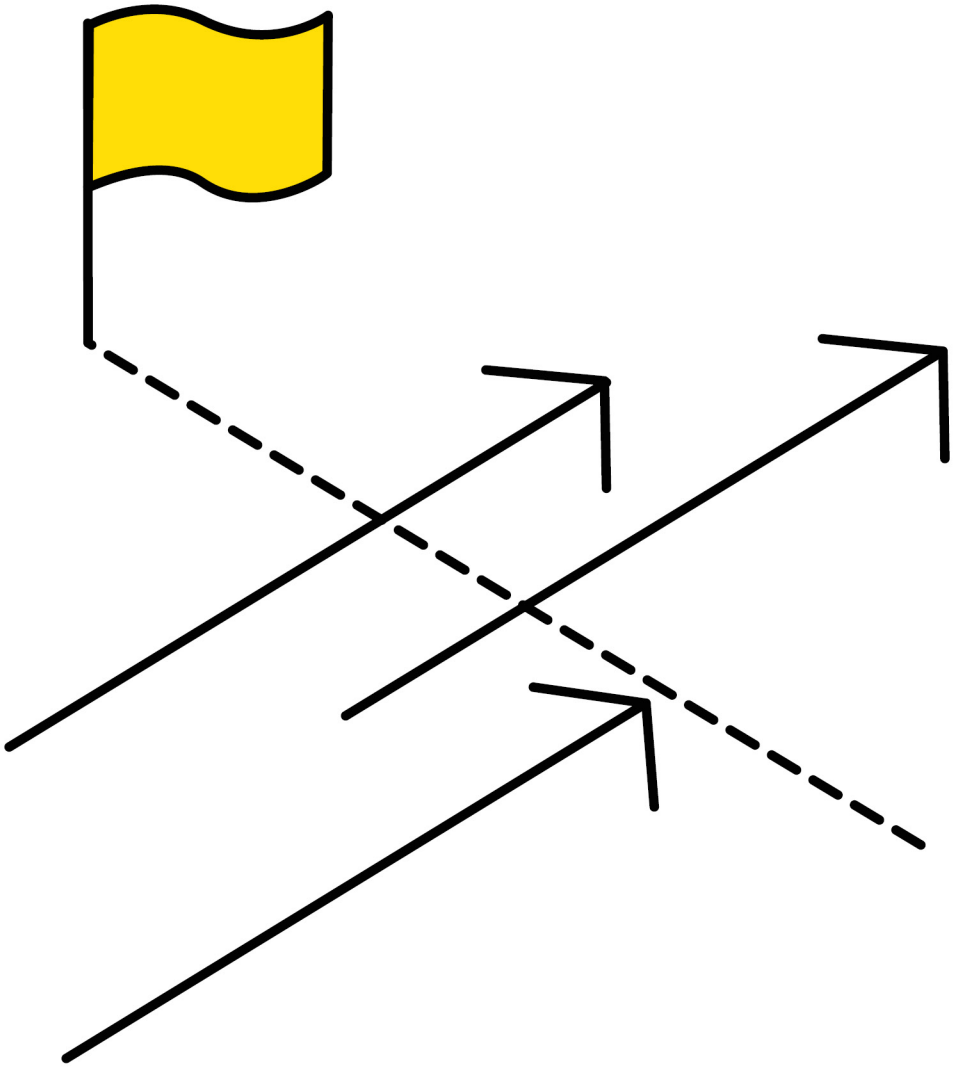
Parallel Imports and Unauthorised Sales



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Parallel Imports and Unauthorised Sales

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IP Brochure

Parallel imports concern the distribution of the manufacturer's original products outside its distribution system. German and European regulations protecting intellectual property provide ways of preventing this. Under certain conditions, the manufacturer can prohibit a parallel importer or other reseller from importing or distributing the original product in the European Economic Area (EEA). This is of great practical significance in relation to goods where the prices may vary considerably from country to country, in particular pharmaceutical products and medicines, or branded prestige products that are sold through selective distribution systems via authorised dealers and whose distribution being sold by retailers outside these systems needs to be prevented.

