

proprietor to oppose further dealings in the goods (in particular, where the condition of the goods has been changed or impaired after they have been put on the market)'.<sup>36</sup> In contrast, the working party's recommendations to exclude from non-infringement goods that had been changed or impaired or which were materially different to those put on the domestic market by the trademark owner were not implemented.<sup>37</sup> Moreover, Burchett J in the *Fender* case had already exposed scepticism about the extent of the *Revlon* court's blurring of the different legal personalities within a corporate group.<sup>38</sup>

The case law interpreting section 123 exposed further issues and led to the highly prescriptive wording of new section 122A.

### Interpretation and issues under the 1995 Act

The case law exposed several issues with the application of section 123: in particular, whose consent was required, the scope of the consent given to the person who applied the trademark to the goods, questions of proof and onus and, potentially, the ramifications of strategies to circumvent the strict application of the provision.<sup>39</sup>

In the first decided case on section 123, the parallel importer escaped infringement.<sup>40</sup> By the time the appeal process had concluded, however, the

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36 A position reached under the 1938 Act in *Colgate-Palmolive Ltd v Markwell Finance Ltd* [1988] RPC 283 affirmed [1989] RPC 497 and at least in the context of intra-EEA trade. See now in the context of intra-EEA trade only 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, Art 15 and Regulation (EU) 2017/1001 of the European Parliament and of the Council of 14 June 2017 on the European Union trade mark, Art 14. See also the position under United States law in cases such as *Original Appalachian Artworks Inc v Granada Electronics Inc* 816 F 2d 68 (2d Cir 1987) *cert denied*, 484 US 847, 108 S Ct 143, 98 L Ed 2d 99 (1982); *Lever Brothers Co v United States*, 877 F 2d 101 (DC Cir 1989); and *Weil Ceramics and Glass, Inc v Dash*, 878 F 2d 659 (3d Cir 1989), *cert denied*, 110 S Ct 156, 107 L Ed 2d 114 (1989).

37 It is likely that the working party's recommendations were not implemented as it was thought other laws, such as the prohibitions on misleading or deceptive conduct, provided more appropriate protection. See now, eg, PC Final Report, p 394.

38 *Fender Australia Pty Ltd v Beuk* (1989) 25 FCR 161 at 172 citing *Farmer and Co Ltd v Anthony Hordern and Sons Ltd* [1964] HCA 58; 112 CLR 163 at 167–168, in which Taylor J refused to accept use by a subsidiary as use by the parent as the subsidiary was operated 'as a completely separate undertaking'.

39 The principal cases are dealt with in some depth in Warwick A Rothnie, 'Trade marks and parallel imports' (2014) 22 CCLJ 39.

40 *Transport Tyre Sales Pty Ltd v Montana Tyres Rims & Tubes Pty Ltd* [1999] FCA 329; 93 FCR 421; 43 IPR 481 allowing an appeal from *Montana Tyres Rims & Tubes Pty Ltd v Transport Tyre Sales Pty Ltd* [1998] FCA 708; 41 IPR 301. A third trademark, FALKEN RX, was also assigned and the subject of the proceeding.

parallel importer had gone into liquidation and the Australian courts had started down a highly formalistic approach to interpretation.

Ohtsu Co in Japan manufactures and distributes throughout the world tyres under the trademarks OHTSU and FALKEN. Its exclusive distributor in Australia was Transport Tyre Sales (TTS). In 1996, however, one of TTS' competitors, Montana, had started importing from Singapore genuine OHTSU and FALKEN brand tyres made and marketed there by Ohtsu Co. Montana had received its last shipment of tyres in Australia on 5 May 1997.<sup>41</sup>

On 26 May 1997, Ohtsu Co assigned its Australian trademarks to TTS. Mr Grammer, the principal of TTS, considered it quite unfair that his company was going to great trouble and expense to promote and sell OHTSU and FALKEN brand tyres in Australia only to have others, in particular Montana, free ride on its efforts. Mr Grammer visited Ohtsu Co in Japan and persuaded it to assign the registered trademarks to TTS. A condition of the assignment, however, was that in a separate, parallel agreement TTS granted Ohtsu Co an option to repurchase the registered trademarks (for \$1.00) if TTS ceased to be Ohtsu Co's representative in Australia or did anything prejudicially affecting the worldwide reputation and goodwill of Ohtsu Co in the 'Ohtsu' or 'Falken' brands of tyre.

The Full Court on appeal upheld the trial judge's ruling that section 123 provided Montana with a complete defence to TTS's infringement action in respect of the tyres Montana imported before the trademarks had been assigned to TTS. The defence extended to both acts of sale and promotion of the tyres after the assignment as the trademarks had been applied to the tyres by Ohtsu Co when it was the registered owner.<sup>42</sup>

TTS had argued that the trademarks moulded on to the imported tyres were not signs used or intended to be used in Australia as Ohtsu Co had never intended the tyres to be projected into the market in Australia. The Full Court rejected that argument. Instead, the Full Court held that section 123 was not concerned with the place the trademark was applied to the goods, but rather with the fact of application and whether that took place with the consent of the registered trademark's owner.<sup>43</sup> As already noted, the Full Court considered the English Court of Appeal's distinction between the foreign trademark and the domestic (registered) trademark impractical. It would require examination of the manufacturer's intentions at the time the trademark was applied. Those intentions might not even be capable of

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41 93 FCR 421 at [64].

42 *Ibid* at [94]–[97].

43 *Ibid* at [67]–[90].

ascertainment such as, for example, when the intended destination of goods was not decided until after manufacture.<sup>44</sup>

It was unnecessary for the Full Court to consider the position in respect of tyres imported after May 1997 as Montana had not imported any. Instead, Montana had given undertakings not to import any more tyres once the assignment was notified to it.

Two further issues require to be examined.

First, the trial judge had held that the assignment of the registered trademarks to TTS was deceptive. Although the registrations had been assigned to it, TTS played no role in determining the quality of the tyres supplied under the trademarks or even the appearance of the trademarks. Apart from returning damaged or defective stock, TTS simply accepted the tyres Ohtsu Co chose to offer under the trademarks. The trademarks were moulded on to the tyres at the time of manufacture by Ohtsu Co and TTS played no role in deciding the specifications or quality of the tyres. Moreover, unlike the assignee in the *Fender* case, TTS did not even advertise or promote the change of ownership in the trademarks. Thus, Wilcox J held:<sup>45</sup>

‘Although I accept TTS is entitled to return to Ohtsu Co any tyres that are defective, TTS is not responsible for the design, manufacture or control of the quality of the goods it imports and distributes in Australia. It selects those goods only in the sense of identifying the particular types and sizes of the tyres it wishes to purchase. The goods present to purchasers as goods manufactured by Ohtsu Co; the trade marks are moulded into the tyres themselves, something that can only be done in the course of manufacture. They appear alongside a statement about the place of manufacture. The marks are associated throughout the world with Ohtsu Co; and used in every other country to denote the identity of the manufacturer of the goods. Some Australian purchasers may be aware TTS is the Australian distributor of Ohtsu Co products; but it is unreal to contend the marks OHTSU and FALKEN would suggest to Australian purchasers a connection with TTS rather than Ohtsu Co.’

While his Honour found that the trademark registrations were deceptive in fact, he considered that the Act did not give him power to order rectification on this basis. At the time, the Act did provide a ground of rectification where use of the trademark was likely to cause deception or confusion for a reason other than one for which the application to register it could have been opposed under sections 43, 44 and 60.<sup>46</sup> It was not in dispute that the potential for deception had not existed at the opposition stage (because it

44 93 FCR 421 at [90]–[91].

45 41 IPR 301 at 316.

46 Trade Marks Act 1995 (Cth), s 88(2)(c).

arose only from the much later assignments of the registrations). Wilcox J found the deception was of a type that could have been the subject of objection at the opposition stage and so was excluded because Parliament was trying to provide an incentive for people to bring oppositions before registration so as to keep the Register pure.<sup>47</sup>

Wilcox J ruled, however, that the failure to disclose the option to require reassignment meant that the registration of the assignment had been procured by false suggestion contrary to section 88(2)(e). As a result, his Honour ordered that the recordal of the assignment be cancelled.<sup>48</sup>

TTS appealed this conclusion, as well as the finding of non-infringement. As already noted, TTS's appeal against the finding of non-infringement failed. The Full Court, however, upheld TTS' appeal against the cancellation of the assignment. In the absence of proof that the arrangements were a sham, the documents had to be given effect according to their tenor. The fact that TTS had granted an option over the registered trademarks 'did not make [TTS] any the less the owner'.<sup>49</sup> Moreover:<sup>50</sup>

'Even if the assignment and the option are read together, as interdependent transactions, the true character of the assignment, as an assignment, remains. In other words, the fact that Ohtsu required a conditional option as a price for the assignment, does not mean that there was no assignment. The option gave certain rights to Ohtsu, but significantly less than the rights attached to full legal or equitable ownership.'

