THE POWER OF LEGAL CERTAINTY IN THE TRADEMARK EXHAUSTION PRINCIPLE GOVERNING PARALLEL IMPORTS

Alif Muhammad Gultom1*, Dodik Setiawan Nur Heriyanto2
1* University of College Cork, Ireland
2 Universitas Islam Indonesia, Indonesia
alifmuhammaad@gmail.com (corresponding)

Abstract: The exhaustion doctrine in intellectual property law refers to the limitation imposed on the rights of owners to enforce their intellectual property rights after a particular point of sale. It creates a framework for determining the legality of parallel imports and helps to balance the interests of intellectual property owners and consumers. This paper presents a comparative study on the trademark exhaustion principle and parallel import between the European Union (EU) and Indonesia. The study investigates the legal framework and the practical application of these concepts in both jurisdictions. This study uses a normative research method and a legal comparative approach to analyze and describe the legal frameworks of different jurisdictions. The research findings indicate that the EU has a well-defined threshold for the exhaustion of trademark rights, which is aligned with the regional exhaustion principle. In contrast, the Indonesian legal system lacks clarity on this principle, which creates confusion and uncertainty for trademark owners and parallel importers. Last, this research also provides insights for policymakers, practitioners, and academics who are interested in the current exhaustion principle and parallel import development.

Keywords: European Union; Exhaustion principle; Indonesia; Parallel Imports.

INTRODUCTION

The modern order of life as it is today closely intertwined with Intellectual Property and is inseparable from economic, industrial and trade activities. We are all in consensus that the use of ideas and information that has economic or commercial worth should be protected under Intellectual Property Right laws (“IPR”) (Cornish, 1999). According to Regent (Regent et al., 2021), granting Intellectual Property Rights is a form of respect or recognition for someone's creativity in the form of invention, creation, or art. The World Intellectual Property Organization (“WIPO”) classifies intellectual property as copyrights and industrial property rights. Patents, simple patents, industrial design rights, trademark rights, business names, indication of source or appellation of origin are protected under industrial property rights (Bejtullahi & Dumi, 2017; Bently, L. et al., 2022; WIPO Secretariat, 2004). IPR is crucial, especially for businesses and corporations. Registering IPR is one of the ways to protect them, which can ensure that the business is not a victim of fraud such as trademark counterfeiting and other actions committed by others (Dewantara et al., 2023). Therefore, protecting IPRs will help ensure that the product ideas are well-protected and not misused by others.

Ensuring the safeguarding of intellectual property is a critical aspect for business, corporate institutions, as it prevents the unauthorized exploitation of their concepts and ensures that rightful compensation is received by the owners. In the absence of adequate protection measures implemented at the outset, competitors may freely appropriate these ideas without any legal
remedy (S. & L., 2019). Trademarks as types of IPR holds a legal foothold and vitally important tools for attracting potential investors and buyers. With a brand, buyers can recognize and purchase products or services based on their quality and unique characteristics (Yogiswara et al., 2022). In the commercial realm, a trademark refers to any distinctive representation, such as a word, phrase, symbol, design, or a combination of these elements, that serves the purpose of identifying the origin of a particular product or service (Law No. 20 of 2016 concerning Trademark and Geographical indication, n.d.; USPTO, 2023; WIPO Secretariat, 2011). It plays a crucial role in facilitating customer recognition and differentiation from competitors in the market.

Under the trademark legal parlance, there are several principles that governed by standards specified in both international accords and domestic legislation, such as natural justice principle, the economic principle, the cultural principle, and the exhaustion principle or also known as first-sale doctrine (P, 2016). This paper will merely focus on doctrine of exhaustion principle in trademark practice.

It is globally known that one of the restrictions on an Intellectual Property (“IP”) owner is when their intellectual property rights have been exhausted (A. & Maniatis, n.d.; Pathak, 2018). The concept governs the resale, leasing, lending, and other third-party commercial uses of IP-protected items on local and foreign markets after a product has been sold with the IP owner's agreement. Hence, under exhaustion principle, IP owner cannot enforce their IP rights when the goods have been sold or put in the market in a specific territory (Dobrin & Chochia, 2016). This is quite similar under the U.S First sale doctrine which defines as a tort defense that allows owners of a trademarked product to redistribute the goods without risk of being sued by the trademark holder (Prutzman & Stenshoel, 2023).

