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A REQUIEM FOR *CHAMPAGNE HEIDSIECK*: TRADE MARK USE AND PARALLEL IMPORTATION

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ABSTRACT

The “*Champagne Heidsieck* rule”, under which the importation and sale of legitimate branded goods has been held not to involve use as a trade mark, has historically provided an important mechanism to facilitate the parallel importation of trade marked products in Australia. However, following a number of recent Federal Court decisions, the rule has been written out of Australian law. This means that parallel importers and sellers of second-hand goods need to rely on the problematic defence contained in s 123 of the *Trade Marks Act* to avoid liability. This article traces the history and reception of the *Champagne Heidsieck* rule in Australia, and argues that the courts have taken a wrong turn by doing away with the rule, in part based on a misunderstanding of the history of the role of confusion in registered trade mark law. After discussing the numerous problems with the current s 123 defence, we consider how the Australian law on parallel importation and sale of second-hand goods could be improved, concluding that the best option is to resurrect the *Champagne Heidsieck* rule.

1. Introduction

When thinking about trade mark infringement, we tend naturally to think about dealings with goods that bear a mark that has been applied by a third party without the permission of the trade mark owner. The idea that an action for infringement might lie in respect of dealings with “legitimate” goods, that is, goods to which the mark has been applied by or with the consent of the owner, is much less intuitive. Yet over the past ninety or so years, we have seen trade mark owners attempt to use their rights to prevent the sale by third parties of such legitimate goods. Many of these cases have involved attempts to prevent the “parallel importation” of branded goods, but these should be

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seen alongside a smaller number of cases involving attempts by owners to prevent the sale of legitimate goods in second-hand markets.

Attempts to restrict the sale of legitimate goods have long been considered controversial. In large part this is because, from an economic perspective, restrictions on the parallel importation of trade marked goods raise potentially serious competition concerns. This is reflected in the dominant policy position in Australia, as illustrated by the Final Report of the Harper Review, where it was stated:

Parallel import restrictions are similar to other import restrictions (such as tariffs) in that they benefit local producers by shielding them from international competition. They are effectively an implicit tax on Australian consumers and businesses ... Removing parallel import restrictions would promote competition and potentially lower prices of many consumer goods.¹

Broadly similar arguments as to the benefits for consumers (and a strong environmental case) could be levelled against allowing trade mark owners to prevent the resale of goods in second-hand markets. The preferred policy position in Australia has thus long been clear.² Unfortunately, the same cannot be said for the legal position. Following a line of parallel importation cases under the *Trade Marks Act 1995* (Cth) (“TMA”), the Federal Court has written out a key doctrine known as the “*Champagne Heidsieck* rule”, under which the importation and sale of legitimate branded goods was taken not to involve use as a trade mark. This means that the act of parallel importation, or sale of second hand goods, is likely to be prima facie infringing under s 120 of the TMA. The legitimacy of such conduct now falls to be considered solely by reference to a highly problematic defence to infringement contained in s 123, which provides “[i]n spite of s 120, a person who uses a registered trade mark in relation to goods that are similar to goods in respect of which the trade mark is registered does not infringe the trade mark if the trade mark has been applied to, or in relation to, the goods by, or with the consent of, the registered owner of the trade mark”.

In this article we argue that the current Australian approach to the parallel importation of legitimate trade marked goods, and the rejection of the *Champagne Heidsieck* rule, rest on a misinterpretation of the history of how trade mark laws have applied to the sale of legitimate goods. After exploring this history, we then explain why it matters that the *Champagne Heidsieck* rule has been rejected, showing that there are significant problems with the drafting and operation of the s 123 defence. By way of conclusion, we consider a number of options that have been put forward for

¹ Competition Policy Review, *Final Report* (March 2015) (“Harper Review”), p 177.

² For a useful summary see Davison M, “Parallel Importing in Australia: What Is the Objective and Is It Being Achieved?” (2012) 38 *Monash University Law Review* 173, 175–176.

reform, concluding that the most promising option is one that has not thus far been canvassed by commentators or policy-makers: to resurrect *Champagne Heidsieck*.

2. A short history of how trade mark laws have applied to the sale of legitimate goods

(a) The essence of infringement, *Champagne Heidsieck*, and trade mark use

When the registered trade marks system came into operation, trade mark law was still understood, at least in essence, as being about preventing the production and sale of counterfeit goods. The action for infringement was therefore available only against those trading in illegitimate goods. This meant there were four limbs to the test for infringement. As summarised by Duncan Kerly and Frank Underhay, the editors of the second edition of *The Law of Trade-marks, Trade-name, and Merchandise Marks* in 1901:

[i]nfringement is the use by the defendant, for trading purposes, in connection with goods of the kind for which the plaintiff's right to exclusive use exists (ie, goods for which his mark is registered and used), *not being the goods of the plaintiff*, of a mark identical with the plaintiff's mark, or comprising some of its essential features, or colourably resembling it ...³

It is the third limb of this test—that is, that the use not be in relation to legitimate goods produced by the plaintiff—that has become lost in modern accounts of the history of trade mark infringement. But it was clearly uncontroversial, to the extent that in the 1887 case of *Condy v Taylor* it was held that the defendant was entitled to place the plaintiff's trade mark on bottles produced by the defendant so long as the liquid placed in the bottles was being provided to the defendant by the plaintiff.⁴

We have found nothing to suggest that the above was ever seriously challenged until 1929, when the matter was litigated in *Champagne Heidsieck et Cie Monopole Société Anonyme v Buxton*.⁵ The background to that case was that a manufacturer of champagne brought an action against a British importer of champagne. The wine in question had been produced by the plaintiff and sold in France, but was of a different type and had a slightly different get-up from the champagne sold by the plaintiff in the UK market. Clauson J held that the importer had not infringed the manufacturer's registered trade mark. *Champagne Heidsieck* has been widely discussed in both the literature and the subsequent case law. It has come to be understood as starting a line of authority that parallel importation cannot constitute trade mark infringement, since the

³ Kerly DM and Underhay FG, *The Law of Trade-marks, Trade-name, and Merchandise Marks* (2nd ed, Sweet & Maxwell, 1901), p 363 (our emphasis, footnotes omitted).

