

# **EXCEPTIONS TO INFRINGEMENT AND DEFENCES IN REFERENCE TO PARALLEL IMPORTATION**

## **Abstract**

The Parallel importation is the illegal transportation of original goods into a country's borders without permission or consent of the IP holder. This situation reflects some of the significant legal challenges that balance territorial IP rights against the principles of free trade. The legal defences by the parallel importers stand as an exception for infringement, this includes those based on doctrines like exhaustion of rights, first sale doctrine, and public interest consideration. This paper also links the type of import with a variety of ways how the different jurisdictions which deal with it, for example, the United States, European Union, and Japan contribute to inconsistencies in practice at an international level.

This thus is discussed, through an extensive review of the legal framework and various case studies, as well as the eventual effects of such defence on market competition, consumer welfare, and the protection of IP. The different laws prevailing in the different jurisdictions and how they can be combined to bring harmony in legal matters.

This study concludes by proposing a harmonisation of laws related to parallel importation as a means of resolving the conflict between the protection of IP rights and the promotion of overall economic efficiency.

**Keywords:** -Parallel importation, Intellectual property, Exhaustion doctrine, First sale doctrine, Free trade, public interest

## **Introduction**

Parallel importation is a term that describes the importation of genuine goods within a country without any permission of the IP rights holder. Indeed, a substantial amount of genuine goods are sold in foreign markets at much lower prices than they can be imported abroad by reselling them in domestic markets sometimes at a very huge profit. Parallel importation has constituted a very controversial issue in IP law since the very inception of the two concepts in conflict, but also due to the territorial nature of the IP rights on one hand and the principle of the free movement of goods on the other, this problem continues to be there.

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Thus, the holders of IP rights consider that parallel importation is an infringement on their rights to control distribution, whereas the importers believe it promotes market competition, thereby benefiting consumers because of lower pricing.

Therefore, the paper focuses on the exceptions to infringement and defence available to the parallel importers, also assessing how the different jurisdictions address the issue.

## **Research Problem**

The main problem this research tries to answer is the lack of consistency in the legal approach towards the issue of parallel importation from one jurisdiction to another. There exist several different stances on the issues of IP rights which concern parallel imports: the territorial IP right protection and the opposite one, which is free trade.

This begets uncertainty for businesses, importers, and consumers and inhibits the smooth functionality of open markets globally. Another one of the research problems is the tension between the protection of the IP holders' exclusive rights versus the competitive market to benefit consumers.

## **Research Questions**

1. What are the legal defences available to parallel importers against alleged infringements of IP?
2. How is the principle of exhaustion of rights interpreted in different jurisdictions regarding parallel importation?
3. What do public interest and competition law do in defence of a P.I.?
4. How does the international and the national legal framework create harmony in the law of parallel importations?

## **Rationale**

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One of the major justifications for conducting this research is to provide a comprehensive insight into legal defence and all the other exceptions available to the parallel importer. It also highlights the limitations in the legal angle so that measures can be adopted to remove the hurdles faced currently. The issue of parallel importation is highly relevant in today's world, in which globalisation and international trade are continuing to expand. Many holders of intellectual property rights holders use all their territorial monopolies to control the distribution of their products and preclude parallel import, sometimes with anti-competitive consequences. The present study attempts to shed more light on the legal standing of both importers and the holders of IP rights by analysing the different existing legal frameworks and most of the case law and offers suggestions toward the harmonisation of such conflicting laws within the different jurisdictions and try to get a globally acceptable legal system crossing all jurisdictions for the betterment of all parties concerned.

## **Aim of all the Studies**

The main objective of this work is to discuss legal defence or exemptions to infringement by parallel importation. The work will critically assess the doctrine of exhaustion of rights, first sale doctrine, and any other legal doctrine that affords protection to importers against claims of infringement. This also aims to develop some recommendations on how international and national laws on parallel importation could be harmonised so that they can achieve legal certainty and overall economic efficiency. The harmonizing of both laws will benefit all the parties and it will bring uniformity in the implementation of various laws of various countries.

## **Objectives of Research**

- In all major jurisdictions - US, EU, and Japan - to analyse the legal framework related to parallel importation.

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- Analyse the different exceptions to the infringement under the doctrine of exhaustion of right and other legal defence.
- To see how different courts apply the principles of a balance between the public interest and competition law in cases of parallel importation.
- To recommend various propositions which would work towards maintaining harmonisation in the concept of parallel importation across the various jurisdictions.

## **The Hypotheses of Research**

**H1:** The present legal approaches to parallel imports are seen to be inconsistent across the different jurisdictions they serve as an obstacle to free trade and market efficiency.

**H2:** The exhaustion of the right doctrine provides good and sound legal protection for all the parallel importers.

**H3:** harmonisation of law on parallel importation across borders would reduce legal uncertainty and increase efficiency in the global market.

**H4:** Public interest considerations, mainly in industries such as pharmaceuticals, make the defence of parallel imports very significant in today's world.

## **Literature Review**

### **Parallel Importation and Intellectual Property Law**

Parallel imports stand at an intersection between IP law and international trade. It thus raises several questions regarding the overall enforcement of territorial IP rights in the globalised market.

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Ghidini, 2006 believes that for IP holders, parallel importation is normally seen as an infringement of rights since it adversely affects their power to control price and distribution. Contrarily, Dinwoodie & Dreyfuss, 2012 believe that parallel importation indeed fosters market competition and negates monopoly conduct in various markets where IP holders think of taking undue advantage from incomplete price arbitrage across countries.