The formalistic approach to the analysis of the effects of the assignment and option for reassignment may be contrasted, firstly, to the approach in deciding what trademark had been applied to the imported tyres but, secondly and more significantly, to the approach taken in the EU for intra-EEA trade that examines whether there is an economic connection between the foreign and domestic rights owner.<sup>51</sup> The Court of Justice of the European Union (CJEU) has ruled that an assignment of a registered trademark in only one (or some) of several different Member States did not imply consent by the assignor to the use of the trademark on products made by the assignee. However, the CJEU added an important qualification. An assignment cannot protect a market from parallel imports from

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47 41 IPR 301 at 317.

48 *Ibid* at 318–321.

49 93 FCR 421 at [50].

50 *Ibid* at [53].

51 At least in the case of goods put on the market within the EEA.

another Member State where the assignor and assignee are in some way economically linked.<sup>52</sup> As the CJEU subsequently explained:<sup>53</sup>

‘44. ... such an economic link exists where, inter alia, the goods in question have been put into circulation by a licensee, by a parent company, by a subsidiary of the same group, or by an exclusive distributor. In all those situations, the proprietor or the entity of which that proprietor is part can control the quality of the goods to which the mark is affixed ....’

and:

‘46. ... the concept of “economic links”, for the purposes of that case-law, refers to a substantive, rather than formal, criterion, which is in no way confined to the situations listed in paragraph 44 above and which, in particular, is also fulfilled where, following the division of national parallel trade marks resulting from a territorially limited assignment, the proprietors of those marks coordinate their commercial policies or reach an agreement in order to exercise joint control over the use of those marks, so that it is possible for them to determine, directly or indirectly, the goods to which the trade mark is affixed and to control the quality of those goods.’

Thus, for goods put on the market in the EEA, the courts must engage in a factual investigation into whether the assignor and assignee are economically linked.

In the *Transport Tyre* case, the strategy of assigning the registered trademarks to the local distributor, therefore, worked. TTS stopped any further competition from Montana (and, presumably, any other potential competitors). International trademark owners might well have been concerned, however, by the strategy’s potential to invalidate the registrations on the ground that the assignment rendered the trademark deceptive or, alternatively, meant they lost control of their brand. Although Montana defended the ruling that it had not infringed, it did not appeal Wilcox J’s finding that the Court had no power to expunge the trademark registrations

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52 Case C-9/93 *IHT Internationale Heiztechnik GmbH v Ideal Standard GmbH* [1994] ECR I-02836 at esp [34]–[36] and [43]. The rule does not apply to products put on the market outside the EEA as the exhaustion doctrine does not apply to such products: Case C-355/96 *Silhouette Internationale Schmied GmbH & Co KG v Hartlauer Handelsgesellschaft mbH* [1998] ECR I-4799 and Case C-173/98 *Sebago Inc v GB-Unic SA* [1999] ECR I-1403 and Joined Cases C-414/99 and 416/99 *Zino Davidoff SA v A&G Imports Ltd* [2001] ECR I-8691.

53 Case C-291/16 *Schweppes SA v Red Paralela SL*, 20 December 2017 EU:C:2017:990. See also *The Bolton Pharmaceutical Co 100 Ltd v Doncaster Pharmaceuticals Group Ltd* [2006] EWCA Civ 661; [2007] FSR 3 refusing summary judgment and *Flynn Pharma Ltd v Drugrus Ltd* [2017] EWCA Civ 226 at [62]–[81].

because they had become deceptive. By that stage, Montana was insolvent.<sup>54</sup> Wilcox J's interpretation was with respect debatable. Moreover, the Act was amended in 2006 so that a trademark could be expunged from the Register if it became deceptive at the time the application for rectification was filed.<sup>55</sup>

### *Scandinavian Tobacco*

Before turning to further limitations revealed in the interpretation of section 123, it is important to note just how sweeping the provision could be where the same person owned the trademark in both Australia and overseas and itself applied the trademark to the imported goods.

Scandinavian Tobacco Group Eersel BV (STG Eersel) manufactures and markets around the world cigars under the trademarks CAFÉ CRÈME, LA PAZ and HENRI WINTERMANS. In 2013, Australia introduced stringent 'plain packaging' requirements for tobacco products including cigars. In broad terms, the rules required packaging to be a uniform khaki colour, with large images of cancer suffering and health warnings.<sup>56</sup> Trademarks could appear only once on the packaging and were limited to alphanumeric strings in Lucida Sans font, no larger than ten points in size and coloured black or white.<sup>57</sup> Similar, strict rules were specified for trademarks on cigars and cigar tubes.<sup>58</sup>

STG Eersel packaged its products specifically for the Australian market in accordance with the plain packaging requirements. Elsewhere in the world, however, it continued to use its colourful and decorative packaging and branding.

Trojan imported into Australia STG Eersel's cigars, which it had acquired overseas in STG Eersel's non-compliant overseas packaging. Before it offered

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54 Montana had ceased trading by the time the trial was heard: J W Dwyer and D L Yates, 'The Montana Case on Appeal — Dealing with "Parallel Importers"' (1999) 10 AIPJ 111 at 113.

55 See Lahore and Dufty, *Patents, Trade Marks and Related Rights*, LexisNexis, Service 203, [57,430]–[57,440]. Trade Marks Act 1995, s 89 provides the court with a discretion not to order rectification if the court is satisfied that the deception arises through no fault of the trademark owner. A recent, rare illustration of assignments being found deceptive is *Dunlop Aircraft Tyres Limited v The Goodyear Tire & Rubber Company* [2018] FCA 1014; 134 IPR 220.

56 Tobacco Plain Packaging Act 2011 (Cth) and Tobacco Plain Packaging Regulations 2011. For the compatibility of these arrangements with the World Trade Organization Agreement, see Australia – Certain Measures Concerning Trademarks, Geographical Indications and Other Plain Packaging Requirements Applicable to Tobacco Products and Packaging (WTO DS 434, DS 435, DS 458 and DS 467). Honduras and Dominican Republic have appealed.

57 Tobacco Plain Packaging Regulations 2011, reg 2.3.2.

58 For example, *Ibid*, reg 3.2.1.

the cigars for sale, however, it repackaged them in accordance with Australia's plain packaging rules. This involved Trojan removing individual cigars from STG Eersel's packaging and transferring them to the new packaging, in some cases breaking their cellophane wrappers. The cigars themselves were genuine, but the packaging and labelling were new.

The trial judge and the Full Court upheld Trojan's reliance on section 123 to find no infringement.<sup>59</sup>

First, the Full Court ruled that Trojan did in fact use STG Eersel's trademarks as trademarks. Their Honours considered that the rule in *Champagne Heidsieck* was not settled law and, in any event, has been displaced by the enactment of section 123.<sup>60</sup> Secondly, the Full Court found that the trademarks had been applied by or with the consent of STG Eersel and so the defence applied.<sup>61</sup>

STG Eersel argued that section 123 operated only for products while they still bore the trademark applied by or with the consent of the trademark owner. Section 123, therefore, did not apply in this situation once the trademarks it had applied had all been removed. The Full Court rejected that argument; holding that the temporal requirement for consent specified in section 123 was satisfied if, at some time before the alleged infringing use, the trademark had in fact been applied to the goods by or with the trademark owner's consent.<sup>62</sup>

In reaching this conclusion, the Full Court took into account realistic ways that a retailer might display goods for sale. The Full Court also noted that section 121 of the Trade Marks Act 1995 provides a mechanism by which a trademark owner could impose conditions prohibiting, among other things, applying the trademark to goods where the state, condition, get-up or packaging of the goods had been altered. That provision operated independently of, and was unaffected by, section 123. STG Eersel, however, had not employed such notices.<sup>63</sup>

The Full Court also rejected arguments that consumers might mistakenly think that STG Eersel, and not Trojan, was responsible for the packaging. Concerns of this nature were more properly the domain of passing off and

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59 *Scandinavian Tobacco Group Eersel BV v Trojan Trading Company Pty Ltd* [2016] FCAFC 91; 243 FCR 152 upholding *Scandinavian Tobacco Group Eersel BV v Trojan Trading Company Pty Ltd* [2015] FCA 1086; 115 IPR 246.

60 *Ibid* at [32]–[56].