⁴ *Condy v Taylor* (1887) 56 LT 891.

⁵ *Champagne Heidsieck et Cie Monopole Société Anonyme v Buxton* [1930] 1 Ch 330.

importer will not have used the sign as a trade mark.⁶ On this view, the consequence of *Champagne Heidsieck* was that the “use as a trade mark” threshold was applied in first British, and later Australian, law in such a way as to create an “international exhaustion” rule. Such a rule has the effect that a trade mark owner’s rights are “exhausted” by the act of putting the goods on the market anywhere in the world. Interpreted in this way, *Champagne Heidsieck* has been the subject of sustained criticism. Such criticism is unsurprising if one approaches the case on the basis that the court summoned an international exhaustion rule out of thin air, and one can readily understand the desire of judges in recent Australian cases to locate an international exhaustion rule solely within the confines of the statutory defence to infringement contained in s 123 of the *TMA* (which we discuss in detail below).

The difficulty with the now dominant reading of *Champagne Heidsieck* is that the case did not turn on the creation of a new defensive doctrine for the benefit of importers.⁷ Rather, it merely applied the long-standing rule, referred to as the third limb above, that infringement actions were available only in respect of illegitimate goods. In this respect, *Champagne Heidsieck* bears re-reading. Clauson J was scathing of the plaintiff’s arguments, intimating that the plaintiff was seeking a “remarkable extension” to the law.⁸ The judge even went so far as to cite back at the plaintiff’s legal team a paragraph from *Kerly* representing the orthodox position that only use on illegitimate goods could infringe⁹—a move that was not only surprising, given that the convention of the time was that UK courts would cite only the works of deceased authors,¹⁰ but was especially derisive given that the plaintiff’s legal team was headed by none other than Sir Duncan Kerly.

In time, the rule in *Champagne Heidsieck* came to be swallowed by the general requirement that infringing use required the defendant’s use to be “use as a trade mark”. This is an idea that the courts had been exploring since the 1924 decision of the English Court of Appeal in *Edward Young & Co Ltd v Grierson, Oldham & Co Ltd*.¹¹ In *Champagne Heidsieck* itself, Clauson J alluded to the nascent doctrine of trade mark use but, importantly, did not tie his judgment to it.¹² It was only later, after the House of Lords cemented the trade mark use requirement in *Irving’s Yeast-Vite Ltd v Horsenail*¹³ (a 1934 case involving comparative advertising that, notably, did not cite *Champagne*

⁶ See Shanahan D, *Australian Law of Trade Marks and Passing Off* (2nd ed, Law Book Co, 1990), pp 512–514 and the cases cited therein.

⁷ See Dinwoodie G, “Developing Defenses in Trademark Law” (2009) 13 *Lewis & Clark Law Review* 99, 100 (on the difference between defences and defensive doctrines).

⁸ *Champagne Heidsieck et Cie Monopole Société Anonyme v Buxton* [1930] 1 Ch 330 at 338.

⁹ *Champagne Heidsieck et Cie Monopole Société Anonyme v Buxton* [1930] 1 Ch 330 at 341.

¹⁰ This convention seems to have come under sustained attack only in the 1940s: see Denning A, “Review of PH Weld, *A Textbook of the Law of Torts*” (1947) 63 *Law Quarterly Review* 516. For an account of a history of this rule, see Low SL, “Citing Legal Authorities in Court” (2004) 16 *Singapore Academy of Law Journal* 168, 176–178.

¹¹ *Edward Young & Co Ltd v Grierson, Oldham & Co Ltd* (1924) 41 RPC 548.

¹² *Champagne Heidsieck et Cie Monopole Société Anonyme v Buxton* [1930] 1 Ch 330 at 339.

¹³ *Irving’s Yeast-Vite Ltd v Horsenail* (1934) 51 RPC 110.

Heidsieck), that *Champagne Heidsieck* came to be seen as part of this broader doctrine. By the mid 1960s, when the High Court of Australia handed down *Shell Co of Australia Ltd v Esso Standard Oil (Australia) Ltd* and entrenched the trade mark use requirement in Australian law, *Champagne Heidsieck* was simply listed in a long line of British authorities that also included *Edward Young & Co* and *Yeast-Vite*.¹⁴ Treating the *Champagne Heidsieck* rule in this way is unproblematic, so long as one approaches the trade mark use threshold as a repository for a number of quite different policy considerations. As we have explained elsewhere,¹⁵ this means conceptualising trade mark use as a “safety valve” that allows findings of infringement to be avoided in cases where confusion is absent or unlikely. But once one takes seriously the idea that there is a narrower and more coherent unifying principle underlying the trade mark use threshold—namely, whether consumers respond to the defendant’s use as a badge of origin—the *Champagne Heidsieck* rule soon appears unconvincing. This can be illustrated by reference to the following example.

Consider the importer of legitimate Rolex watches. In line with *Champagne Heidsieck*, one might say that the importer is not using the trade mark to indicate the trade origin of the importation services it provides. Nor is the importer suggesting that its services have been approved or sanctioned by Rolex. It is then only a small step to apply the same logic to wholesalers and retailers of legitimate Rolexes. In both cases, the trade mark tells us nothing about the services being provided. However, to hold this line would clearly have undesirable consequences in other, quite different, scenarios. Most obviously, it would exclude liability for importers, wholesalers and retailers of *illegitimate* goods, as the same logic would apply: the Rolex mark would still not indicate anything about the trade origin of the *services* in question. Since courts have, for good reason, always been clear that any party trading in illegitimate goods has made use of the mark and is liable for infringement, the *Champagne Heidsieck* rule, if viewed from the perspective that the test of trade mark use rests on a single uniform principle, is obviously anomalous.