## **The Doctrine of Exhaustion**

First sale doctrine, IP exhaustion is one of the valuable defences of the parallel importers. The doctrine provides that by selling any product, the right of the IP holder is said to be "exhausted" in respect of that single product; and he no longer has the right to control its further reselling or redistribution. Being a common law principle, its application varies among the jurisdictions. For instance, the principle of regional exhaustion allows free circulation within the European Union since its establishment but makes parallel imports from outside of the region objectively is thus impossible to realize. The United States, on the other hand, has adopted a more flexible approach, as was realized in the landmark case of *Kirtsaeng v. John Wiley & Sons, Inc.*, in which they allowed international exhaustion in specific cases. Public Interest and Competition Law Public interest, and more so competition law, are at the very core of parallel import regulation. Various scholars such as Ghidini 2006 have expressed that the anti-parallel imports strategy of the IP holder can be anti-competitive, which is of great relevance to life-saving pharmaceuticals. For developing countries, this kind of public interest exception is especially required where the cost of important items such as medicines will be unaffordable to most people if parallel importation is blocked by an IP holder.

## **Research Methodology**

### **Scopes and Ideology**

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In light of this, the research will adopt a doctrinal legal analysis in exploring what legal defence and exceptions are available in parallel importation cases. It will primarily analyse, statutes, international agreements, and case law on parallel importations in the major jurisdictions of the United States, European Union, and Japan. The study approaches take both the inductive and deductive approaches wherein specific parallel importation cases test established legal doctrines applying exhaustion of right, for instance, broader legal theories are developed from case studies and the possible harmonizations of all the law.

## **Limitations of the Study**

The most obvious limitation of this research is its only focus is on a few key jurisdictions, such as the US, the EU, and Japan, in which perhaps a full scope of parallel importation practices cannot be captured globally. A further limit to the research is that international standards do not, as of yet, uniformly exist for all parallel importation; thus, proposing harmonisation does face inherent challenges. These are but a few limitations taken into consideration. If more research is done more limitations will come to light which we will have to consider. Since only limited countries are used in the research once more countries are added then the jurisdiction will increase and the scope too will increase.

## **Doctoral vs. Non-Doctoral Approach**

The research is non-doctoral in nature, as it does not aim to introduce a completely new legal theory or model, but rather develops upon pre-existing legal principles and case law to develop a practical and detailed understanding of the subject. This will be helpful in the global market.

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## **Scope of the Study**

The Study zeroes in on three major jurisdictions, namely: the United States of America, the European Union, and Japan, where some of the most critical legal battles over parallel importation have been fought. These regions, from their various standpoints, have reached different approaches to the legal treatment of the rights of IP and parallel imports, thus being ideal for a comparison study. Also included within the study are the legal doctrines of exhaustion of rights, public interest exceptions, and competition law, concerning parallel importation.

## **Data Analysis**

The research undertaking shall adopt a case law analysis cum statutory interpretation approach in dealing with the legal treatment of parallel importation as applied in the various jurisdictions. In identifying key cases of *Kirtsaeng v. John Wiley & Sons, Inc.* in the United States and *Silhouette International v. Hartlauer Handelsgesellschaft* in the European Union, it was analysed as to how courts apply the doctrine of exhaustion and other defences. The current study also reviews several exceptions to competition law and the concept of public interest, especially in cases where indispensable goods are involved, such as pharmaceuticals etc.

## **Solution**

Therefore, the research postulates a more harmonious approach in the treatment of parallel importation through international agreements or regional trade blocs. The consideration of international exhaustion of right doctrine for countries to facilitate free-flowing goods across borders while ensuring that IP rights are not used to create an anti-competitive barrier is what has to be considered. Second, courts and policymakers should develop clearer guidelines for applying public interest exceptions in the case of determined life-saving or important products like medicines, to ensure that the poor of developing countries are not priced out of

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life. A much human approach too should be considered when dealing with this issue as sometimes it is a matter of life and death especially where pharmaceutical goods are concerned.

## Suggestions

- **International Doctrine of Exhaustion of Rights:** This calls for the adoption of a harmonised approach concerning the exhaustion of rights within the countries where such rights are granted, probably through international trade agreements including the WTO.
- **Harmonization of Regional Laws:** Regional trading blocs, such as the European Union, serve as models in the harmonisation of laws related to parallel importation. The same, or similar, frameworks may be adopted by other regions as a means to move closer to free trade while still offering protection to IP rights.
- **Stronger Competition Law:** The relevant regulatory authorities should make sure that the IP owners do not exercise their territorial rights to block parallel imports in such a way as to squeeze out competition and consequently harm consumer welfare.
- **Public interest exceptions:** The Court should also be open to arguments of public interest exceptions in cases involving essential goods, such as pharmaceutical products, where the prohibition of parallel imports would imply high prices and less accessibility.

## Conclusion

The Parallel importation has indeed proved a difficult case, standing as it does at the boundary of intellectual property rights and free trade. IP holders insist that it is an infringement of their right of control over distribution, yet parallel importers say that this constitutes competition and is of benefit to the consumer because prices are lowered. It is rather evident from the research conducted that the doctrine of exhaustion of rights is one of the most important defences for a parallel importer, and yet this doctrine varies significantly

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in application from one jurisdiction to another. Harmonisation of international and national laws on parallel importation, especially with the adoption of an international doctrine of exhaustion, would ensure that there would be a decrease in legal uncertainty and allow more competition for the benefit of the consumer. Public interest exceptions and competition law also play a significant role in defence, especially for those parallel imports dealing with industries where access to affordable goods is of utmost importance.

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