

Owen H Dean

Parallel imports



A review of case law and legislation

Introduction

In *Taylor & Horne (Pty) Limited v Dentall (Pty) Ltd* 1991 (1) SA 412 (A) at 421-422, Van Heerden JA stated:

'It has often been said that competition is the life blood of commerce. It is the availability of the same, or similar, products from more than one source that results in the public paying a reasonable price therefor. Hence competition as such cannot be unlawful, no matter to what extent it injures the custom built up by the trader who first marketed a particular product or first ventured into a particular sphere of commerce. ...

'... [I]t appears to be generally accepted that, in the absence of statutory protection, the published idea or concept of a trader on which his product is based, may be freely taken over by a competitor even if the trader has through his efforts built up a demand for his product.'

Common law

The above quotation is the statement of general principle on which the court based its decision in that case. The court refused a claim of unlawful competition against a defendant who imported and sold a product named IMPREGUM (a patented rubber denture material used for making impressions for dentures and the like in dental surgery). In this classic parallel importation situation, the plaintiff sought to restrain the defendant from distributing IMPREGUM for so

long as the plaintiff enjoyed the exclusive distribution rights in respect of the product in South Africa. The court justified its decision as follows (at 422):

'Acceptance of this contention would certainly lead to startling consequences. It would mean that for as long as the sole agency endures the appellant would enjoy a monopoly, akin to that derived from a patent, in regard to the commercial distribution of IMPREGUM in this country. It would also mean that the agreement which created purely contractual rights between the parties thereto would in effect bind would-be competitors no matter from what source or however honestly they obtained supplies of IMPREGUM. A further result would be to impose an unwarranted restriction on the right of ownership or a person who legitimately acquires supplies of IMPREGUM.'

The plaintiff's contention that the defendant's competitive trading amounted to unlawful competition was founded on the proposition that the unfairness of the defendant's competition contravened the general sense of justice of the community. The court found that the defendant's intrusion into the market for IMPREGUM which had been created by the plaintiff's efforts would not be condemned by the community as unfair or unjust in a legal sense.

Statutory protection

The *Taylor & Horne* case was decided in terms

of the common law. Its effect was to establish the principle that trading in grey goods (parallel imports) is not in itself unlawful. But the court's finding in terms of the common law was qualified to the extent that it recognized that there might be instances where statutory protection was available to the plaintiff, which altered the position at common law. Litigants have tried to rely on statutory protection to prevent trade in grey goods. They contend that trading in grey goods constitutes trade-mark or copyright infringement.

Trade-mark infringement

The Appellate Division of the Supreme Court (the forerunner to the Supreme Court of Appeals) heard and decided two cases involving grey goods on the basis of trade-mark infringement. In one case, the court ruled in favour of the importer of grey goods; in the other, the court ruled in favour of the trade-mark proprietor. These cases are *Protective Mining & Industrial Equipment Systems (Pty) Ltd (formerly Hampto Systems (Pty) Ltd) v Audiolens (Cape) (Pty) Ltd* 1987 (2) SA 961 (A) (the 'PENTAX case'), and *Television Radio Centre (Pty) Ltd v Sony Kabushki Kaisha t/a Sony Corporation & another* 1987 (2) SA 994 (A) (the 'SONY case'). The facts in these cases differed slightly, which accounted for the different results.

The PENTAX case

This case concerned trading in grey PENTAX cameras. The defendant operated in terms of the classical parallel importing scenario. Genuine PENTAX cameras were purchased abroad from a third party, and then imported into and sold in South Africa in competition with the duly appointed local exclusive distributor. The plaintiff's case was that any unauthorized use of the trade mark PENTAX in relation to cameras constituted infringement of the registered trade mark PENTAX in respect of such goods. It wrote to the defendant and advised it that –

- it (the plaintiff) had been appointed as the exclusive distributor of PENTAX cameras in

South Africa and that the trade-mark proprietor had not authorized the use of the trade mark PENTAX in relation to any cameras which were not distributed in South Africa by its official distributor;

- in so far as any authorization to use the trade mark PENTAX could be implied from the fact that it appeared on a grey product, such authorization was explicitly withdrawn in the case of the defendant when selling grey goods (as a result, the use of the trade mark PENTAX in relation to grey goods by the defendant was unauthorized, and so constituted trade-mark infringement).