The legal landscape has been further complicated by attempts in Australia to develop a consistent understanding of trade mark use that extends to cases involving applications for the removal of registered marks on the grounds of non-use. In some non-use cases, tribunals have approached the question of use in a manner that is compatible with the rule in *Champagne Heidsieck*. For example, in *Estex Clothing Manufacturers Pty Ltd v Ellis & Goldstein Ltd*¹⁶ the High Court held that a UK company had made use of its trade mark in Australia in circumstances where its goods had been purchased by buying agents in London who sold them on to retail outlets in Australia. The court noted that retailers (and by necessary implication other parties such as

¹⁴ *Shell Co of Australia Ltd v Esso Standard Oil (Australia) Ltd* (1963) 109 CLR 407 at 422–423 (Kitto J, with whom Dixon CJ, Taylor J and Owen J concurred).

¹⁵ Burrell R and Handler M, *Australian Trade Mark Law* (Oxford University Press, 2010), pp 321–331.

¹⁶ *Estex Clothing Manufacturers Pty Ltd v Ellis & Goldstein Ltd* (1967) 116 CLR 254.

importers and wholesalers) could not be said to have used the trade mark “in any relevant sense”. The use was by the manufacturer and the manufacturer alone.¹⁷ This result is consistent with *Champagne Heidsieck*, although that case was not referred to by the High Court.

In other non-use cases, however, a rule to the effect that importers and retailers do not use the mark has been seen to have undesirable consequences, as least insofar as this is understood to create the corollary (as it was understood in *Estex*) that any use must therefore be use by the manufacturer. In *WD & HO Wills (Australia) Ltd v Rothmans Ltd*, the High Court held that sales of cigarettes by a US company to Australian consumers for private consumption did not constitute trade mark use.¹⁸ More controversially, the High Court also indicated that “[i]f a purchaser instead of smoking the cigarettes had attempted to resell the packets he would of course have used the trade mark and would have been liable to be sued for infringement”.¹⁹ This statement appears impossible to reconcile not only with the later decision in *Estex* but, more importantly for present purposes, with *Champagne Heidsieck*. What seems to have been animating the court in *Rothmans* is the recognition that if second-hand use (or resale by an end-user) were taken to be use by the trade mark owner this would be disastrous for the operation of the non-use test: a handful of sales, over which the trade mark owner had no control, potentially years after the mark owner had ceased trading, would be sufficient to preserve the registration. This concern is entirely understandable. But what is missing from *Rothmans* is engagement with the very different policy considerations that underpin the non-use and infringement enquiries. At the very least, the assumption contained in *Rothmans*—that if the trade mark owner is not using the mark, the reseller must be—ought not to be accepted uncritically.²⁰

(b) The dominant understanding by the time of the *Trade Marks Act 1995*

Nevertheless, despite the uncertainty created by the non-use cases, by the time of the 1995 Act the *Champagne Heidsieck* rule was widely understood to be an entrenched part of Australian law. As Dan Shanahan noted the second edition of *Australian Law of Trade Marks and Passing Off* in 1990:

¹⁷ *Estex Clothing Manufacturers Pty Ltd v Ellis & Goldstein Ltd* (1967) 116 CLR 254 at 271.

¹⁸ *WD & HO Wills (Australia) Ltd v Rothmans Ltd* (1956) 94 CLR 182 at 191.

¹⁹ *WD & HO Wills (Australia) Ltd v Rothmans Ltd* (1956) 94 CLR 182 at 188.

²⁰ As it was in *Pioneer Kabushiki Kaisha v Registrar of Trade Marks* (1977) 137 CLR 670 at 688, where Aickin J also misconstrued *Estex* in finding that it did not stand for the proposition that the distributor was not using the mark by selling the already-branded goods (a criticism also made by Young J in *R & A Bailey & Co Ltd v Boccaccio Pty Ltd* [1986] 4 NSWLR 701 at 709). For early, sustained criticism of the adverse consequences that might flow from failing to be clear as to the very different policy considerations that underpin the “use” enquiry in the non-use and infringement contexts, see Ricketson S, “The Licensing of Trade Marks and the Operation of Section 103 of the *Trade Marks Act 1955* (Cth): Some Aspects of the *Pioneer Case*” (1979) 14 *University of Western Australia Law Review* 30, 62–65.

It ... appears unlikely that an Australian court would now find trade mark infringement where the defendant is merely trading in the genuinely labelled product of the registered proprietor of the trade mark.²¹

In the thirty years between the decision of the High Court in *Shell v Esso* and the passage of the *TMA*, the correctness of the *Champagne Heidsieck* rule was only doubted in one case of limited precedential value.²² The majority of Australian parallel importation cases had concluded that the use as a trade mark doctrine would protect importers.²³ The rule had also received strong support from the Full Federal Court's decision in *Wingate Marketing Pty Ltd v Levi Strauss & Co*,²⁴ where it was found that the sale of reconditioned second-hand goods did not constitute trade mark use. This case has been largely forgotten in discussions of whether the rule had come to form an established part of Australian law by the time of the *TMA*.²⁵ But, to reiterate, it is imperative that we bear in mind that parallel importation and the sale of second-hand goods must be treated in the same way. If recognition of the logical lapse between how we treat sellers of legitimate and illegitimate goods is sufficient to force us to abandon the protection offered by *Champagne Heidsieck* for parallel importers, the same must be true for sellers of second-hand goods.

Moreover, although it is true that the reasoning in some of the non-use cases, particularly *Rothmans*, was difficult to reconcile with the *Champagne Heidsieck* rule, it had been acknowledged that the different policy considerations at stake meant that the non-use cases ought to be treated with care, and could not be regarded as having overturned the *Champagne Heidsieck* rule by necessary implication.²⁶

Policy-makers also remained committed to the benefits of parallel importation to consumers. It is therefore unsurprising that the Working Party that preceded the 1995 Act recommended that parallel importation should continue to be allowed. The form of the Working Party's recommendation is, however, worthy of comment. The Working Party was not content to leave this issue to the trade mark use enquiry, instead recommending the adoption of an express parallel importation exception to infringement.²⁷ Relatedly, it also recommended an express exception for

²¹ Shanahan, n 6, p 514.

