PARALLEL IMPORTATION

– and trade mark infringement

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Parallel importation is the term used to describe the situation where articles made by or with the authority of a manufacturer (for example, Sony Corporation) in one country (for example, Japan) are imported into another country (for example, South Africa) in competition with the exclusive distribution rights granted by the manufacturer to a chosen distributor in that country.

Two important judgments have recently been delivered by the Appellate Division concerning the prevention of the parallel importation of goods on the basis of statutory trade mark infringement. These judgments were given in the cases of *Television Radio Centre (Pty) Ltd v Sony Kabushika Kaisha (t/a Sony Corporation)*[1] (hereinafter referred to as the *'Sony'* case) and *Protective Mining & Industrial Equipment Systems (Pty) Ltd (formerly Hampo Systems (Pty) Ltd) v Audiolens (Cape) (Pty) Ltd*[2] (hereinafter referred to as the *'Pentax'* case). In both cases the goods involved originated from the respective trade mark owners.

In the *Sony* case the applicants succeeded in the court of first instance and obtained an interdict restraining the further use of the trade mark 'Sony' by Television Radio Centre in relation to parallel imports or so-called grey goods. In the *Pentax* case the applicant was unsuccessful in the court of first instance, which held that no question of trade mark infringement could ever arise in regard to genuine goods, ie goods manufactured by the trade mark proprietor.

Section 44(1)(a) of the Trade Marks Act 62 of 1963 provides that

> 'the rights acquired by registration of a trade mark shall be infringed by (a) *unauthorized* use as a trade mark in relation to *goods* or services in respect of which the trade mark is registered, of a mark so nearly resembling it as to be likely to deceive or cause confusion' (my italics).

The questions that arose were whether use of a trade mark on the genuine goods can in any circumstances constitute trade mark infringement in terms of this section and, if so, whether use of the mark by a retailer in reselling the genuine goods bearing the mark can be 'unauthorized' by the trade mark proprietor.

In the *Pentax* case Audiolens was trading in Pentax cameras which it had acquired abroad and which it sold in an unaltered form. In the *Sony* case the position was somewhat different. Television Radio Centre traded in Sony video recorders which, although intended for the United Kingdom market, had been purchased in the Far East. Because of the differences in the PAL system of television utilized in various countries, including South Africa and the United Kingdom, the tuner component of Sony video recorders is specially adapted for the television system of the market for which the goods are intended. A Sony video recorder intended for the South African market is identified by the manufacturer by the letters 'SA' appearing after the model number of the machine, while a Sony video recorder intended for the United Kingdom market is denoted by the manufacturer by the letters 'UB' following the model number of the machine. The United Kingdom version of a Sony video recorder cannot operate properly in South Africa unless a modification is made to it.

In selling the grey goods Sony video recorders, Television Radio made its own modifications to the machines to make them compatible with the South African television system. Expert evidence was adduced to the effect that the modifications required were major and that, as performed by Television Radio, the modifications had been inexpertly done with the result that the Sony video recorder sold by it was inferior to the authorized Sony machine. In both the *Pentax* and *Sony* cases the trade mark proprietors had caused letters withdrawing the authority to use their respective trade marks in relation to the grey goods to be written to the grey goods traders.

The Appellate Division analysed in depth the historical development of South African trade mark law from its sources in both the Roman-Dutch and English law, through the

[1] 1987 (2) SA 994 (A).
[2] 1987 (2) SA 961 (A).

various statutory enactments, up to 1963 when the present Trade Marks Act was passed. It concluded that under both legal systems confusion as to *origin* of the goods was an essential requirement for relief based on trade mark infringement. The court found that in 1963, immediately before the passing of the present Trade Marks Act, confusion as to origin was an essential component of statutory trade mark infringement. A comparison of the relevant provisions of the current 1963 Act with the corresponding provisions of the earlier Act showed that the only change that had taken place was the introduction of the word 'unauthorized' in the definition of infringement in s 44(1)(a). This alteration, the court concluded, was relatively insignificant and could not have been intended to make so major a change in trade mark law as to do away with the requirement that there must be confusion as to origin of goods before infringement can take place.

The court held that a registered trade mark is a badge of origin and not a badge of control, and accordingly cannot be infringed by use on the genuine goods, save possibly where the 'genuine' goods were made by a foreign licensee.[3] This finding made it unnecessary to decide whether authority to use a trade mark in resale, having once been granted by the trade mark proprietor, can subsequently be withdrawn.

As a consequence of this finding infringement was held not to have taken place in the *Pentax* case, and the appeal was dismissed. Other grounds on which the appellant relied were also rejected by the court.

In the *Sony* case the court held that it is a matter of fact and degree whether changes are sufficiently substantial to render the goods no longer genuine goods. Finding on the facts that the Sony video recorders sold by Television Radio were no longer genuine goods by virtue of the substantial alterations made to them by Television Radio, the court upheld the decision of the court a quo that infringement had taken place and dismissed the appeal.