61 *Ibid* at [57]–[77]. The extent of the interference with the goods permitted Trojan under s 123 may be contrasted with the stringent controls imposed on repackaging and relabelling under EU law:

62 *Ibid* at [64]–[67].

63 *Ibid* at [70]–[76].

statutory prohibitions on misleading or deceptive conduct.<sup>64</sup> According to the Full Court, possible harm to STG Eersel's goodwill associated with the trademarks, if any, was a consequence of the balance struck in the legislation between the rights of the registered owner and other potential users of the trademark.<sup>65</sup>

One may contrast the extent of interference with the goods permitted to Trojan under section 123 with the far more stringent controls imposed on packaging under EU law where the CJEU has permitted trademark owners to prevent repackaging of pharmaceutical products unless.<sup>66</sup>

‘– it is established that reliance on trade mark rights by the proprietor in order to oppose the marketing of repackaged products under that trade mark would contribute to the artificial partitioning of the markets between Member States; such is the case, in particular, where the proprietor has put an identical pharmaceutical product on the market in several Member States in various forms of packaging, and the repackaging carried out by the importer is necessary in order to market the product in the Member State of importation, and also carried out in such conditions that the original condition of the product cannot be affected by it;

– it is shown that the repackaging cannot affect the original condition of the product inside the packaging;

– the new packaging clearly states who repackaged the product and the name of the manufacturer;

– the presentation of the repackaged product is not such as to be liable to damage the reputation of the trade mark and of its proprietor; thus, the packaging must not be defective, of poor quality, or untidy; and

– the importer gives notice to the trade mark proprietor before the repackaged product is put on sale, and, on demand, supplies him with a specimen of the repackaged product.’

Trojan had not complied with at least the last of those conditions and may well not have complied with others.

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64 *Scandinavian Tobacco Group Eersel BV v Trojan Trading Company Pty Ltd* [2016] FCAFC 91; 243 FCR 152 at [68]. STG Eersel's claims based on those causes of action also failed: at [78]–[88] as there was no evidence to suggest that consumers were misled in this fashion. Also, STG Australia had itself engaged in a similar practice of repackaging other brands of tobacco products of which it was not the authorised distributor. One area the Full Court thought may give rise to such a misrepresentation is pharmaceutical products in tamper-free packaging.

65 *Scandinavian Tobacco Group Eersel BV v Trojan Trading Company Pty Ltd* [2016] FCAFC 91; 243 FCR 152 at [69].

66 Joined Cases C-427/93, C-429/93 and C-436/93 *Bristol-Myers Squibb v Paranova A/S* [1996] ECR I-3457 and C-276/05 *The Wellcome Foundation Ltd v Paranova Pharmazeutika Handels GmbH*, 22 December 2008 EU:C:2008:756 at [23].

The *Scandinavian Tobacco* case is the fifth Full Court decision since the passage of the 1995 Act, which ruled that the *Champagne Heidsieck* principle no longer applies so that a retailer or wholesaler who sells genuine products marked with the manufacturer's trademark is using the trademark as a trademark.<sup>67</sup> With respect, a number of criticisms can be made of this conclusion. While the High Court left open the question whether the *Champagne Heidsieck* principle had any role to play under the 1995 Act,<sup>68</sup> nonetheless the point must necessarily be taken as decided unless the High Court intervenes to overrule it.

#### *Misadventures with foreign licensees*

The *Transport Tyre* (at least before the assignment of the trademark) and *Scandinavian Tobacco* cases might be thought to illustrate how section 123 was generally expected to operate. In between those two cases, however, three other decisions demonstrated how narrowly the defence operated and the risks that putative parallel importers ran. It should be acknowledged at the outset, however, that none of the three cases actually involved what would ordinarily be thought of as genuine goods or parallel imports. It is the risks to which the reasoning exposed prospective importers and dealers that appears to have caused Parliament to act.<sup>69</sup>

#### BROTHER INDUSTRIES AND PRINTER DRUMS

Brother Industries of Japan owns registered trademarks for 'Brother' in Japan, Australia and the US.<sup>70</sup> In the early to mid-2000s, it was selling two versions of essentially the same printer drum: the Brother TR-200 drum unit and an OEM version.

Brother Industries sold the Brother TR-200 drum unit in packaging prominently displaying the 'Brother' trademark, which was also embossed on the drum unit itself. Until April 2002, the Brother TR-200 drum units

67 The others being *Transport Tyre Sales Pty Ltd v Montana Tyres Rims & Tubes Pty Ltd* [1999] FCA 329; 93 FCR 421 at [94]; *E & J Gallo Winery v Lion Nathan Australia Pty Ltd* [2009] FCAFC 27; 175 FCR 386 at [57]–[58] ('Gallo'); *Paul's Retail Pty Ltd v Sporte Leisure Pty Ltd* [2012] FCAFC 51; 202 FCR 286 at [66] ('Sporte Leisure'); *Paul's Retail Pty Ltd v Lonsdale Australia Limited* [2012] FCAFC 130; 294 ALR 72 at [65] ('Lonsdale').

68 *E & J Gallo Winery v Lion Nathan Australia Pty Ltd* [2010] HCA 15; 241 CLR 144 at [34] and [53].

69 The courts have shown themselves unmoved by such concerns, for example, stating that the risks of infringement are the risks a reseller who deals with anyone other than the registered owner always runs: *Scandinavian Tobacco Group Eersel BV v Trojan Trading Company Pty Ltd* [2016] FCAFC 91; 243 FCR 152 at [53].

70 This account of the facts is drawn from the decision in *Brother Industries Ltd v Dynamic Supplies Pty Ltd* [2007] FCA 1490; 163 FCR 530; 73 IPR 507.

were sold in brown packaging. From April 2002, the Brother TR-200 drum units were sold in white packaging. The Brother TR-200 drum units were sold in the US solely through Brother Industries' wholly owned subsidiary, Brother America. One of the distributors Brother America supplied was All Day Trading Inc. In Australia, the Brother TR-200 drum units were imported and distributed through another Brother subsidiary, Brother Australia.

The OEM drum units, on the other hand, were sold by Brother Industries exclusively to 'Company X'. Company X sold the OEM drum units only under its own trademark, in brown packaging different to that used for the Brother TR-200 drum units. Neither the packaging nor the units themselves bore the 'Brother' trademark.

Until 2004, Dynamic Supplies sourced the Brother TR-200 drum units it sold from Brother Australia. In 2004, however, it sourced three shipments from Discovery Group Inc in the US, a company with which Dynamic Supplies had had dealings since 1998. These products came in brown 'Brother' packaging. Dynamic Supplies made warranty claims on some of these, but Brother Australia rejected about half on the basis that they were not genuine products, but repackaged OEM products.

Tamberlin J held that Dynamic Supplies failed to prove that the Brother trademark had been applied to the drum units in issue by or with Brother Industries' consent on two grounds.

First, as a matter of fact, Tamberlin J found that Dynamic Supplies failed to establish the imported drum units had been sourced from Brother America.<sup>71</sup> The packaging on the goods imported by Dynamic Supplies was counterfeit.<sup>72</sup>

'The evidence shows that there are significant differences between the sample packaging and genuine Brother DR-200 packaging. These include differences in the flute profile which is made up of the number of corrugations in the middle wavy layer of cardboard, the use of brown coloured cardboard instead of white coloured cardboard, differences in the typeface of various English and Japanese words printed on the cardboard, and the use of a "smooth" finish in the cuts of the cardboard rather than a "puckered" finish.'

In addition to their evidence that the packaging was counterfeit, Brother Industries' witnesses gave evidence that Brother Industries only ever supplied Brother America with genuine Brother TR-200 drum units in

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71 *Brother Industries, Ltd v Dynamic Supplies Pty Ltd* [2007] FCA 1490; 163 FCR 530; 73 IPR 507 at [77].

72 *Ibid* at [70]. Curiously, no mention is made whether the imported units were embossed with the 'Brother' trademark. This seems to be implied, however, by the evidence at [22] that the units for which Dynamic Supplies made warranty claims, were in fact OEM units.

genuine Brother packaging and Brother America did not import any of the equivalent OEM products.<sup>73</sup> In contrast, the evidence from Dynamic Supplies and Discovery Group that the latter had obtained the goods from Brother America through All Day Trading was rejected as unreliable.<sup>74</sup>

Secondly, even if the drum units had been sourced from Brother America, there was no basis to infer that Brother Industries (as the owner of the trademark in Australia) had consented to Brother America's conduct. The imported units had not been branded by Brother International with its mark, the packaging was counterfeit and, contrary to the English Court of Appeal's decision in *Revolon Inc v Cripps and Lee*,<sup>75</sup> consent could not be implied from the corporate relationship between Brother Industries and Brother America.<sup>76</sup>

On the basis of the Court's findings that the imported products were OEM products dressed up in counterfeit packaging, the *Brother Industries* case should not be surprising. Even under the 'origin theory' of trademarks, a minimum requirement must be that the trademark owner has actually chosen to use its trademark in relation to the relevant goods.<sup>77</sup> Tamberlin J's refusal to infer consent from the corporate relationship indicated the potentially narrow scope of section 123.