²² *Atari Inc v Dick Smith Electronics* (1980) 33 ALR 20 (a Supreme Court of Victoria decision involving an application for interlocutory relief).

²³ See, in particular, *Atari Inc v Fairstar Electronics Pty Ltd* (1982) 50 ALR 274 and *R & A Bailey & Co Ltd v Boccaccio Pty Ltd* [1986] 4 NSWLR 701.

²⁴ *Wingate Marketing Pty Ltd v Levi Strauss & Co* (1994) 49 FCR 89 at 111 (Sheppard J, with whom Wilcox J agreed).

²⁵ But see *Scandinavian Tobacco Group Eersel BV v Trojan Trading Co Pty Ltd* (2015) 115 IPR 246 at [64] where Allsop CJ considered that the "line of authority" commencing with *Champagne Heidsieck* included *Wingate*.

²⁶ *R & A Bailey & Co Ltd v Boccaccio Pty Ltd* [1986] 4 NSWLR 701 at 709.

²⁷ Working Party to Review the Trade Marks Legislation, *Recommended Changes to the Australian Trade Marks Legislation* (AGPS, 1992), Recommendation 22D(4).

use on second-hand goods.²⁸ It would therefore be easy to suppose that the Working Party intended the new legislation to mark a shift away from reliance on the judge-made *Champagne Heidsieck* rule. Whether that was indeed in the case is unclear. The Working Party made no reference whatsoever to the continued applicability of the trade mark use threshold. On one interpretation, this meant that the Working Party envisaged that all of the cases that had been deemed non-infringing as a result of the trade mark use threshold would now be rendered non-infringing solely by reference to a list of statutory exceptions. Alternatively, by recommending a test for infringement that adhered closely to the wording of the 1955 Act, the Working Party may equally have envisaged that *Shell v Esso* would continue to apply, and that infringing “use” would still have to be “use as a trade mark”.

Irrespective of what the Working Party intended, Parliament took a clear position in enacting the *TMA*. Specifically, although it chose to enact most of the exceptions recommended by the Working Party, it also took steps to preserve and place on a statutory footing the “use as a trade mark” requirement in the new s 120. This has created some complex questions about the relationship between the trade mark use enquiry and the express exceptions in both ss 122 and 123. But there is nothing in the history to suggest that Parliament regarded parallel importation as different from, say, comparative advertising. Both were types of third party use that had been held to fall to be considered under the aegis of the use as a trade mark doctrine, but which, in ss 123 and 122(1)(d) respectively, were nevertheless given further protection by means of an express statutory defence.

Thus, to our mind, there are strong reasons for concluding that viewed against how the law had developed since the origins of the registered trade mark system, and Parliament’s desire to safeguard the judge-made trade mark use enquiry, the *TMA* ought to be understood as having preserved the *Champagne Heidsieck* rule. Simultaneously, however, there can be no question that the intellectual underpinnings of the *Champagne Heidsieck* rule had become confused by this point. The mixed treatment of the *Champagne Heidsieck* approach to use in High Court non-use cases served to leave the law in a problematic state. Still more importantly, the cases did not seek to explain the anomaly between treating use on legitimate goods as non-trade mark use, but treating use on illegitimate goods as being use as a trade mark, and thus infringing. It was recognition of the latter anomaly, in particular, that formed the basis of Mark Davison’s influential attack in 1990 on the *Champagne Heidsieck* rule,²⁹ which was arguably the first step in the law taking its current path towards rejection of the rule.³⁰

²⁸ Working Party, n 27, Recommendation 22D(5).

²⁹ Davison M, “Parallel Importation: Unlawful Use of Trade Marks” (1990) 19 *Federal Law Review* 420. See especially at 431–432.

³⁰ It might also be noted that the understanding of the Australian position was not assisted by the fact that Australian and UK law had long diverged by this point. Specifically, with the passage of s 4(1)(b) of the *Trade Marks Act 1938*

3. *Champagne* loses its fizz

(a) The judicial retreat under the *Trade Marks Act 1995*

The case that is now presented as marking the first judicial move away from *Champagne Heidsieck* under the *TMA* is *Transport Tyre Sales Pty Ltd v Montana Tyres Rims & Tubes Pty Ltd*.³¹ That case concerned the parallel importation into Australia of tyres that had been branded in Japan with the marks OHTSU and FALKEN by the then-owner of the Australian registered trade marks. The case is notable in that the Full Federal Court indicated that the defendant *had* engaged in trade mark use, stating, without further explication, that “[t]he mere sale of the tyres in question would involve a use of the Trade Marks because of the moulding of the Trade Marks on the tyres”.³² Importantly, however, the continued applicability of the *Champagne Heidsieck* rule under the *TMA* does not seem to have formed any part of the case before the court. By the time of the appeal, the defendant was content to frame its case solely in terms of the new statutory exception. Insofar as the court was required to consider use as a trade mark, this was because of an ingenious, but ultimately unsuccessful, attempt by the plaintiff to rely on non-use cases (in particular, *Estex*) to argue that unless the goods were intended for sale in Australia, the sign that had been applied to the goods in Japan could not be classified as a “trade mark”, such that the statutory exception would not apply.