The court rejected this argument on the basis that the underlying function of a trade mark was that of a badge of origin, and that it was a necessary condition of trade-mark infringement that there must be confusion as to the origin or trade source of the product. As the goods were genuine, the use of the trade mark PENTAX by the defendant could not give rise to trade-mark infringement. The goods in question were manufactured by the trade-mark proprietor itself. The court left open the question whether the position would have been any different had the grey goods been manufactured by a licensee whose territory was restricted to a particular geographical area not including South Africa. The court hinted that it might have reached a different conclusion in this situation.

The SONY case

The parallel importation scenario in the SONY case was essentially identical to that in the PENTAX case. So the plaintiff in the SONY case advanced exactly the same arguments as were advanced in the PENTAX case. The plaintiff likewise purported to withdraw the authority to use the trade mark SONY on the grey goods. The grey goods had also been manufactured by the trade-mark proprietor. But there was one important factual difference between the two cases: unlike in the PENTAX case where the defendant made no changes or alternations to the product but simply imported it and sold it onwards, in the SONY case adjustments were

made to the goods by the grey goods importer. The goods in question were video recorders which, of course, contain a tuner component. The recorders were intended for the European market. To enable them to receive the broadcasts of certain stations in certain places in South Africa, it was necessary for the tuner component to be 'tweaked'. The court held that by virtue of this intervention by the defendant in the integrity of the goods, they were no longer 'genuine', and so the use by the defendant of the trade mark SONY in relation to them did constitute trade-mark infringement.

Conclusion

Trading in grey goods does not constitute trade-mark infringement unless their importer or dealer interferes with the integrity of the product, or, perhaps, unless the grey goods are manufactured by a territorial licensee of the trade-mark proprietor. These decisions were made under the Trade Marks Act 62 of 1963, since repealed. The current Trade Marks Act 194 of 1993 no longer treats a trade mark only as a badge or origin. Instead, it focuses on the distinguishing function of a trade mark. It is possible (but to my knowledge has not yet been argued in court) that this change in the essential function of a trade mark may lead the court to adopt a different approach to the one outlined above. It also raises the possibility of a foreign trade-mark proprietor's being able to assign his trade mark to his South African distributor, without vitiating the validity of the registered trade mark. The new proprietor can then proceed on the basis of trade-mark infringement against dealers in grey goods. Such an assignment would have been dangerous under the 1963 Act.

Copyright infringement

Successful copyright infringement claims have been instituted against dealers in grey goods, and interdicts have been obtained to restrain the importation and/or distribution of grey goods. This cause of action is, however, complex. Considerable preparatory work is needed before a viable claim of copyright infringement can be

made. In particular, the owner of the copyright relied upon must assign his copyright for South Africa to his exclusive South African distributor, or to some other party not involved in the manufacture of the relevant works, who will enforce the copyright. Under South African copyright law, design drawings and other technical drawings are protected as artistic works. Also, a product made from a design drawing is considered to be a three-dimensional reproduction of that drawing. It is an infringing copy where it is made without the authority of the holder of the South African copyright.

The leading case in this context is *Frank & Hirsch (Pty) Ltd v A Roopanand Brothers (Pty) Ltd* 1993 (4) SA 279 (A). Here, the defendant dealt in grey TDK blank cassette tapes. TDK Corporation, the worldwide holder of the copyright in the artwork on the labels and printed inserts of the tapes, assigned the copyright for South Africa in such works to Frank & Hirsch. The Copyright Act 98 of 1978 states that where, in the case of an imported article, the making of that article in South Africa by the actual foreign manufacturer would have constituted an infringement of copyright if it had been made in South Africa, the article is an infringing copy of that work. Unauthorized trading in it constitutes copyright infringement.