#### SPORTE LEISURE

Great White Shark Enterprises (GWS) owns registered trademarks for 'Greg Norman' and a stylised version of a shark in numerous countries around the world, including India and Australia. GWS had appointed Greg Norman Collections Inc (GNC) as the exclusive licensee of these trademarks. Under that licence, GNC had granted BTB Marketing Pvt Ltd a non-exclusive licence over the marks for India. Under the licence, BTB expressly agreed not to sell licensed products to anyone except its regular retail customers in India in the normal course of trading. BTB further agreed not to sell outside India without the prior written approval of GNC.

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73 *Brother Industries, Ltd v Dynamic Supplies Pty Ltd* [2007] FCA 1490; 163 FCR 530; 73 IPR 507 at [20]–[36]. This included evidence from ten managers from various departments of Brother, including Brother America and included evidence that packaging for the Brother TR-200 drum units was only manufactured when an order was placed for production of the units themselves and only quantities sufficient for the drum unit production run were made.

74 *Ibid* at [37]–[39], [73].

75 [1980] FSR 85.

76 *Brother Industries, Ltd v Dynamic Supplies Pty Ltd* [2007] FCA 1490; 163 FCR 530; 73 IPR 507 at [78]–[79].

77 *AG Spalding & Bros Ltd v AW Gamage Ltd* (1915) 32 RPC 273 at 284 (Lord Parker), a passing off case and *Champagne Hiedsiek et Cie v Scotto and Bishop* (1926) 43 RPC 101 (trademark and passing off).

Notwithstanding this, BTB agreed to sell 4,995 garments to Sunsports in Pakistan. BTB shipped the goods to Sunsports via Singapore. In Singapore, however, Sunsports transferred the goods to PT International, which, in turn, shipped them to Paul's Retail in Australia.

Before Sunsports placed the order with BTB, its principal, a Mr Ahmed, had a discussion with a Mr Wadhvani of PT International offering for sale genuine 'Greg Norman' garments. PT International was a long-term supplier to Paul's Retail. Mr Wadhvani told Mr Dwyer at Paul's Retail that he could source genuine 'Greg Norman' goods from BTB. After checking on GNC's website that BTB was in fact a licensed manufacturer, Mr Dwyer placed a purchase order with PT International.<sup>78</sup>

Sunsports provided the purchase order to BTB. Before BTB made the garments, however, it required an irrevocable letter of credit from Sunsports. Sunsports provided a letter of credit from a Singaporean bank. BTB's invoice stated that India was the country of origin of the garments, their final destination was Karachi and the port of discharge was Singapore.<sup>79</sup> BTB did not pay royalties to GNC on the garments sold to Sunsports.<sup>80</sup>

In these circumstances, the Full Court upheld the trial judge's ruling that neither GWS nor GNC had consented to the application of the trademarks to the garments supplied to Sunsports. In a ruling described by the Full Court as 'unexceptional', the trial judge had explained:<sup>81</sup>

'Where a registered owner consents to another person applying the registered mark to goods on condition that the goods must not to be supplied outside a designated territory, the registered owner would not usually be regarded as having consented to the application of the mark to goods which the other person knows at the time he or she applies the mark are to be supplied by him or her outside the territory.'

The terms of the licence did not give BTB general permission to apply the trademarks to any goods so long as the goods were supplied in India. Rather, the terms of BTB's licence expressly prohibited the application of the trademarks to goods destined for supply outside India. BTB's knowing application of the trademarks to garments for sale in Pakistan (or elsewhere outside India), therefore, was without consent.

As with the *Brother Industries* case, it hardly seems surprising that a court would find the trademarks had not been applied to the BTB garments with

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78 *Paul's Retail Pty Ltd v Sporte Leisure Pty Ltd* [2012] FCAFC 51; 202 FCR 286 at [40]–[42].

79 *Ibid* at [42]–[43].

80 *Sporte Leisure Pty Ltd v Paul's International Pty Ltd* (No 3) [2010] FCA 1162; 88 IPR 242 at [64]–[75] (Nicholas J).

81 *Ibid* at [64]–[78] upheld in *Paul's Retail Pty Ltd v Sporte Leisure Pty Ltd* [2012] FCAFC 51; 202 FCR 286 at [73]–[77].

the trademark owner's consent in these circumstances. Sunsports did not buy the garments on the open market in India. Rather, BTB deliberately flouted the licence.

#### LONSDALE

Lonsdale Sports Limited, the UK parent of the clothing/fashion group, assigned its trademarks in Australia to Lonsdale Australia on 11 June 2011. Lonsdale Australia then appointed VAG, which, up to that point, had been the Australian distributor of 'Lonsdale' clothing as its exclusive licensee for Australia.

Until April 2011, Paul's Retail had sourced genuine 'Lonsdale' clothing from VAG. After its appointment as Lonsdale Australia's exclusive licensee, however, VAG stopped supplying Paul's. In August 2011, Paul's contracted with TMS LLC, another supplier with whom it had a longstanding relationship, to buy 239,329 'Lonsdale' garments. When Lonsdale Australia sued for infringement of its trademarks, Paul's had imported some 81,000 of these garments and sold some 9,000. However, some 126,000 garments had been impounded by Customs at Lonsdale Australia's instance. A further 83,000 garments were being held offshore pending the outcome of the litigation. Among other things, Paul's invoked section 123 in defence.

The circumstances by which TMS came into the goods supplied to Paul's were murky, to say the least. The garments that Paul's imported had been made by Punch GmbH. Punch was licensed by Lonsdale Sports Limited to sell clothing bearing certain 'Lonsdale' trademarks in Europe. The licence permitted Punch to have the products it sold made in China.

On 12 August 2011, Punch entered into an agreement to sell 239,329 garments bearing various 'Lonsdale' trademarks to Unicell in Cyprus (part of Punch's licensed territory). TMS arranged for Paul's to approve the samples Punch had made for Unicell's approval before production commenced. Punch shipped the garments from China to Unicell in Colombo, Sri Lanka where Unicell's agent carried out 'pre-retailing' activities on the garments such as tagging and pricing. Then, the labelled garments were shipped to Paul's in Australia.<sup>82</sup> Punch paid royalties to Lonsdale Sports Limited on the garments.

At least two of the three trademarks that the agreement with Unicell required Punch to affix to the garments were not trademarks licensed to Punch

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82 *Lonsdale Australia Limited v Paul's Retail Pty Ltd* [2012] FCA 584 at [2]–[3] and [8].

by Lonsdale Sports Limited. The trademarks were, however, trademarks of which Lonsdale Australia was the registered owner in Australia.<sup>83</sup>

Both the trial judge, Gordon J, and the Full Court on appeal held that Paul's failed to establish the defence under section 123. They did so, however, for different reasons.

Gordon J noted that, as Lonsdale Australia was the registered owner of the 'Lonsdale' trademarks in Australia, Paul's had to show that the trademarks had been applied to the garments by or with Lonsdale Australia's consent.<sup>84</sup>

First, Lonsdale Australia did not apply the trademarks to the garments in question.<sup>85</sup> Secondly, Lonsdale Australia and Punch were not part of the same corporate group, so the principle from *Revlon v Cripps and Lee*, even if it were part of Australian law, could not apply.<sup>86</sup>

Thirdly, in circumstances where the evidence showed that Lonsdale Australia designed and arranged for the manufacture of the garments it sold, but they were different in design, composition and quality to those imported by Paul's<sup>87</sup> and Punch was not licensed to apply at least two of the 'Lonsdale' trademarks to the imported goods, there was no basis to infer Lonsdale Australia's consent.<sup>88</sup>

The Full Court adopted a different approach. Their Honours pointed out that Lonsdale Sports Limited had given Punch a limited consent only. Punch had only a 'non-exclusive right to promote, distribute and sell Products bearing the Trade Marks in the Territory'.<sup>89</sup> Therefore, the sale to Unicell had to take place in Europe.

Under the Sale of Goods Act 1893 (UK),<sup>90</sup> sale occurred when Punch transferred property in the garments to Unicell. Although Unicell was based in Cyprus within Punch's territory, the contract provided for delivery of the garments *ex warehouse*. Transfer of property in the garments occurred, therefore, when the garments were collected in China by the freight handlers

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83 *Ibid* at [21], [27] and [54], compare Appendix D to Appendix [C]. The two trademarks corresponded to Lonsdale Australia's registrations Nos 675172, 772070, 772071 and 1358683.