In the ten years following *Transport Tyre* the continued applicability of *Champagne Heidsieck* remained open for debate: only two cases touched on this issue and in neither did the court reach a definite conclusion.³³ The matter became more complicated by the Full Federal Court’s 2009 decision in a non-use case, *E & J Gallo Winery v Lion Nathan Australia Pty Ltd*.³⁴ The *ratio* of the court’s decision was that Gallo, the US owner of an Australian-registered mark for

(UK), British law began to restrict the scope of the protection afforded by the trade mark use doctrine and, as a consequence, the rule in *Champagne Heidsieck* no longer represented the law in the UK by this time. In contrast, the *Trade Marks Act 1955* (Cth) did not seek to restrict the trade mark use doctrine in the same way. This was the result of a conscious decision taken by the Dean Committee (*Report of Committee Appointed to Consider What Alterations Are Desirable in the Trade Marks Law of the Commonwealth* (AGPS, 1954), chaired by Mr Justice Arthur Dean). The Committee noted at [25] that the amendment to the UK law in 1938 was the product of egregious lobbying by British trade mark owners as to a “supposed defect” in the law, in light of *Yeast-Vite*. It also noted at [26] that the English Court of Appeal and the House of Lords had been scathing of the UK provision (citing *Bismag Ltd v Amblins (Chemicals Ltd)* [1940] Ch 667 and *Aristoc Ltd v Rysta Ltd* (1945) 62 RPC 65). Critically, the Dean Committee thought that the problem was not merely with the obscurity of the drafting of the UK provision, but that it conferred a “startlingly novel” right on trade mark owners to proscribe conduct that did “not appear to be of any real detriment” to them: at [27]. Australian courts were therefore right to continue to apply a flexible version of the trade mark use doctrine, as developed under pre-1938 UK law, under the *Trade Marks Act 1955* (Cth). For a thorough defence of the Australian position, and the courts’ continued reliance on *Champagne Heidsieck*, see Shanahan, n 6, pp 515–519.

³¹ *Transport Tyre Sales Pty Ltd v Montana Tyres Rims & Tubes Pty Ltd* (1999) 93 FCR 421.

³² *Transport Tyre Sales Pty Ltd v Montana Tyres Rims & Tubes Pty Ltd* (1999) 93 FCR 421 at [94].

³³ *Brother Industries Ltd v Dynamic Supplies Pty Ltd* (2007) 163 FCR 530 at [43]; *Polo/Lauren Company LP v Ziliani Holdings Pty Ltd* (2008) 173 FCR 266 at [5].

³⁴ *E & J Gallo Winery v Lion Nathan Australia Pty Ltd* (2009) 175 FCR 386.

wine, had not used the mark in Australia where the evidence showed only the parallel importation and sale by Australian parties of a small number of bottles of wine bearing the mark. This was on the basis that Gallo had not sought to “project” its wine into the Australian market, which the court held to be required by *Estex*. In response to an argument by Gallo that this result would be inconsistent with *Champagne Heidsieck*, the court held that *Champagne Heidsieck* turned on the presence of an implied licence allowing goods to be resold.³⁵ The difficulty with this reading of *Champagne Heidsieck* is that the implied licence argument was specifically canvassed and rejected in that case.³⁶ Moreover, it is worth reiterating that in *Shell v Esso* Kitto J was clear that *Champagne Heidsieck* was to be understood as one of a number of cases that turned on trade mark use.

On appeal, the High Court in *E & J Gallo Winery v Lion Nathan Australia Pty Ltd* rejected the need for a conscious projection and, in so doing, held that Gallo had used its mark in Australia.³⁷ This outcome is consistent with *Estex*.³⁸ As we noted above, *Estex* is itself consistent with *Champagne Heidsieck*—if a foreign manufacturer uses its mark in Australia, there need not be use by local importers, wholesalers or retailers. Counsel for Gallo relied, as it had before the Full Federal Court, on *Champagne Heidsieck*, and both the outcome and the overall tenor of the High Court’s decision demonstrates that it was receptive to this submission.³⁹ This point is worth emphasising, because the High Court’s decision in *Gallo* has subsequently been read by both the Full Federal Court and some commentators as having the effect that the *Champagne Heidsieck* rule has been overtaken by the enactment of the express statutory defence in s 123. It is therefore worth setting out in full what the High Court said about the relationship between the judge-made rule and the statutory provision. The High Court’s comments are found in a single footnote which reads in its entirety:

Section 123 of the *Trade Marks Act*, which provides that it is not an infringement of a trade mark if a trade mark in respect of goods has been applied with the consent of the registered owner, reflects the principle established by *Champagne Heidsieck*.⁴⁰

³⁵ *E & J Gallo Winery v Lion Nathan Australia Pty Ltd* (2009) 175 FCR 386 at [57]–[58].

³⁶ See *Champagne Heidsieck et Cie Monopole Société Anonyme v Buxton* [1930] 1 Ch 330 (where counsel for the plaintiff raised the implied licence argument (at 335), which was strongly criticised by counsel for the defendant (at 336), and formed no part of Clauson J’s decision).

³⁷ *E & J Gallo Winery v Lion Nathan Australia Pty Ltd* (2010) 241 CLR 144.

³⁸ That is, to the extent that the reference to conscious projection in *Estex* was intended to set up a sufficient, but not necessary, requirement for use by the foreign manufacturer in Australia: *E & J Gallo Winery v Lion Nathan Australia Pty Ltd* (2010) 241 CLR 144 at [49] (French CJ, Gummow, Crennan and Bell JJ).

³⁹ Although the plurality noted that it was not necessary to decide the question of whether the importer was using the mark: *E & J Gallo Winery v Lion Nathan Australia Pty Ltd* (2010) 241 CLR 144 at [53].

⁴⁰ *E & J Gallo Winery v Lion Nathan Australia Pty Ltd* (2010) 241 CLR 144 at [34] n 48.

The High Court did not, therefore, say that s 123 had subsumed the *Champagne Heidsieck* rule, nor even that it had codified the rule. To conclude that the language of “reflects” suggests that a judge-made rule has been overtaken is, to our mind, a significant stretch. One might say that the comparative advertising defence contained in s 122(1)(d) of the *TMA* reflects the principle in *Yeast-Vite* without being taken to indicate that use for comparative advertising is now “use as a trade mark” and solely to be dealt with by means of the statutory exception.