As the exhaustion principle restricts the IP owner's rights, many corporate players in the era of global markets are ‘flooded “parallel import” products (Rai, 2012). So, under parallel imports practice, the importers enter goods in the form of original products from another country without the permission of the IP owner into the importers country which are carried out in parallel and then resold in at a lower price than is customary for that region (Bart, 2008). Parallel import is one of the most colorful and enigmatic phenomena of international trade. This is because the items were created by or under license from the brand owner, therefore they are not counterfeit. However, they may have been developed or packed for a certain country and are being imported into a different jurisdiction against the brand owner's purpose (Stobbs & Zhou, 2018; Wilson & Waller, 2015). Therefore, public still called this as a ‘gray market goods’ (Duhan & Sheffet, 1988).

In Indonesia legal frameworks, Trademark is governed under Law Number 20 of 2016 concerning Trademarks and Geographical Indications (Law No. 20 of 2016 concerning Trademark and Geographical indication, n.d.), however it currently lacks of precise and specific regulations pertaining to parallel import concerns. Furthermore, the trademark laws in Indonesia do not contain any provisions that explicitly refer to the exhaustion of rights principle. In other region such as European Union (“EU”), applies the regional exhaustion of trademark based on the prevailing law and court decisions with clear standard and threshold. As of now, there exist three
distinct types of exhaustion, which are international, regional, and national. This research will delve into each of these in further detail to provide a better understanding of the principle.

Previous research have raised issue on exhaustion principle, such as Adi’s paper in 2022, that merely focuses on Indonesian IPR (trademark, patent, copyright) Law (TiaraPutri, 2022). In addition, Nada’s research in 2019 which discussed on Implication of the Exhaustion Principle to the trademark parallel import disputes (Dhiahalque, 2019). This paper will analyze deeply on the principle of trademark exhaustion and parallel importation under the EU practice and compare with Indonesian Law to find the differences and things that Indonesia lawmaker could absorbed. Furthermore, parallel importing is a relatively new concept in Indonesia, and there is currently no well-established regulation specifically addressing this issue. Next, this paper explains the previous caselaw concerning the court interpretation of exhaustion principle in the EU. Last, the problem and remedy for the trademark owner to prevent the misuse of parallel importation.

RESEARCH METHOD

The normative and comparative legal methods were employed in this research, which involved analyzing relevant and applicable legal regulations pertaining to the legal issues at the focus of the study (Ansari & Negara, 2023). The study utilized secondary sources that were obtained from primary, secondary, and tertiary legal materials (Soekanto, 2008). The study employed a descriptive qualitative approach to thoroughly analyze factors relevant to the research topic and present in-depth information.

RESULTS AND DISCUSSION

Exhaustion principle explained

The owner of a trademark has the exclusive right to use the mark on their goods and to some extent control its usage. However, this right is subject to the principle of exhaustion, which means that after the first sale of the goods, the trademark owner's rights are exhausted, and they cannot prevent subsequent sales or trade in those goods by prohibiting the use of their trademark. Essentially, the trademark owner can only control the initial marketing of the goods and not subsequent resales. There are 3 types of exhaustion which are international, regional and national which will give repercussions for the IP rights holder and the consumer. On a national level, once a product is sold in a country, the IP owner's right to regulate the distribution of the good inside that particular country is exhausted (Helle, 2007). In other words, exhaustion principle does not extend to other countries or regions, so the owner of a product or IP may still have the right to prohibit certain actions in other countries or regions.

While international exhaustion means the IP rights exhausted on the first sale of a protected product anywhere in country that applying the principle. Hence, this principle does not give the owner the right to control the further movement of its IP products after the first sale in the market with his approval (Bonadio, 2011). The rationale behind this principle is to facilitate the free movement of goods across national borders and to promote the availability of affordable goods for consumers (Stamatoudi & Torremans, 2021). Turkey is one of the countries that recognize this type of principle.

In the European Union (EU), the principle of regional exhaustion of intellectual property rights is applied which will explained further in the below. This means that once an IP work or product is lawfully sold or distributed by the owner of the intellectual property rights within the
The Power of Legal Certainty in the Trademark Exhaustion Principle Governing Parallel Imports

region, the exclusive rights of the owner with respect to that product or copy are exhausted only within the borders. It should be emphasized that this applies only the nations inside the EU and European Economic Area. (Coyle, 2014)

**The Principle of Exhaustion in the European Union**

The formation of the European Community was predicated on the free movement of goods across the whole EU. This is stipulated under Article 30 of Treaty Establishing the European Community that prohibits member states from restricting imports from others (European Union, 1957). Based on economic considerations, no state may place restrictions on the importation of goods coming from another member state (Gold, 1992). In contrast, EU member retained a national system of IPR law which give the IP owner the protection. The problem comes up when exclusive subjective intellectual property rights go against free trade of goods and protecting competition (Jović, 2019). Following that, the Trademark Directive (“Directive 2008/95/EC of the European Parliament and of the Council,” 2008) was enacted to standardize the Member States' trademark legislation. Its aim was to make national laws more similar or get rid of important differences between them. It also includes the Community doctrine of exhaustion of rights. The key directive upon the regulation concerning exhaustion of rights stipulated under Article 7 which developed by the ECJ leading case up to the directive. The EU Directive on the laws of the Member States relating to trademarks (“Directive 2008/95/EC of the European Parliament and of the Council,” 2008) stated that:

“The trademark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trademark by the proprietor or with his consent”


For a better understanding, several European judgments have clarified on the element of ‘put in the market’ and ‘by the proprietor consent’ (WIPO Secretariat, 2011). Int started on (Silhouette International Schmied GmbH & Co. KG v. Hartlauer Handelsgesellschaft mbH, 1998) which considered to be a landmark ruling in this area of law. Here, the plaintiff is a sunglasses company from Austrian and having trademark Silhouette in Austria and several other countries. The case started when a firm named Union Trading as the sales representative sold the product although there are strict instructions to sell the products only in Bulgaria or other Soviet Union Countries and prohibit them to export to other jurisdictions (Krustiyati et al., 2022). Hartluer, the defendant of this case, bought the items and offered them for sale in Austria. Due to the exhaustion principle and the lack clarity of the related Directive, Austrian Court submitted question concerning what if the previous market of the product is not a Contracting state to the European Court of Justice (“ECJ”). The judgment concludes that the concept of international exhaustion does not apply inside the EEA if the goods were initially put on the market outside the EEA. Hence, the ECJ submit that the market under article 7 is within the EEA (Silhouette International Schmied GmbH & Co. KG v. Hartlauer Handelsgesellschaft mbH, 1998).

Next, the Makro case determine what ‘consent’ meaning under the article 7(1) (Makro Zelfbedieningsgroothandel CV, Metro Cash & Carry BV and Remo Zaandam BV v Diesel SpA,
2009). Here, Distributions Italian Fashion (“Difsa”) as the distributor of Diesel products in several area throughout EEA granted Flexi the exclusive right to sell Diesel goods. Flexi, however, engaged into a separate license deal with Cosmos World S.L. to market Diesel goods without the consent of Difsa or Diesel. Cosmos sold the product to Makro and retailing again in the Netherland. Diesel filed a lawsuit against Makro for trademark infringement due to Cosmos' promotion of the products without Diesel's approval. The previous Dutch and Appeal court were in favor of Diesel. Makro appealed to the Netherland Supreme Court and the judge interpreted that the consent must be shown explicitly whether it is verbal or inferred (Makro Zelfbedieningsgroothandel CV, Metro Cash & Carry BV and Remo Zaandam BV v Diesel SpA, 2009). As Diesel did not consent to the purchase of Cosmos and therefore Diesel’s right was not exhausted and therefore Diesel could oppose Makro’s transaction in the Netherland. Therefore, in this threshold the consent should be unequivocally demonstrated (Zino Davidoff SA v A & G Imports Ltd and Levi Strauss & Co. and Others v Tesco Stores Ltd, 2001). Subsequently, the EU required the goods in question must be put in the market (actual sale) within the relevant territory and with the unequivocally demonstrated consent of the proprietor.

**Indonesia Exhaustion principle legal framework**

According to Article 6 of the TRIPS Agreement, member countries are given the freedom to determine the exhaustion principle that they deem appropriate (Agreement on Trade-Related Aspects of Intellectual Property Rights, Marrakesh Agreement Establishing the World Trade Organization, 1994). However, in the context of Indonesia's trademark laws and regulations, there is a lack of detailed provisions pertaining to the implementation of such systems (Law No. 20 of 2016 concerning Trademark and Geographical indication, n.d.). Article 5 of trademark law stipulates that the owner of a trademark is granted exclusive rights to ‘use’ the mark for a specified period, either by utilizing it themselves or by authorizing its use by other parties. Nonetheless, the trademark law does not provide any further clarification regarding the specific actions that constitute the ‘use’ of a trademark. It is indeed that in principle, the owner of trademark rights could not exercise his exclusive rights to the subsequent sale of the trademarked products (Cai, 2020), when the first sale is made by the brand owner, or with the permission or agreement of the brand owner. This assumes that the owner of IPR has received sufficient compensation as intended through the first/initial sale (Cai, 2020). This opinion further strengthens by Kaehlig and Churchill on their research on Indonesian Intellectual Property Law.