84 *Ibid* at [32] and [47].

85 *Ibid* at [50].

86 *Ibid* at [51], citing the refusal to imply consent from membership of the same corporate group *Brother Industries, Ltd v Dynamic Supplies Pty Ltd* [2007] FCA 1490; 163 FCR 530 at [79].

87 *Lonsdale Australia Limited v Paul's Retail Pty Ltd* [2012] FCA 584 at [50].

88 *Ibid* at [50], [52]–[54].

89 *Paul's Retail Pty Ltd v Lonsdale Australia Limited* [2012] FCAFC 130; 294 ALR 72 at [37].

90 The contract between Punch and Unicell was governed by the laws of Switzerland. In the absence of evidence about the content of Swiss law, however, the law presumed that Swiss law was the same as Australian law: *Paul's Retail Pty Ltd v Lonsdale Australia Limited* [2012] FCAFC 130; 294 ALR 72 at [39].

from Punch's Chinese manufacturers for shipment to Unicell. Accordingly, the sale occurred in China – outside Punch's territory.<sup>91</sup>

The Full Court's resort to 19th century law governing the sale of goods might be thought surprising. It does not seem controversial, however, that Punch's licence was intended to be limited to distribution and sale of products in its European territory. Nonetheless, the Full Court's choice to base its decision on this ground raised questions about whether the assignment to Lonsdale Australia was effective.<sup>92</sup>

### *Section 123: a recapitulation*

Under section 123, therefore, the position had been reached that a brand owner might be able to block parallel imports into Australia if it was prepared to run the potential risk of assigning the trademark to a local subsidiary or, possibly, the local distributor. The case law arguably suggested some uneasiness with the strategy at least at appellate level, although the courts did not articulate why. If the brand was sufficiently valuable and did not require the sort of pre-market modifications required for, for example, electrical products as a result of differing electrical voltages, the brand owner ran the risk of rendering its trademark deceptive. On the other hand, the limitations on the scope of licences conferred on those manufacturing the products abroad, which typically would not be known by a potential parallel importer, provided great scope to block the imports. Potential parallel importers, therefore, were exposed to great uncertainty and the costly risks of infringement.

### **The Productivity Commission inquires into intellectual property arrangements**

In 2014–2015, the Australian government had established an inquiry into competition policy in Australia. Among its many recommendations, the Competition Policy Review had identified intellectual property as a priority area for review.<sup>93</sup> According to the Panel:

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91 *Ibid* at [38]–[47].

92 *Ibid* at [36]. In light of the conclusion it had reached on the 'sale' point, the Full Court considered it unnecessary to decide whether Lonsdale Australia's argument that the consent required for s 123 was its consent as registered owner. The Full Court was also prepared to assume (without deciding) that the licence to Punch granted by Lonsdale Sports Limited before assignment of the registered trademarks was binding on Lonsdale Australia.

93 Competition Policy Review, *Final Report* March 2015, p 41 and recommendation 6 ([http://competitionpolicyreview.gov.au/files/2015/03/Competition-policy-review-report\\_online.pdf](http://competitionpolicyreview.gov.au/files/2015/03/Competition-policy-review-report_online.pdf)).

‘The Panel is concerned that Australia has no overarching IP policy framework or objectives guiding changes to IP protection or approaches to IP rights in the context of negotiations for international trade agreements.’

The Competition Policy Review considered it did not have sufficient time or resources to explore the issues it had identified. Instead, it recommended that the government refer the issue to the Productivity Commission for a further 12-month investigation.

In August 2015, the government made that reference and in September 2016, the Productivity Commission delivered its report: *Intellectual Property Arrangements*.<sup>94</sup>

The Productivity Commission acknowledged that there had been numerous inquiries into Australia’s intellectual property regimes but considered them piecemeal and ad hoc. It considered that it was the first inquiry to approach Australia’s intellectual property arrangements from a holistic and evidence-based perspective. It considered that much of the reform of intellectual property laws had not been thought through clearly and had worked against Australia’s interests as a ‘net importer’ of intellectual property and comparatively small economy. For example:

‘A “more is better” mindset, and poor consultation and transparency, have proven problematic in Australia’s international IP dealings. International agreements that commit Australia to implement specific IP provisions — such as the duration of patent or copyright protection — have worked against Australia’s interests. These agreements typically involve trade-offs, and keen to cut a deal, Australia has capitulated too readily.’<sup>95</sup>

By the time of its *Final Report*, the Productivity Commission had accepted that Australia’s freedom to act in this area was constrained by the international agreements to which it is party. Nonetheless, it found scope for numerous reforms. One area was the issue of trademarks and parallel imports.

The Productivity Commission found that the decisions discussed above had made importing ‘legitimately marked goods’ more difficult. It considered

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94 Productivity Commission, *Intellectual Property Arrangements: Final Report*, Report No 78 September 2016 ([www.pc.gov.au/inquiries/completed/intellectual-property/report](http://www.pc.gov.au/inquiries/completed/intellectual-property/report)).

95 Productivity Commission, *Final Report*, p 26. For a more general overview, see Warwick A Rothnie, ‘The Productivity Commission’s Final Report into Intellectual Property Arrangements’ (2018) 30(10) *AIPLB* 210. One might argue the Productivity Commission’s criticisms were misplaced. Most, if not all, of the international agreements in question did not concern intellectual property rights exclusively. Rather they were part of multi-sector arrangements where Australia appears to have traded concessions on intellectual property rights, such as the term of copyright protection, for perceived benefits in other sectors. Whether the benefits, if any, in those other sectors balanced the costs of intellectual property reforms is not something the Productivity Commission explored. One might also question the fundamental premise that appears to underlie the Productivity Commission’s analysis that it is pointless for an economy such as Australia to invest in creative or innovative industries.

that result could be anti-competitive and welfare eroding.<sup>96</sup> Noting that several prior inquiries had recommended extending the ability to parallel import trademarked goods, the Productivity Commission identified two main objections to parallel importing. First, there were arguments that parallel imports devalued the trademark in Australia as goods formulated for different markets might be unattractive or misleading. Secondly, there were concerns that the imported products were of lesser quality or dangerous.<sup>97</sup>

The Productivity Commission dismissed these objections as not relating to the role of trademarks. The concerns that were raised could be addressed through other regulatory controls. For example, differences in taste or quality should be addressed by country of origin labelling requirements and signalled by differences in prices. The Productivity Commission agreed with the competition regulator's quite controversial view that the 'free rider' problem did not apply to trademarks and parallel imports:<sup>98</sup>

'Legislative restrictions on parallel imports are not justified by the traditional "free rider" concerns relating to IP which relate to preventing unauthorised reproduction. Instead, parallel importation restrictions extend IP rights into the process of distribution. They may also lead to inefficient outcomes by providing rewards to creators that are not proportional to the value or risk of their creation and create a public detriment.'

Neither the Productivity Commission nor the competition regulator accept that there can be 'free riding' on the costs of distribution. So far as the Productivity Commission and the ACCC were concerned, prohibitions on parallel imports merely promote international price discrimination and unjustifiable monopoly profits.

To redress the situation, the Productivity Commission considered two different approaches. One was to clarify what constituted use as a trademark and 'consent of ownership' to allow for parallel importation. The other was to spell out when the rights in a trademark were exhausted. It considered that the latter approach was preferable. Experience in New Zealand was not thought to have led to any of the issues raised by those objecting to broadening the rules to allow parallel imports. Accordingly, the Productivity Commission concluded:<sup>99</sup>

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96 Productivity Commission, *Final Report*, p 393; that is, causing consumers to incur unnecessary costs through paying higher prices than should otherwise be the case in a freely competitive market.

97 *Ibid*, Final Report, p 395.

98 *Ibid*, Final Report, p 396 citing the submission of the Australian Competition and Consumer Commission (ACCC).

99 Productivity Commission, Final Report, p 397 and recommendation 12.1.

‘Amending the Australian Trade Marks Act to reflect a similar provision would resolve confusion with the workings of the trade mark system, more closely reflect the original intent of the Trade Marks Act, and improve efficiency by fostering greater competition.’

### **Section 123 repealed and replaced by section 122A**

New section 122A is now headed ‘Exhaustion of a registered trade mark in relation to goods’. As enacted, it provides:<sup>100</sup>

‘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 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; 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 who has power to give such permission under paragraph 26(1)(f); 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 (within the meaning of the Corporations Act 2001) of a relevant person mentioned in subparagraph (i), (ii), (iii), (iv) or (v).’