As a consequence of these two decisions the only way in which one may attempt to prevent parallel importation of goods on the basis of the statutory rights afforded to a trade mark proprietor may be to prevent trading in such goods where they are manufactured by foreign licensees (the court expressly refrained from expressing a view on this point), or where they have been so altered as to render them no longer 'genuine' goods. Thus while remedies may exist elsewhere for combating parallel importation (for example, where a patent, design or copyright is infringed), a remedy based on trade mark infringement is circumscribed.

Neither of these decisions addresses the policy issue whether trading in parallel imports is a desirable trade practice. The cases deal essentially only with machinery which has been used in attempting to curtail trading in parallel imports. Perhaps the correct approach would be to address the policy issue first, and if it is found that trading in parallel imports is an undesirable trade practice appropriate mechanisms should be put in place, if necessary, to control such trading.

While at first blush it may seem that sources for Pentax cameras and Sony equipment alternative to the official distributors are desirable because they would lead to intra-brand competition and a possible lowering of prices, it is submitted that this is at best a short-term benefit. In the long term the public interest is better served by having overseas manufacturers of goods such as cameras and hi-fi equipment being able to enter into exclusive distribution arrangements with local distributors, the exclusivity of which can be preserved or enforced. This is the chosen modus operandi of virtually all overseas manufacturers of goods such as cameras, hi-fi equipment and watches.

The proper servicing of the market for such goods can best be undertaken by an exclusive distributor. He, with the support of his overseas principal, can maintain a proper supply of spares, have technicians suitably trained, and provide much-needed expertise in the overseas principal's goods to the local market. He can also give proper effect to international guarantees. All these are factors which contribute significantly to the reputation of a particular brand of goods. An exclusive distributor invariably expends considerable money, time and effort in promoting the product to create a demand for it and in equipping himself to provide complete and proper representation in South Africa for the manufacturer. Thus it is only fair that he should be in a position to reap the benefits which flow from his endeavours — which significantly increase his overhead expenses.

By contrast, the parallel importer is usually in the nature of a parasite who benefits from the promotional efforts of the exclusive distributor (without having to pay for such benefit), and often does not have any spares or suitably trained technicians to provide proper guarantee, maintenance and service facilities. He often refers his customers to the exclusive distributor when these facilities are needed. Such guarantee as he may give his customers, being unofficial, may not be recognized by official distributors in South Africa or in other countries — a fact frequently not brought to the attention of customers. In these ways his operating costs are considerably lower than

[3] As was the situation in *Castrol Ltd v Automotive Oil Supplies Ltd* 1983 RPC 315.

those of the exclusive distributor, and he can therefore afford to undercut the latter's prices.

The exclusive distributor, however — like all hosts of parasites — cannot withstand being fed off indefinitely without his 'health' beginning to fail. If the exclusive distributor declines, the product and its reputation are likely to suffer a similar fate because back-up service and guarantee facilities will deteriorate, if they do not disappear altogether. This situation is not in the interests of the public as a whole or of the overseas manufacturer and his products.

Competition is undeniably healthy and in the public interest. However, a form of competition which destroys the reputation of branded products and which leads to poor servicing and maintenance, and possibly the disappearance of such facilities entirely, is not healthy competition. In the South African marketplace for goods such as cameras and hi-fi equipment there are a number of competitive brands from which the consumer can choose. Inter-brand competition is healthy competition and the type that should be fostered. This kind of competition will flourish in the absence of parallel importation, and the consumer will be placed in a position where he can evaluate the alternative brands of a product available to him on criteria such as quality of product, quality of service, quality of guarantee and general customer satisfaction provided by strong exclusive distributors who supply country-wide networks of dealers.

A basic tenet of our legal philosophy, particularly in the field of intellectual property, is that a person should not be permitted to reap where he has not sown. Parallel importers are, a fortiori, persons who reap where they have not sown, and it is submitted that our legal system should provide remedies for curtailing their activities, if not in terms of trade mark law, then in terms of some other branch of the law.

AN INSURANCE OMBUDSMAN? — II

Advantages for both parties

N G ATKINS

In a previous article I summarized the many different ways in which an aggrieved policyholder may seek satisfaction from his insurers in a dispute arising from the contractual relationship between the parties.[1] The shortcomings of each of these courses of action were also described.

The traditional conservatism of the insurance industry and the zeal with which it promotes its reputation for fair dealing, coupled with the extreme reluctance of companies and brokers to tolerate outside interference in their domestic affairs, are factors which militate against its acceptance of an independent tribunal, other than a court of law, with power to make binding decisions on its behalf.

Insurers will, moreover, go to great lengths to avoid legal actions against them by policyholders, so as to escape the adverse effects of the resultant publicity. But in any event the current enormous cost of such actions deprives the great majority of claimants of access to the courts, thus substantially reducing insurers' exposure to this risk — except, of course, where the matter falls within the jurisdiction of the small claims court.

However well-intentioned most insurers may be, and however genuine their desire to be fair to their policyholders, they will, especially in present conditions, play to the rules, which, for the most part, they make themselves and which the policyholders do not understand.

It must therefore follow, inevitably, that a company which sits in final judgment upon its own actions will find it almost impossible to

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[1] See 'An Insurance Ombudsman?' in (1987) 16 *BML* 235.