Nonetheless, following a number of recent Federal Court cases, culminating in the Full Federal Court’s decision in *Paul’s Retail Pty Ltd v Lonsdale Australia Ltd*,⁴¹ the position has become clear. It is now the case that *Champagne Heidsieck* has no role to play in the trade mark use enquiry under s 120, and that parallel importation cases are now to be dealt with solely by reference to s 123. The same must also apply to the resale of second-hand goods. The reasoning in these Federal Court cases is worth unpacking. Four considerations appear to have motivated the Federal Court in reaching this new understanding:

- First, as we have just noted, the High Court’s footnote in *Gallo* on the relationship between the *Champagne Heidsieck* rule and s 123 has come to be read in a way that suggests that the rule takes expression only in the statutory exception,⁴² a reading that is problematic.
- Second, the view has been taken that the Full Federal Court’s decision in *Gallo* that the importer of Gallo’s wine had used the mark both remains good law and is inconsistent with *Champagne Heidsieck*. Specifically, it has been said that since the High Court in *Gallo* did not disapprove this aspect of the Full Federal Court’s decision, it should be regarded as the law in Australia, especially when read alongside *Transport Tyre* and Aickin J’s decision in *Pioneer Kabushiki Kaisha v Registrar of Trade Marks* under the 1955 Act.⁴³ The obvious difficulty with this view is that it ignores the Australian cases that have approved *Champagne Heidsieck*. These cases include the decision of the Full Federal Court in *Wingate*, dealing with second-hand goods, and we are now in a position where protection for second-hand goods has been significantly altered without *Wingate* even having been discussed. The recent Full Federal Court cases also seem to have overlooked the endorsement of *Champagne Heidsieck* by the High Court in *Shell v Esso*. The former point was noted with some concern by Allsop CJ in the most recent parallel

⁴¹ *Paul’s Retail Pty Ltd v Lonsdale Australia Ltd* (2012) 294 ALR 72 at [58]–[68]. For earlier decisions, see *Paul’s Retail Pty Ltd v Sporte Leisure Pty Ltd* (2012) 202 FCR 286 at [65]–[68], [71] (in *obiter*) and Gordon J’s decision in *Lonsdale Australia Ltd v Paul’s Retail Pty Ltd* [2012] FCA 584.

⁴² See *Paul’s Retail Pty Ltd v Sporte Leisure Pty Ltd* (2012) 202 FCR 286 at [71] (noting, after referring to the High Court footnote, that “it is most unlikely, to say the least, that, as a matter of ordinary construction, the Act would leave open the application of the *Champagne Heidsieck* principle beyond its specific enshrinement in s 123”). See also *Paul’s Retail Pty Ltd v Lonsdale Australia Ltd* (2012) 294 ALR 72 at [61]–[63] (albeit taking a more cautious approach).

⁴³ *Paul’s Retail Pty Ltd v Sporte Leisure Pty Ltd* (2012) 202 FCR 286 at [65]–[68]. See also *Lonsdale Australia Ltd v Paul’s Retail Pty Ltd* [2012] FCA 584 at [38]–[40]; *Paul’s Retail Pty Ltd v Lonsdale Australia Ltd* (2012) 294 ALR 72 at [65]–[66].

importation case, *Scandinavian Tobacco Group Eersel BV v Trojan Trading Co Pty Ltd*.⁴⁴ After discussing the parallel importation cases under the 1955 Act and quoting *Wingate*, the Chief Justice said that “the notion that there is infringing use as a trade mark by dealing in goods bearing the mark in circumstances that indicate a connection between the goods and the registered owner has a degree of counter-intuitiveness”.⁴⁵

- Third, the recent decisions recognise the charge of intellectual incoherence that can be said to be created by treating *Champagne Heidsieck* as turning on trade mark use, an enquiry that is ordinarily understood to turn on the single question of whether consumers would respond to the sign as a trade mark.⁴⁶ This is the point that Davison and, more recently, Graeme Clarke have developed⁴⁷ and, as we have acknowledged, is compelling. However, as we have also been at pains to emphasise, it ignores the history of *Champagne Heidsieck* and the way the trade mark use enquiry evolved as underpinned by a “meta-principle”, namely, that there are times when a finding of infringement should not be made because there is no danger of consumer confusion. Understood in this way, the trade mark use enquiry should be seen as part of a complex set of tools developed by the courts to reconcile the tensions between a trade mark system built around registration and strict liability on the one hand, and the ultimate conceptual underpinnings of the trade mark system as a law against consumer confusion on the other.⁴⁸
- Fourth, *Champagne Heidsieck* has been read as being the product of a very different statutory regime. Specifically, it has been said that at the time this case was decided it was necessary in the UK for the trade mark owner to prove a likelihood of confusion to succeed in an action for infringement.⁴⁹ This last claim is one that we have not addressed. It is also a claim that needs to be examined carefully. This is not only because it runs counter to our account of the history of *Champagne Heidsieck* set out above, but also because it relies on a particular reading of one of the most difficult aspects of late nineteenth and early twentieth century Anglo-Australian law

⁴⁴ (2015) 115 IPR 246.

⁴⁵ *Scandinavian Tobacco Group Eersel BV v Trojan Trading Co Pty Ltd* (2015) 115 IPR 246 at [66]. The Chief Justice noted that he was, however, bound by Full Federal Court authority to the opposite effect: at [67].

⁴⁶ *Paul’s Retail Pty Ltd v Lonsdale Australia Ltd* (2012) 294 ALR 72 at [64]–[65].

⁴⁷ Davison, “Parallel Importation”, n 29, 430–431; Clarke C, “After *Gallo Winery v Lion Nathan*: Does a Parallel Importer of Trade-marked Goods Infringe the Mark?” (2011) 84 *Australian Law Journal* 234, 237–240, 244–245.

⁴⁸ For detailed explanation of the operation of the trade mark use enquiry, see Burrell and Handler, n 15, pp 321–331.

⁴⁹ *Lonsdale Australia Ltd v Paul’s Retail Pty Ltd* [2012] FCA 584 at [30], referring with approval to Davison M, “Parallel Importing: Who’s Using What and When and What Happens Where?” (2009) 20 *Australian Intellectual Property Journal* 71, 71–72 (which itself draws on points Davison made in “Parallel Importation”, n 29, 423). Davison’s interpretation of the history of UK trade mark law and its impact on current Australian law has been adopted by Clarke, n 47, 242, and Duke A and Taylor M, “Parallel Import Restrictions: Core Intellectual Property Rights or Unjustified Restraints on Trade?” (2015) 22 *Competition and Consumer Law Journal* 254, 268.

trade mark law: namely, the precise historical basis of the action for infringement and, in particular, the role of confusion in the action.⁵⁰ It is this reading that we seek to challenge.