Subsections 122A(2) to (4) make further provision, particularly in relation to the consent requirement specified in subsection 122A(1)(c).

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<sup>100</sup> Inserted by the Intellectual Property Laws Amendment (Productivity Commission Response Part 1 and Other Measures) Act 2018 (Cth), Sch 1, item 2.

### Section 122A analysed

New section 122A(1) provides a defence to infringement of a registered trademark, therefore, if three conditions are satisfied:

- (1) the user (who may be an importer, distributor, retailer or other dealer) must use the trademark in respect of 'similar goods' to those for which the trademark is registered; and
- (2) before the use in question, the user must have made 'reasonable inquiries' in relation to the trademark; and
- (3) when the use in question occurs, a reasonable person, after making those inquiries, would have concluded that the trademark had been applied to, or in relation to, the goods in question by or with the consent of a 'relevant person'.

#### *Reasonable inquiries*

As discussed above, the case law and submissions to the Productivity Commission identified the extreme difficulty a defendant seeking to rely on section 123(1) experienced in trying to prove that the trademark had been applied to the imported goods by or with the consent of the registered owner. To address this difficulty, section 122A focuses on the conclusions that a reasonable person would reach on the basis of reasonable inquiries made by the defendant about the relationship, if any, between the registered owner of the trademark in Australia and the person who actually applied the trademark to the goods in question.

The Explanatory Memorandum states that this is intended to be an objective test, which does not involve determining the subjective knowledge of the defendant.<sup>101</sup> For the reasons discussed below, that does not seem likely. The Explanatory Memorandum states the effect of the section more accurately, however, when it says that the 'question should be: what would a hypothetical reasonable person in the importer's situation<sup>102</sup> (with the information obtained from the reasonable inquires) conclude?'<sup>103</sup>

The expression 'reasonable inquiries' plainly imports a requirement of proportionality. According to the Explanatory Memorandum, the expression is intended to 'ensure' that the defendant user has taken 'appropriate steps' to ensure the goods are genuine goods.<sup>104</sup>

The Explanatory Memorandum does state that, in 'most circumstances', requesting and receiving a certificate of authenticity from the supplier 'would

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101 Explanatory Memorandum at [18].

102 It should also be borne in mind that the defendant may be a distributor, wholesaler or retailer, not just the importer.

103 Explanatory Memorandum at [18].

104 Explanatory Memorandum at [14].

be sufficient'. The Explanatory Memorandum continues that 'more searching inquiries' may be required where the supplier is widely known or suspected to supply counterfeit goods, or the goods are offered at a suspiciously low price. On the other hand, dealing with a retailer widely known to be the licensed distributor in the relevant market when the goods are offered at their usual price in that market may not require further inquiries.<sup>105</sup>

Also according to the Explanatory Memorandum, what constitute 'reasonable inquiries' will depend on what 'the hypothetical objective "reasonable person"' would do in the circumstances.<sup>106</sup> The strict terms of section 122A(1)(b), however, direct attention to the inquiries actually made by the defendant user and stipulate that those inquiries must be reasonable.

Nonetheless, as the information available from the inquiries must be sufficient that a reasonable person would form the required conclusion – that the trademark had been applied to the goods by or with the consent of a 'relevant person' – it seems inevitable that what inquiries will be reasonable in the circumstances will be affected by what a reasonable person would do in light of the information available at the relevant time. Accordingly, it is likely that whether reasonable inquiries have been made will be tested by an objective standard, but the content of that standard is likely to be affected by the subjective circumstances of the defendant. After all, the knowledge and experience of the particular defendant will be part of the information available to the 'reasonable person' from which any conclusions would be drawn.

Moreover, the particular knowledge and experience of the defendant may well affect what inquiries would be reasonable.<sup>107</sup> For example, it should not be unreasonable to expect that a defendant who knows an apparently respectable supplier has a history of shady dealing should make more extensive inquiries than might be required of a someone who does not have knowledge of that history, at least where the history is not widely known or suspected.

On the terms of the provision, a defendant who has not made any inquiries at all would appear to be unable to rely on the defence even if the goods are in fact genuinely parallel imports. Such a situation might be thought to be unusual in this sense. Every defendant seeking to invoke section 122A will have acquired the goods in question in a context. That context will convey, or

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105 *Ibid* at [15].

106 *Ibid* at [15].

107 See, eg, the test for what an alleged copyright infringer ought reasonably to have known in *Raben Footwear Pty Ltd v Polygram Records Inc* [1997] FCA 37; 75 FCR 88 at 91 and, in the context of the Designs Act 2003, *GM Global Technology Operations LLC v SSS Auto Parts Pty Ltd* [2019] FCA 97; 139 IPR 199 at [71]–[76].

imply, information that should inform what inquiries about the provenance of the goods are reasonable.

For example, the information imparted to a retailer and presumably what inquiries would be reasonable could be very different depending on whether the goods were being offered, or supplied, by a longstanding and trusted supplier or someone who has just ‘walked in off the street’ and is offering the goods at a ‘bargain basement price’. It will be important, therefore, for a defendant seeking to rely on the defence to establish the circumstances surrounding the acquisition carefully.

One further point should be noted. Each act of importation or sale is (if no defence applies) a separate act of infringement. Accordingly, the applicability of the defence will turn on what the hypothetical reasonable person would have concluded at the time of the particular allegedly infringing act.

Consider the example of a distributor who has imported 50,000 units of some product and, for argument’s sake, has sold only 10,000 units, when a letter of demand is received, alleging that the goods are infringing goods. The fact of the allegation and even more so the information provided in the letter of demand, such as it is, will be information that the hypothetical reasonable person would take into account before further sales are made. Depending on what inquiries have already been made, therefore, it may be necessary for further inquiries to be made before the defence can be claimed in respect of further sales.

### *The relevant person*

Section 122A(1) operates when a ‘reasonable person’ would conclude that the trademark has been applied to the goods by or with the consent of a ‘relevant person’. The subsection goes on to specify six categories of person who may qualify as a relevant person for this purpose:

- (1) the registered owner of the trademark; or
- (2) an authorised user of the trademark; or
- (3) a person permitted to use the trademark by the registered owner; or
- (4) a person permitted to use the trademark by an authorised user who has power to give such permission under paragraph 26(1) (f); or
- (5) a person with significant influence over the use of the trademark by the registered owner or an authorised user; or
- (6) an associated entity (within the meaning of the Corporations Act 2001) of a relevant person mentioned in subparagraph (1), (2), (3), (4) or (5).

These categories have been set out to address situations such as where ownership of the trademark in different jurisdictions has been split or where

some limitation has been imposed on a licensee's use. The Explanatory Memorandum stated:<sup>108</sup>

'... the existing section 123 is limited in its scope and clarity, and this has permitted the use of various corporate or contractual arrangements that subvert the policy intent of allowing parallel imports. The amendments in this Part are intended to ensure that parallel imports of legitimately marked goods are not taken to infringe an Australian registered trade mark when the goods have first been brought to market by the registered owner of that mark or another person who has (or had at the relevant time) some sort of relevant commercial or contractual relationship with the registered owner.'

The first two categories of relevant person are straightforward: the owner of the registered trademark – so a situation corresponding to the *Champagne Heidsieck* case – and licensees of the owner.

An 'authorised user' is the formal terminology used in the Act for a licensee: a person who uses the trademark with the owner's permission and under the owner's control.<sup>109</sup>

The third category is a person permitted to use the trademark by the registered owner. Subsection 122A(3) directs us to disregard how the permission arose. It elaborates that permission may be direct or indirect and can arise 'by way of proprietary interest, contract, arrangement, understanding, a combination of those things, or otherwise'. The Explanatory Memorandum states that permission for these purposes is intended to cover any form of substantive permission:<sup>110</sup>

'If the registered owner or authorised user permits a person to use the mark without exercising any further quality or financial control, then that does not change the fact that the mark is still being used with their consent and in relation to goods that are genuine.'

Thus, this category and the fourth category extend to informal arrangements, other than a strict licensing relationship where control is exercised.

The fourth category is similar to the third category in that it extends the category of relevant persons to someone who was permitted to use the trademark by an authorised user. That is in effect some form of sub-licensee (whether formal or informal). Curiously, this extension of the category of

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108 Explanatory Memorandum at [8].

109 Control is typically financial control such as exists within a corporate group or quality control: Trade Marks Act 1995 (Cth), s 8 and see *Trident Seafoods Corporation v Trident Foods Pty Ltd* [2019] FCAFC 100 at [44]–[60].