Furthermore, Article 83(1) of the Indonesian Trademark Law grants the trademark holder the right to initiate legal action against individuals who use an imitation mark without their consent. Such violators are subject to imprisonment and fines, the amount of which is determined by relevant law (Law No. 20 of 2016 concerning Trademark and Geographical indication, n.d.). It takes place when a person uses a mark that is identical or substantially like a registered mark, without the consent of its owner. In this regard, there have been legal precedents in Indonesia regarding the use of these marks on non-genuine goods. For example, the cancellation of the 'Guess', 'Christian Dior', and 'Caxton' brands, which were employed on non-genuine goods without the authorization of their respective mark holders (I.B, 1999). However, the legal precedent is not directly applicable to the current exhaustion principle. In the context of parallel import practices, the products being traded are original and the use of the trademark on the goods has been authorized by the trademark holder (Hawin & B, 2020).
In light of the above analysis, it appears that Indonesia has not enacted any relevant statutory provisions regarding trademark exhaustion, nor has any judicial decision on this issue been identified at present. This is further reinforced by the lack of specific provisions concerning trademark exhaustion in the existing trademark law of Indonesia (Calboli, 2019). This is quite similar with the copyright law and other case precedent in Indonesia that lack of clear policies or ambiguity surrounding this principle which need for further academic analysis and clarification (Calboli, 2019; Coyle, 2014).

This is differed from the other types of IP such as patent which Indonesia explicitly adopts the national exhaustion principle that grants patent owners the exclusive to prohibit other parties in importing the products without the authorization from the patent owner. Article 160 on Law Number 13 of 2016 concerning patent regulates this matter (Law Number 13 of 2016 concerning Patent, n.d.). Nonetheless, there are some exceptions, inter alia pharmaceutical products or products used for research, experimentation, or analysis.

**Parallel imports – clarified**

The exhaustion principle has a close relationship with Parallel imports. Parallel import issues involving cross-border trading on items covered by trademark rights generate a potential conflict of interest between IP owner protection and/or licensing and international markets. What are parallel imports actually? Parallel imports refer to the trade of genuine branded goods between countries without the permission of the trademark owner. They are not counterfeit goods. This type of trade is also known as ‘grey market’ or ‘parallel trade’ (Chaudhry, 2014; Miller, 2009; VALLETTI & SZYMANSKI, 2006). Customarily, it occurs when a product is sold in one country at a lower price than it is sold in another country, and a third party purchases the product in the low-priced country and resells it in the high-priced country at a profit. For example, a product may be sold at a lower price in a developing country compared to a developed country, and parallel importers may purchase the product in the developing country and import it into the developed country, where it can be sold at a higher price than it was originally sold for (McKeith, 2014).

Parallel imports can have both positive and negative effects. On the positive side, parallel imports can increase competition, provide consumers with access to products at lower prices, and reduce the ability of brand owners to engage in price discrimination. On the negative side, parallel imports can harm the trademark owner's reputation, undermine their pricing strategies, and make it more difficult for them to control their products' quality and distribution (Ahmadi & Yang, 2000). Parallel imports have a long-standing history in Europe and were even addressed in the initial directive of 1988. In contrast, parallel imports have only gained significance in Indonesia since 1966. In recent years, various car spare parts have been parallel imported alongside legal imports. Additionally, several KIA’s car from South Korea in 200 and the unforgettable incident involving the original Blackberry Gemini phone, which was brought into Indonesia through parallel trading (Antons & Priapantja, 2004). In 2008, there was a case of trademark infringement related to parallel imports in Indonesia involving Modern Photo Tbk v. Photographic Supplies (“Directive 2008/95/EC of the European Parliament and of the Council,” 2008). Although case was referred to the previous law of trademark which is trademark act 2001. In this case, Modern Photo Tbk was the only distributor authorized by Fuji Photo Film Co., Ltd to sell photographic equipment under the registered brand
name Fuji. Tony Widharma, who is the head of PT International Photographic/PD Star Photographic Supplies, engaged in parallel importing from Union Camera Ltd, a company based in Hong Kong. The film products received from Union Camera Ltd were originally manufactured by Fuji Film in Japan.

The judge's decision found Tony, the person who engaged in parallel importing, guilty because he was considered to have used a registered mark that belonged to another party, specifically, Fuji Photo Film Japan or its licensee in Indonesia, which in this case was the plaintiff. He did not have the right to use the same mark in its entirety. Hence, the violation was related to the use of the entire registered mark without permission from the owner, rather than the importation of the product itself (“Directive 2008/95/EC of the European Parliament and of the Council,” 2008). The writer founds that the parallel import interpretation in this case depend on the contractual clause between each of the license party which in this case the license agreement does not prohibit Union Camera Ltd to sell the product to Indonesia.

