IP ENSight

IP ENSight
6 September 2017

Grey market goods – a crime?

by Rachel Sikwane

The terms "exhaustion of rights", "parallel imports" and "grey market goods" come up a lot in the world of trade marks. They generally arise in relation to the fact that a company that has authorised the manufacture and sale of goods under its trade mark can't use trade mark law to stop the sale of those goods by parties with whom it may have no relationship.

This issue tends to come up in the context of international trade. For example, a trade mark owner may authorise a company in another country to manufacture goods under the trade mark. Using South Africa as an example, a South African company might then buy those goods directly from the manufacturer, ship them to South Africa and sell them in South Africa, possibly in competition with (and cheaper than) the authorised South African distributor. The trade mark owner cannot stop this because the trade mark rights have been "exhausted", meaning the "parallel imports" are legitimate goods because the trade mark was applied to such goods with the trade mark owner's consent. I should add that in South Africa, consumer legislation requires the unauthorised importer to notify the public that it is not an authorised distributor of the goods.

The rationale behind this is that trade mark law is primarily about preventing confusion regarding the origin of the goods. With parallel importation, no such confusion occurs – buyers are getting exactly what they think they're getting. This whole notion is sometimes expressed as follows: a trade mark is a badge of origin rather than a badge of control. Parallel imports are therefore very different from counterfeit goods, which were not made by the owner of the trade mark appearing on the goods and which, therefore, do cause consumer confusion.

A recent UK court decision has attracted considerable comment. The case dealt with the criminal aspects of trade mark infringement – although trade mark infringement issues are normally resolved by way of civil proceedings (the trade mark owner sues the infringer), they can also give rise to criminal claims. It is generally believed that the criminal provisions that exist in trade mark law deal with counterfeit goods. But this decision has seemingly changed that.

In the case of *R v M and Others*, Fred Perry, Ralph Lauren and Adidas goods had been sold in the UK without the consent of the trade mark owners. The Supreme Court was asked to decide whether there could be criminal liability in cases "where the proprietor of the registered trade mark has given its consent to the application of its registered trade mark, or has itself applied its own registered trade mark, to goods, but has not given its consent to the sale, distribution or possession of such goods."

In reaching its conclusion, the Supreme Court made a point of establishing that the "grey market goods" in question fell within the following categories:

- back-door production: goods made by the authorised factories in excess of the authorised numbers and then sold without the trade mark owner's permission.
- overruns: goods made in excess of the trade mark owner's order with the knowledge of the trade mark owner, but then sold without consent.
- factory seconds: substandard goods sold without consent.

It was held to be common cause that the “grey market goods” described above would give rise to a civil claim for trade mark infringement.

The court said that there was nothing in the relevant provision, section 92(1) of the Trade Marks Act, 1994, to exclude grey market goods. The wording of the section is indeed wide – it says that “a person commits an offence who with a view to gain for himself or another, or with intent to cause loss to another, and without the consent of the proprietor… sells or lets for hire, offers or exposes for sale or hire or distributes goods which bear, or the packaging of which bears, such a sign.”

Two questions arise: are the “grey market goods” referred to in the UK case genuine goods; and will this judgment be followed in South Africa? I would answer both questions in the negative. One would have to carefully consider the facts of the case before applying the UK decision in South Africa. When it comes to trade marks, the main criminal provisions are not found in the Trade Marks Act, 1993, but in the Counterfeit Goods Act, 1997. Therefore, the offences that exist seem to be limited to goods that are counterfeit rather than genuine. We’ll have to wait and see – it may only a matter of time before the UK decision is raised in a South African case.

Rachel Sikwane

IP | director

cell: +27 83 529 3639