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1. Inadmissibility of parallel imports

Inadmissibility of selling an original product can essentially result from one or more of the following circumstances:

- the fact that the product was not intended for sale on the European market
- the changes which the distributor has made to the product or to the original packaging
- the sale of the product, particularly in the case of prestige-branded products, via supply chains outside the manufacturer‘s own distribution system (so-called “unauthorised” or “gray market sales”)
- in the case of patented pharmaceutical products, or those protected by a so-called supplementary protection certificate, the fact that the product was imported from accession countries of the European Union Enlargement

1.1 Inadmissibility due to the placing on the market outside the European Union Economic Area

In contrast to the law in numerous other countries outside the European Union (EU) or the European Economic Area (EEA), in particular the USA and also Switzerland, German and European law on intellectual property rights does not recognise exhaustion worldwide but solely unionwide. If a product legally protected in the EEA is placed on the market outside the European Economic Area by the manufacturer, the product may not be sold in the EEA without his consent. The manufacturer can prohibit that his product is sold in the EEA trademark on the basis of his property right if he has placed it on the market outside the EEA and it was not intended for sale in countries of the EEA. In countries outside the EEA in which the principle of worldwide exhaustion applies, as for example the USA or Switzerland, this is not possible. The manufacturer cannot prohibit the sale of his product is sold in these countries solely for the reason that it was intended for other countries.Resulting from the territorial limitation of the principle of exhaustion, the owner of a German trademark or a Community trademark or design can always avert parallel imports from third countries.

Distribution of original goods outside the distribution system of the manufacturer – possible reasons for inadmissibility:

1.2 Changes to the product or its packaging

Furthermore, the owner of a trademark can prohibit parallel imports from EU member states under trademark law, if there are “legitimate reasons”, which according to Sec. 24 II German Trademark Act/Art. 13 II CTMR is explicitly the case if the original packaging of the product has been changed and they were not notified of this in advance.

Even where a notification of the change to the packaging has been given in advance, the manufacturer can, as a rule, prohibit resale of his product by third parties in the Federal Republic of Germany if control numbers have been removed from the product or its packaging. This applies in particular if the control number specifies the place and time of production, or if it is apparent to the consumer that a control number has been removed.

The manufacturer is only obliged to tolerate repackaging and any other changes to the packaging if the changes do not affect his legitimate interests. One of the conditions for this is that the reseller must indicate on the packaging

that it has in fact been repackaged. The reseller is also obliged to ensure that the changed packaging is not defective or incorrect (*e.g.* the translation on a package leaflet) and that it has a proper, decent appearance. If these conditions are not fulfilled, the trademark proprietor can prohibit the sale of the product. In Germany, there is an established and differentiated judicial practice, which, as a rule, allows for a reliable legal assessment.

In addition, the ECJ clarified in a much-noticed decision that even removing a trademark and attaching one’s own trademark in its place during importation can be regarded as use infringing the trademark (see ECJ judgement of 25 July 2018, C-129/17 - Mitsubishi Shoji Kaisha ./. Duma Forklifts).

1.3 Sale of an original trademark product outside the selective distribution system (“unauthorised” or “gray market sales”)

In order to safeguard marketing quality, German and European law permits the manufacturer’s marketing partners to be bound by marketing requirements under certain conditions of competition law and anti-trust law. If a product sold through an authorised selective distribution system is sold to unauthorised third parties in breach of the terms of the selective distribution system, trademark law permits the manufacturer under certain conditions to take action directly against the

unauthorised distributor and to prohibit the further selling of the product.

On the one hand, the manufacturer may take direct action against the non-authorised distributor if, for example, the latter has removed control numbers or made them unidentifiable, even if the number only contained details of the distribution channels, or if it is not discernible to the consumer that the number was removed or made unrecognisable. The security of an authorised distribution system can therefore be effectively maintained by means of a control number system which gives information about the product's distribution channels within the selective distribution system.

Following a decision of the European Court of Justice (decision dated 23.04.2009 – C-59/08 – Copad v. Dior), the manufacturer may, on the other hand, prohibit an unauthorised distributor or retailer who has obtained the products from an authorised dealer within the distribution system from reselling them merely because of their trademark, if, as a result of the sale by this third party, e.g. a discounter, the prestige value of a branded product is impaired. Exhaustion of the manufacturer's trademark rights does not apply in this case either, so that they are able to obtain a sales prohibition directly against such third party.