(b) Why the rejection of the *Champagne Heidsieck* rule is based on a misreading of the history

At first sight, the idea that *Champagne Heidsieck* turned on a different test for infringement is attractive. The quote from the second edition of *Kerly* that we provided at the start of Part 2(a) is incomplete; in full, it reads as follows:

[i]nfringement is the use by the defendant, for trading purposes, in connection with goods of the kind for which the plaintiff's right to exclusive use exists (ie, goods for which his mark is registered and used), not being the goods of the plaintiff, of a mark identical with the plaintiff's mark, or comprising some of its essential features, or colourably resembling it, *so as to be calculated to cause the goods to be taken by ordinary purchasers to be the goods of the plaintiff*.⁵¹

The italicised words can, at first blush, be taken to indicate that in every case, the plaintiff was required to prove a likelihood of confusion to establish infringement. There can, moreover, be no question that in the early decades of the registered trade mark system, there was a greater interplay between cases of passing off and trade mark infringement than we find today. Courts would, for example, feel free to cite passing off cases dealing with injunctions or damages in infringement cases. It is therefore perhaps unsurprising that the history of the infringement action in the UK has come to be misread by courts and commentators in Australia.

⁵⁰ To be clear, the argument being made is that UK law retained a closer link between the action for registered trade mark infringement and the action for passing off than did Australia. Because we are seeking to respond to this argument, we confine ourselves below to addressing the state of UK law at the time *Champagne Heidsieck* was handed down. As an aside, however, we might note that, if anything, it took longer for the separation between the two actions to be definitively determined in Australia. Arguably, the separation finally took place only with the decision of the High Court in *James Minifie & Co v Edwin Davey & Sons* (1933) 49 CLR 349. In that case, the court tied the question of the likelihood of deception to the degree of resemblance between the marks, thereby making it clear that even in cases involving use by a defendant that might not, in the circumstances, cause any consumer confusion, a finding of infringement might be made (thereby enshrining an approach to “deceptive similarity” that remains the law in Australia). The earlier High Court cases of *Schweppes Ltd v E Rowlands Pty Ltd* (1910) 11 CLR 347 and *Henry Clay & Bock & Co Ltd v Eddy* (1915) 19 CLR 641 adopted a more ambiguous position. As regards *Schweppes*, we would argue that the reasoning in this case really turned on the development of rules for determining what the defendant's mark “is”, and the approach adopted by the High Court is consistent with the modern process for identifying the defendant's mark (discussed in Burrell and Handler, n 15, pp 333–336). As regards *Henry Clay*, Griffith CJ unquestionably pre-empted the approach to likelihood of deception eventually adopted by the High Court in *James Minifie* (at 646–7); in contrast, Gavan Duffy and Rich JJ took the position that in cases where the marks differed in some substantial detail, the action for registered trade mark infringement would proceed in much the same way as a passing off action, but their Honours also noted—significantly—that in cases where the marks were substantially identical, *liability was strict* (at 662).

⁵¹ *Kerly and Underhay*, n 3, p 363 (our emphasis, footnotes omitted).

To explain, by the time of *Champagne Heidsieck*, it was already well-established that a defendant's use of an identical or near-identical mark on goods for which the mark had been registered constituted an infringement. Crucially, it was not open for the defendant to argue that there was no likelihood of confusion because of the circumstances of the defendant's use. As was put as early as the second edition of *Kerly* in 1901 (and repeated verbatim in the third and fourth editions, by which time the *Trade Marks Act 1905* (UK) had been enacted):

The registered proprietor can therefore make a case in an action for the mere using of his mark in connection with goods of the class over which his right extends, *without showing that the use is calculated to deceive*.⁵²

One consequence of this was that it was no defence for the defendant to argue that its use was in an area in which the plaintiff did not trade: registration was already understood as giving nationwide rights, at least to the extent that one was talking about use of an identical or near-identical mark on the registered goods.⁵³ The rights of the proprietor of the trade mark under the legislation were also defined in a way that pointed strongly to this conclusion.⁵⁴ This was an interpretation that received express judicial support as early as 1885 in *Edwards v Dennis*.⁵⁵ It was also consistent with cases that sought to throw greater protection around registered marks than marks protected only by passing off, on the basis that registered marks were a species of property.⁵⁶ In the early twentieth century, the conclusion that registered marks received protection in the absence of evidence of a

⁵² Kerly and Underhay, n 3, p 371 (our emphasis).

⁵³ Kerly and Underhay, n 3, pp 365–6.

⁵⁴ See *Trade Marks Act 1905* (UK), s 39, itself based on *Trade Marks Registration Act 1875* (UK), s 3. The plaintiff in *Champagne Heidsieck* sought to rely on the unqualified way in which the rights of the proprietor were expressed in s 39 of the 1905 Act in arguing that the registered trade mark had become a “badge of control”. At the danger of over-emphasising the point, what Clauson J was doing in that case was insisting that the seemingly unqualified nature of the exclusive right was in fact subject to certain limitations that needed to be implied from the history and nature of the trade mark regime. The starting point under the 1905 Act was thus one of seeming strict liability, which the courts had to find a way of working around. Any claim that the statutory regime at the time started from the position that the actions for infringement and passing off were the same (in the sense that both required a showing of a likelihood of deception) is entirely contrary to the actual position. In this context, attention also needs to be paid to ss 42 and 45 of the 1905 Act, which draw a clear distinction between the actions for infringement and passing off; provisions that would make no sense if the modern re-reading of the legislative background to *Champagne Heidsieck* were correct.