Although there is no specific regulation on parallel imports in Indonesia based on the current law, the article 42 of Indonesian Trademark Law requires trademark license agreements to be registered, implying a disapproval of parallel imports. Despite this, the author believes that the parallel imports may continue to occur in Indonesia. In this scenario, the original goods obtained through license holders abroad are imported even though there are already local licensees. Henceforth, the Trademark Law does not anticipate this situation as it does not contain regulations related to the parallel imports which relates with the exhaustion principle that the author mentioned previously.

**Considerations for IP Owner and Lawmaker**

Currently, parallel imports become one of the major concerns by the trademark or IP owners. Infringers often purchase the items in question in a legitimate manner in one market in order to resell them in another market in which they are offered at a premium cost in order to compete with the regular market (ManagingIP, 2019). Regulations and remedies for gray market items vary by nation and should always be investigated in the appropriate jurisdiction. Parallel importation may seem tough to combat since it is mainly legal, but companies may take strategic efforts to successfully prevent it. This paper provides several solutions concerning this issue.

Firstly, it is though the contractual formation with the distributor of the licensee. It is important to remember, prior to finalizing the sales contract with foreign distributors, to include provisions that control the areas that they may sell to, as well as clauses that define liquidated damages, if at all feasible (Ahmadi & Yang, 2000). In the absence of such contractual protection, the courts will often establish an implicit license that grants the purchaser the right to resell the goods without restriction (Eli Lilly & Co v Novopharm Ltd, 1998). There are three essential terms of limitations that in practice shall be included into the agreement, which are (i) Quota restrictions; (ii) Export price mechanisms and (iii) Territorial provision clauses (Richardson & Tetrault, 2006). Nonetheless, all the manufacture distribution limitation shall also abide with the prevailing competition law.

Second, the IP owner can also track the product initiatives, this usually applies in the pharmaceutical sector. A producer may use a variety of measures to efficiently ensure adequate product monitoring, including labeling stating that the medicine is only authorized for sale in particular regions (Gong & Li, 2020). As the information technology growing, another current
issue is tackling the parallel importers through e-commerce or online website. In this case, the IP owner can do such website blocking order against disputed Internet Service Providers (ISPs) by seek the transfer of domain through ICANN’s Domain Dispute Resolution or other relevant domain dispute jurisdiction. There are indeed several thresholds that needs to be satisfied by the IP owner, such as trademark registration and other legally binding documents.

Last, there is some legal uncertainty around the legality of parallel importation in Indonesia, according to the 2016 Indonesian trademark law. While the law provides brand owners with the right to take legal action against those who copy their trademarks, it is unclear whether parallel imports fall under this category. Hence, it is important for lawmakers to establish clear and unambiguous laws and regulations in order to provide legal certainty to citizens and businesses as what shown in the development in the EU. Allowing parallel imports in Indonesia, especially for branded goods, could be beneficial as it could prevent a single distributor from applying monopoly pricing and promote consumer welfare by providing access to genuine and affordable products.

While there are pros and cons to this issue, the author believes that allowing parallel imports would be in the best interest of consumers.

CONCLUSION

The relationship between parallel import and exhaustion principle is that parallel importation is often based on the exhaustion principle. However, the relationship between parallel import and exhaustion principle is not always clear-cut, and there are many legal issues and disputes surrounding the legality of parallel importation. Ultimately, the legality of parallel importation will depend on the specific laws and regulations in each country.

Through its development, the parameters of the exhaustion theory in the EU were more thoroughly established via the interpretation of EU courts. For instance, the scope of Article 7(1) concerning the importers market that only applies to EEA region. The definition of ‘put on the market’ meaning that such product needs to be sold and ‘consent’ that needs to be unequivocally demonstrated. In contrary, Indonesia does not have any laws or regulations specifically addressing parallel imports, and there are no provisions in Indonesian trademark laws that recognize or relate to the exhaustion principle and parallel imports. Unlike patent regulations, which adhere to national exhaustion, trademark laws in Indonesia do not provide clear guidelines on the legality of parallel imports.

This paper provides several remedies towards IP owner to protect their rights through licensing terms with relevant party. In addition, this research found that the clarity by lawmaker in charge of trademark regulation in Indonesia might be needed due to the increased interest in the growth of parallel import. In such scenario, it is likely some of the current licenses will lead to litigation and therefore there is a need for a regulatory framework with well-defined rules and regulations.

REFERENCES


Law No. 20 of 2016 concerning Trademark and Geographical indication.

Law Number 13 of 2016 concerning Patent.


---

The Power of Legal Certainty in the Trademark Exhaustion Principle Governing Parallel Imports | 85