1.4 Import of pharmaceutical products from the accession countries of the EU-Enlargement

The European Union has a special mechanism for prohibiting parallel imports of pharmaceutical products which even allows for prohibition of parallel imports of pharmaceuticals within the European Union itself. The mechanism allows the owner of a patent or supplementary protection certificate to prohibit the sale of the pharmaceutical product in the European Union, even if it was marketed with their consent within the European Union, *i.e.* in the new Member States of the EU.

The countries in question are those which became member states of the EU in 2004, 2007 or 2013. The background of this ruling is that Western European standard no equivalent to the Western European standard of patent protection existed in these countries. Pursuant to this ruling, it is possible to prevent parallel imports from these Member States into other EU states where the pharmaceutical product is protected by a patent or supplementary protection certificate.

If patent protection or a supplementary protection certificate for the pharmaceutical product was applied for in a Member State at a time when no equivalent protection could be obtained in one of the new Member States cited above, the patent proprietor

can prohibit the import of the product from such states into another Member State of the European Union, provided that their intellectual property rights are still in force there. As an exception, the rule on exhaustion of intellectual property rights, which is generally applicable in other cases of the marketing of goods in the European Union, does not apply under this special mechanism if the pharmaceutical product has been marketed in the countries named above.

This special arrangement does not apply to the accession countries Malta and Cyprus.

If a pharmaceutical product has been marketed in the latter countries with the manufacturer's consent, their intellectual property rights are basically exhausted and they can only oppose the product's import into other EU Member States according to general principles (see in particular 1.2 above).

1.5 Effects of BREXIT

Due to Brexit, Great Britain is no longer a member of the EU, nor is it a member of the EEA. Hence, since the transition period ended on December 31, 2020, Great Britain has been deemed a non-EU state, and no specific arrangements between the EU and/or EEA and Great Britain are applicable in this regard. This means that goods which were put into circulation in Great Britain with the consent of the trademark proprietor cannot freely be put into circulation in the EEA as well. To put it differently: A proprietor of a German or European trademark is able to prevent the import of goods from Great Britain – and vice versa.

2. Claims and litigation available to the manufacturer

In the instances of an infringement of the manufacturer's rights by the parallel importer or unauthorised distributor, the proprietor of the rights may assert all the claims to which they would otherwise be entitled in the event of an infringement of their industrial property rights, in particular claims to a cease-and-desist order, information on the distribution channels and the scope of the illegal sales, destruction and compensation.**2.1 The Claim for a cease-and-desist order, and border confiscation**

The manufacturer can enforce the claim for a cease-and-desist order by way of a preliminary judicial relief, which enables a prohibition order to be issued within a few days. One precondition for a preliminary injunction to be issued is, however, that the manufacturer acts quickly; as a rule, no more than one month may elapse between

the date on which the illegal sale of a product by a parallel importer or unauthorised distributor has been discovered and the date of the filing of application for the issuance of a preliminary injunction.The manufacturer can call on the customs authorities in the Federal Republic of Germany to monitor inadmissible parallel imports. They can request that the customs authorities temporarily confiscate suspicious goods and notify authorities named by the manufacturer. They can then prevent them from being resold by applying to the courts. In order to do this, they must first ensure that the customs authorities have a description as precise as possible of the identifying features of the suspected products, and, once the manufacturer has received notification of the confiscation, they must act very quickly – within two weeks – to file a request for a court order prohibiting sales. Confiscation of illegally sold original products at a country's border is not possible on EU level. EU border confiscation regulations do not permit seizing original products. The German customs authorities, however, are able to confiscate parallel import products at the border.**2.2 Claims for damages**

In cases of trademark infringements, a claim for damages often also enables the holder of the intellectual property rights to demand that the profit that the parallel importer has generated from parallel sales and for which they must render accounts be surrendered.The German Federal Supreme Court held that this applies to the parallel sale of pharmaceutical products which cannot be sold under a different trademark for reasons of pharmaceutical law. This decision, however, presupposes that the holder of the rights can also demand that the parallel importer's entire profit from the illegal sale of other medical products be surrendered, provided that it can be assumed that the product would not be accepted on the market if it had been sold under a different trademark.

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