110 Explanatory Memorandum at [22].

relevant persons applies only if the authorised user is one who has power to grant sub-licences.<sup>111</sup>

Two considerations may limit that impact of this qualification. First, unless the authorised user is purely a retailer, one would expect that it must be implicit in the transaction that a purchaser of the goods from the authorised user, such as a wholesaler or retailer, would have a right to use the trademark in relation to the sale of the goods.

Secondly, it must be borne in mind that the defence operates where a reasonable person in the circumstances would conclude that the trademark had been applied to the goods by or with the consent of a relevant person. That would seem to require that the person dealing with the goods must have had some sort of notice, or been recklessly indifferent to the fact, that the authorised user was not permitted to sub-license before a limitation on the authorised user's authority could preclude reliance on the defence.

The fifth category of relevant person is 'a person with significant influence over the use of the trade mark by the registered owner or an authorised user'. This is, so far as Australian trademark law is concerned, a wholly new concept.

In determining whether a person has significant influence over the use of the trademark by the Australian owner or authorised user, section 122A(4) provides that one should disregard how that influence arises. It does not matter, for example, whether the influence is direct or indirect or arose by way of proprietary interest, contract, arrangement, understanding, a combination of those things or otherwise; that is, how the influence arises is irrelevant. It is the fact of significant influence that is important.

Dictionary definitions of 'influence' refer to a capacity to have an effect on someone or something and tend to refer to power being exercised imperceptibly or indirectly. The influence must be 'significant', which is a term that can have a range of meanings from important to notable to of consequence.

The Explanatory Memorandum explains:<sup>112</sup>

'This language is broad and 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

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111 Trade Marks Act 1995 (Cth), s 26(1)(f) expressly confers on an authorised user power to grant sub-licences or, more accurately, permission to apply the trademark in relation to the goods, but this may be excluded by the agreement between the owner and the licensee.

112 See also Explanatory Memorandum at [21]. Contrast the operation of s 122A(2) on licensees discussed below at n 116 and following.

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).’

The Explanatory Memorandum states that the concept is intended to cover situations where the Australian trademark is assigned by the manufacturer to a distributor with a power to require reassignment or otherwise subject to the previous owner’s control. The *Transport Tyre* case is expressly identified as an example of a situation where the defence is intended to operate.<sup>113</sup>

An option to require a reassignment of a trademark if the assignee engages in conduct prejudicial to the reputation of the trademark could appear to qualify as significant influence. Whether the grounds for exercising the option (and so enforcing the reassignment) have been triggered, however, will be something capable of dispute in the court. It may be debatable whether a court would find that conduct intentionally engaged in by the assignee as the person entered on the Register as the owner of the trademark could ever be prejudicial to the reputation of the trademark – the owner is usually the person whose judgement about such matters is decisive. In this respect, the trigger in the *Transport Tyre* case might provide stronger grounds for inferring influence as it specified harm to the global reputation of the trademarks.

The final category of relevant person is any person who is an ‘associated entity’ of anyone in the prior categories. This term is defined by section 50AAA of the Corporations Act. It is quite amorphous and difficult in application. It covers bodies corporate that form part of the same corporate group.<sup>114</sup> Two persons are also associated entities where one controls the other or vice versa or where some third entity controls both. Two persons are also associated entities if one has an investment (such as shares) in the other and has significant influence over the affairs of that other. In the context of corporations law, the concept of significant influence appears to refer to something less than the ability to dictate, or control, the decision.

Overall, the Explanatory Memorandum explains that these vague terms are intended to capture ‘a broad range of behaviours’ so that:<sup>115</sup> ‘the provisions operate to permit genuine parallel imports regardless of how the relevant authorisation or significant influence arose.’

The categories of ‘relevant person’, therefore, direct attention to economic or commercial relationships rather than formal, legal obligations. They seem similar to the sorts of situations identified by the CJEU in the context of intra-EEA trade in *Schweppes SA v Red Paralela SL*.

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113 Explanatory Memorandum at [23].

114 This is the example given by the Explanatory Memorandum at [24].

115 *Ibid* at [27].

*Consent*

Section 122A(2) provides that consent for the purposes of section 122A(1)(c) includes a consent that is subject to a condition and a consent that may reasonably be inferred from the conduct of the relevant person.<sup>116</sup> Section 122A(2)(a) gives as an example of a conditional consent that qualifies as consent for the purposes of section 122A(1)(c): ‘a condition that goods can only be sold in a foreign country.’

This wording appears, therefore, to cover situations where the goods are put on a foreign market by a licensee, even if the licensee is permitted to sell in a territory outside Australia and does not have authority to use the trademark in Australia. The Explanatory Memorandum, however, indicates that the provision is intended to have even wider scope. One of the cases the Explanatory Memorandum says this provision is intended to circumvent is the *Sporte Leisure* case. The Explanatory Memorandum then states:<sup>117</sup>

‘Paragraph 122(2)(a) is intended to ensure that the registered owner cannot circumvent the defence against trade mark infringement provided by section 122A by imposing specific restrictions or conditions on licensees or other authorised users. Registered owners may continue to put such limitations in their licences, but in the advent [sic] of the mark being used in a manner contrary to that condition, the registered owner should seek a remedy from their licensee, not from a parallel importer.’

The last sentence makes the Parliamentary intention clear: the trademark owner is limited to its remedies against the licensee for breach of the licence. It may be questioned, however, whether the wording of the section gives effect to that intention. In the *Sporte Leisure* case, for example, the licensee BTB was licensed to use the trademarks in India and expressly agreed not to sell outside India. However, it manufactured the goods in question specifically and knowingly for supply to a purchaser in Pakistan. That is, it knowingly and deliberately manufactured the goods for supply outside its licence.<sup>118</sup>

It is one thing to say that the relevant consent arises when the importer acquires the goods already in the course of trade on the open market. It seems very hard, however, to characterise the goods deliberately made by a

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116 There will no doubt be a debate whether paragraphs 122A(2)(a) and (b) are disjunctive or conjunctive. The purpose and context of the provision suggest that the paragraphs should be read disjunctively. In any event, s 122A(2) is not an exhaustive definition of ‘consent’ but that ‘consent’ includes these matters.

117 Explanatory Memorandum at [26].

118 *Paul’s Retail Pty Ltd v Sporte Leisure Pty Ltd* [2012] FCAFC 51; 202 FCR 286 at [42], [75]–[76]. The wording of s 122A(2)(a) seems to be based on the finding at [78] of the first instance decision under appeal: ‘Where a registered owner consents to another person applying the registered mark to goods on condition that the goods must not be supplied outside a designated territory, the registered owner would not usually be regarded as having consented to the application of the mark’.

licensee in breach of the licence as having the trademark applied to them with the consent of the trademark owner, even a conditional consent.

Section 122A may still have its apparently intended effect, however, as a result of a further aspect of the amendments. The Explanatory Memorandum states in numerous places that section 122A is intended to allow the importation into Australia of ‘genuine’ trademarked goods or ‘legitimately’ trademarked goods.<sup>119</sup> On the plain wording of section 122A, however, the defendant user does not have to prove that the goods are in fact genuine goods. The defendant user has to show only that it made reasonable inquiries and a reasonable person would have *concluded*, as a result of those inquiries, that the trademark was applied to the goods with consent.<sup>120</sup>

In the *Sporte Leisure* case, Mr Dwyer (the principal of Paul’s Retail) had received assurances from his supplier that the goods were genuine goods being sourced from a licensed manufacturer – BTB. And Mr Dwyer had gone on to *Sporte Leisure*’s website and confirmed that BTB was in fact one of *Sporte Leisure*’s licensees.<sup>121</sup> These facts standing alone appear to be consistent with what the section contemplates by way of reasonable inquiries and what a reasonable person would assume as a result. Additional facts might, however, affect both what would be reasonable inquiries and what a reasonable person in the circumstances might assume.

The problem is more acute in the circumstances of both the *Lonsdale* case and *Brother Industries*. In the *Lonsdale* case, at least some of the trademarks the foreign licensee had its manufacturer apply were not trademarks included in its licence.<sup>122</sup> It might be arguable that the hypothetical reasonable person would not be aware of such precise details. On the other hand, how Punch became aware of trademarks that were not licensed to it should call for much closer examination. For section 122A(2) to operate in the way outlined in the Explanatory Memorandum would appear to require an unusually purposive interpretation by the Australian courts.

In *Brother Industries*, Mr Piccinini (Dynamic Supplies’ managing director) gave evidence that he noticed the cartridges were in brown packaging, not white. However, he said he assumed they were ‘old stock’. The evidence that the packaging was in fact counterfeit came from a number of Brother

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119 For example, Explanatory Memorandum [10], [11], [15], [22] and [27] and [8].