Frank & Hirsch contended that it had not authorized TDK Corporation to manufacture the labels or printed inserts bearing the relevant copyright works in South Africa. Accordingly, if TDK Corporation had made them in South Africa, and in so doing reproduced the copyright works, their unauthorized conduct would have constituted copyright infringement. In the circumstances, the grey goods were 'infringing copies' of Frank & Hirsch's copyright works.

Before importation and distribution of infringing copies can give rise to a valid claim of copyright infringement against a defendant, it is necessary to show that the defendant knows that he is dealing in infringing copies. To impart this 'guilty knowledge' to the defendant, the plaintiff caused its attorneys to write to the defendant to explain

to it why the grey goods constituted infringing copies of the copyrighted works, and that importing and distributing them without the plaintiff's consent constituted copyright infringement. The plaintiff waited a few weeks after having taken this step. When it was plain that the defendant proposed ignoring the plaintiff's demands, the plaintiff purchased specimen grey TDK tapes. I should stress that the plaintiff's claim did not relate to the actual tapes themselves but rather to the items of trade dress that accompanied the tapes.

The court found that the steps that the plaintiff had taken to impart guilty knowledge to the defendant regarding the infringing nature of the articles were sufficient, and that the defendant's trading in the grey goods without the authority of the plaintiff constituted copyright infringement.

In the wake of the *Frank & Hirsch* case several successful claims of copyright infringement in similar circumstances have been brought against dealers in grey hi-fi equipment, watches, and other three-dimensional articles where the copyrighted work relied upon was a design drawing and the infringing articles were three-dimensional reproductions of such drawings.

Regulatory measures

Exclusive distributors have achieved a measure of success in counteracting grey goods on a regulatory level. The Harmful Business Practices Act 77 of 1988 sets up a Business Practices Committee to outlaw certain trading practices that are considered to be contrary to the public interest. The committee had occasion to consider the desirability of trading in grey goods in relation to electronic goods. It concluded that trading in grey goods is in the public interest, provided that –

- it is made clear to consumers that they are being confronted with grey goods; and
- appropriate notice is given by the dealers in grey goods to customers that the goods do not necessarily enjoy the support of the manu-

facturer, and that guarantees and service facilities may not be provided by the manufacturer or its official exclusive distributor.

Failure to observe these stipulations can lead to a finding by the court that a dealer in grey goods was acting unlawfully. This, in turn, would enable an exclusive distributor to bring a claim on the basis of unlawful competition against such dealer to restrain him from selling grey goods without the specified notification to consumers. The exclusive distributor would not, however, be able to restrain the dealer merely from trading in the goods.

Conclusion

In neither the trade-mark nor the copyright infringement cases were the philosophical or policy issues of trading in grey goods dealt with by the courts, unlike in the *Taylor & Horne* case. In the trade-mark and copyright infringement cases the courts concerned themselves solely with technical issues relating to trade-mark and copyright infringement. But in each instance the plaintiffs presented the arguments against the practice of trading in grey goods (such as the parasitical nature of grey goods dealers; and the unfairness towards exclusive distributors who are required to maintain a full inventory of spares, maintain guarantees, and so on) while the defendants relied upon the perceived benefits to consumers through lower prices, the beneficial effect of increased competition, and the like. These arguments were advanced to persuade the court to approach the technical issues in the matter in a manner that would favour the party in question. In the absence of the courts' having expressed any views on these arguments, it is difficult to judge whether they swayed the courts.

However, I believe that the attitude of the court in *Taylor & Horne* probably represents the basic view of the South African courts on the principal issue of trading in grey goods.

Owen H Dean: Spoor and Fisher