120 Compare the qualification to the onus borne by the trader asserting ‘economic links’ recognised by the CJEU in Case C-291/16 *Schweppes SA v Red Paralela SL*, 20 December 2017 EU:C:2017:990 at [52]–[54].

121 See *Sporte Leisure Pty Ltd v Paul’s International Pty Ltd* (No 3) [2010] FCA 1162; 88 IPR 242 at [30]–[33] and, on appeal, [2012] FCAFC 51; 202 FCR 286 at [37]–[41].

122 *Lonsdale Australia Limited v Paul’s Retail Pty Ltd* [2012] FCA 584 at [21], [27] and [54], compare Appendix D to Appendix [C]. The two trademarks corresponded to *Lonsdale Australia*’s registrations Nos 675172, 772070, 772071 and 1358683.

employees who had years of familiarity with the very fine details of the packaging – including the number of flutes or corrugations in the cardboard and the precise details of the bar codes used. One might question whether a hypothetical reasonable person would be aware of matters of such fine detail. Experienced players in the market might well be aware that genuine Brother products were always embossed with ‘Brother’ on the drum units themselves. One might question, therefore, whether the hypothetical reasonable person would check whether that was the case with these products.

The facts as reported only go so far as to show that Discover Group claimed to have sourced the products from All Day Trading Co, which in turn received products from Brother America. Would the hypothetical reasonable person in the position of Dynamic Supplies be satisfied with assurances supplied by Discover Group or would they seek corroboration from All Day Trading Co that the products supplied to Discover Group had been supplied to it by Brother America? One may envisage that close scrutiny of the packaging of the products might be required.

Ultimately, Tamberlin J found that the evidence given by Mr Piccinini and by the director from its supplier, Discover Group, was not reliable or of little weight.<sup>123</sup> As section 122A operates as a defence, the alleged infringer will have the onus of proving the requirements of the section have been satisfied. That will not be possible if its witnesses are not believed.

#### *A registered trademark*

The chapeau to subsection (1) refers to use of ‘a registered trade mark’. This raises the question whether the provision will provide protection to a use that is not use of the trademark exactly as registered but use of a substantially identical or deceptively similar trademark. For example, most people would be familiar with the fancy script in which The Coca Cola Company presents its famous trademark and which it has registered.<sup>124</sup> Nobody would seriously contend that that trademark was not used by someone who marketed their own cola drink under COCA COLA in block capitals or, for that matter, all in lower case.

It would seem quite unrealistic to expect that a retailer such as a local grocery store advertising in the local newspaper or letter box flyer must use the trademark only in the precise form in which it was registered. On the logic of the cases since the enactment of the 1995 Act, however, such use is use as a trademark and must rely (now) on section 122A to avoid infringement.

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<sup>123</sup> *Brother Industries, Ltd v Dynamic Supplies Pty Ltd* [2007] FCA 1490; 163 FCR 530; 73 IPR 507 at [38] and [39].

<sup>124</sup> For example, Australian Trade Mark Nos 27136, 93487 and 337301.

An outcome where section 122A did not apply to uses of trademarks that only resembled, but were not identical to, the trademark as registered would be quite impractical. An outcome where section 122A applies to trademark uses that resemble the registered trademark is consistent with the result in *Scandinavian Tobacco* where Trojan depicted the trademark in the form ‘Henri Wintermans’, as required by the plain packaging legislation, rather than the block capitals in which it was registered. The point, however, does not appear to have been the subject of argument.<sup>125</sup>

The answer, it is submitted, lies in section 120, which specifies the primary basis for infringement. It provides that a person infringes a registered trademark if the person uses as a trademark a sign that is substantially identical or deceptively similar to the trademark in relation to goods or services for which it is registered.<sup>126</sup> Thus, there is one form of infringement: infringement of a registered trademark, not infringement of a substantially identical or deceptively similar trademark. Those concepts characterise the scope of the sign that may infringe the registered trademark. Section 122A should be understood, therefore, as providing a defence to the use of all signs used as trademarks that infringe the registered trademark, which leads to the required conclusion.

### *The trademark*

The requirement of section 122A(1) (c) is that a reasonable person, armed with the information resulting from the reasonable inquiries made by the defendant, would conclude that ‘the trademark’ had been applied to the goods by or with the consent of a relevant person.

The Act defines a ‘trademark’ as a sign used or intended to be used to distinguish the trade source of the goods.<sup>127</sup> Sections 122A(1) (b) and (c) focus attention on what conclusions would be drawn about the circumstances in which the trademark was applied to the goods in the (overseas) place of manufacture.

The reference to ‘the trademark’ that has been applied is the same terminology as the language formerly used in (now repealed) section 123(1) and should be interpreted in the same way; that is, it is a reference

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125 *Scandinavian Tobacco Group Eersel BV v Trojan Trading Company Pty Ltd* [2016] FCAFC 9 Annexure and cf Australian Registered Trade Marks Nos 179680, 943244, 946675, 1529889, and the stylised form in No 1230767. Of course, a registration in block capitals usually covers at least all ordinary script forms.

126 Subsections (2) and (3) provide for wider species of infringement in respect of goods or services outside the scope of registration but closely related or for ‘well-known trademarks’.

127 Trade Marks Act 1995 (Cth), s 17, *E & J Gallo Winery v Lion Nathan Australia Pty Ltd* [2010] HCA 15; 241 CLR 144; 86 IPR 224 at [42].

to the application of a sign that functions as trademark and does not import some territorial limitation. The Explanatory Memorandum confirms the Parliamentary intention to continue the approach declared in the *Transport Tyre* case and the rejection of the ‘metaphysical’ analysis of *Colgate-Palmolive*.<sup>128</sup>

Accordingly, the question is not whether someone has intentionally applied a trademark to goods intended for use in Australia. Rather, the issue is whether a reasonable person would conclude (on the basis of the reasonable inquiries that have been made) that the sign that functions as a trademark was applied to, or in relation to, the goods by or with the consent of a relevant person.

### *Similar goods*

The Act defines ‘similar goods’ to mean goods that are the same, or same description, as the goods specified in the trademark registration.<sup>129</sup> These expressions have a long history in Australian trademark law and refer to the type, or kind, of goods in question and not their quality. So, for example, a registered trademark will be infringed by the sale of goods of the kind specified in the registration even if they are of poorer quality than the goods marketed by or with the consent of the trademark owner.

Given this and the failure to adopt the recommendations of the Working Party and the non-inclusion in the 1995 Act of the 1994 Act’s provisions relating goods of different quality, it should not matter whether the imported goods are of the same quality as those put on the market in Australia by, or with the consent of, the trademark owner.

## **Conclusion**

The introduction of the ‘consent defence’ into Australian trademark law through section 123 appears to have wrought a very substantial change in what constitutes ‘use as a trademark’ for the purposes of Australian trademarks law. Since 1995, importers, distributors, wholesalers and retailers who advertise or offer goods for sale by reference to a trademark (whether the goods are imported or not) are using that trademark as a trademark. As a result, their conduct infringes the trademark registration unless (a) it is their own trademark, (b) they have a licence or permission from the trademark owner or (c) in accordance with section 122A now, they can show that a reasonable person would conclude the trademark had been applied

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128 Explanatory Memorandum at [20].

129 Trade Marks Act 1995 (Cth), s 14(1).

to the goods by or with the consent of the trademark owner or some other person with a relevant connection to the trademark owner.

Whether that result was intended or, if intended, fully understood at the time may be debated and its ramifications are yet to be worked through fully. The legalistic formalism that Australian courts have applied in the interpretation of the deceptively simple terms of (now repealed) section 123(1) was seen by Parliament as frustrating its policy to promote parallel imports in the interests of promoting intra-brand competition. Whether on their facts the cases actually involved what may be described as ‘legitimately trademarked goods’ was highly questionable in at least the *Brother Industries* case and the two cases involving Paul’s Retail. Nonetheless, those cases did expose the great risks that a prospective parallel importer would run.

To redress the significant problems arising from the legalistic formalism Australian courts apply to interpretation, Parliament has responded, first, with a very broad definition of the range of persons, the ‘relevant persons’, whose consent may be attributed to the owner of the trademark in Australia. Secondly, Parliament has replaced the requirement that the trademark must be applied by or with the consent of a ‘relevant person’ with a test based on what a hypothetical reasonable person would conclude about the application of or consent to use the trademark on the basis of reasonable inquiries. On the plain terms, and apparent intent, of this requirement, therefore, the defence could very well apply to goods that are not ‘genuine trademarked goods’. In the pursuit of intra-brand competition, Parliament has shifted the risks from prospective parallel importers to the trademark owner.