⁵⁵ *Edwards v Dennis* (1885) 30 Ch D 454. See Batty R, “Parallel Importing and Trade Mark Use: A Tale of Two Uses” (2013) 25 *New Zealand Universities Law Review* 467, 478 n 70 (citing this case and contrasting it with Davison’s argument in “Parallel Importation”, n 29). This is not, however, to suggest that there were not cases decided around this time that were less certain about the relationship between the registered mark system and passing off, but this case marks a clear early intervention from the Court of Appeal that suggests that the actions were not to be conflated.

⁵⁶ See Lloyd R and Bray F, *Kerly’s Law of Trade Marks and Trade Names* (7th ed, Sweet & Maxwell, 1951), pp 388–389 (discussing how ideas of property prevalent at the time of the 1875 Act were understood as underpinning the stronger cause of action that applied to registered marks).

likelihood of confusion was reaffirmed,⁵⁷ even as the “property” explanation for the distinction between the actions for infringement and passing off was coming into question.⁵⁸

Insofar as concepts of deception and confusion had work to do in infringement analysis in early twentieth-century law (and particularly by the time *Champagne Heidsieck* came to be decided), this was only in cases where the defendant had adopted a mark that differed from the plaintiff’s registered mark in some significant detail. In deciding whether the mark was sufficiently similar to constitute an infringement (in the language of the time, whether the mark was a “colourable imitation”), courts would pay attention to the likelihood of deception.⁵⁹ However, even in these cases, the question of deception was not at large: courts would confine themselves to analysis of the similarities between the marks, taking account of the *general conditions* under which goods or services are likely to be offered. More specific conditions, such as a defendant’s use of a disclaimer, were not taken into account. Deception and confusion thus played much the same role in the infringement enquiry under early twentieth-century UK law as they now do under s 120 of the *TMA*. That is, when assessing whether the defendant’s mark is in conflict with the registered mark, we ask whether it is deceptively similar, which is determined by reference to whether it “so nearly resembles [the plaintiff’s] trade mark that it is likely to deceive or cause confusion”.⁶⁰ This will require the courts to take account of the general circumstances of the trade in question.⁶¹ Where the marks are substantially identical, and the defendant’s use is in relation to goods or services covered by the specification, deception and confusion are irrelevant to the enquiry. Understood against this background, the reference in the early twentieth century editions of *Kerly* to infringing use being “calculated to cause the goods to be taken by ordinary purchasers to be the goods of the plaintiff” needs to be understood as (1) qualifying *only* the immediately preceding reference (that is, to infringement by use of colourable imitations), and (2) being a reference to the relevance of “surrounding circumstances” and “general conditions” in the trade, these being the same things that are relevant to an assessment of deceptive similarity under the *TMA*. The assumption that references in early twentieth-century UK sources to the relevance of a likelihood of deception in the registered

⁵⁷ *Lambert and Butler Ltd v Goodbody* (1902) 19 RPC 377 at 382, where Farwell J held that “if there be an absolute copy of the registered Trade Mark there is no need of evidence at all, for the thing speaks for itself”.

⁵⁸ An excellent history of the complex relationship between understandings of registered trade marks as a form of property and differences between the infringement action and passing off is contained in the 7th edition of *Kerly*: Lloyd and Bray, n 56, pp 387–399. See also Bently L, “From Communication to Thing: Historical Aspects of the Conceptualisation of Trade Marks as Property” in Dinwoodie G and Janis M (eds), *Trademark Law and Theory: A Handbook of Contemporary Research* (Edward Elgar, 2008).

⁵⁹ See the 4th edition of *Kerly*: Underhay F, *The Law of Trade Marks and Trade Name* (4th ed, Sweet & Maxwell, 1913), pp 444–445 (and cf. Davison, “Who’s Using What”, n 49, 72).

⁶⁰ *TMA*, s 10.

⁶¹ For detailed consideration, see Luck J, “Critical Examination of the Principles for Determining Whether Trade Marks are Deceptively Similar: A Quest for More Predictable Decision Making” (2015) 25 *Australian Intellectual Property Journal* 111; Burrell and Handler, n 15, pp 338–341.

trade mark context mean that the action for infringement and passing off were, at that time, coterminous “involve[s] the fallacy of assuming that the same words, namely, the words ‘likely to deceive’, necessarily bear the same meaning in different contexts”.⁶²

Any broader statements in *Champagne Heidsieck* about the role of confusion in the infringement enquiry must therefore be understood as going to general questions of policy, and formed one of the early judicial interventions whereby courts signalled that the consequences of strict liability must be avoided in order to prevent trade mark rights from becoming untethered from their ultimate justification. This is how the trade mark use enquiry began, albeit that *Champagne Heidsieck* has never fitted entirely comfortably within this doctrine, for the reasons we have already articulated. Ultimately, there is a clear difference between courts narrowing or declining to expand liability, because of a recognition that in certain general sets of circumstances confusion is highly unlikely (whether these circumstances involve parallel importation or comparative advertising), and courts requiring a positive showing of confusion as a precondition for infringement. This is the point that has become lost in modern accounts of the *Champagne Heidsieck* rule.

The death of the *Champagne Heidsieck* rule would not, of course, matter if the statutory defence contained in s 123 of the *TMA* were capable of achieving its ends. Unfortunately, as we demonstrate below, this section suffers from a number of serious defects.

4. Why the loss of the *Champagne Heidsieck* rule matters: the operation of, and problems with, the s 123 defence

To reiterate, s 123(1) of the *TMA* provides a defence for “a person who uses a registered trade mark in relation to goods that are similar to goods in respect of which the trade mark is registered ... if the trade mark *has been applied to, or in relation to, the goods by, or with the consent of, the registered owner of the trade mark*”.⁶³ The italicised words form the core operational principle of this section. It is important to pay careful attention to their effect since almost all of the controversies around s 123 can be traced back to the effect of these words. In this Part we consider five general issues relating to the operation of s 123, assessing these by reference to whether something has been gained or lost by the rejection of the *Champagne Heidsieck* rule.

(a) Dealings with unbranded goods

⁶² *Henry Clay & Bock & Co Ltd v Eddy* (1915) 19 CLR 641 at 647 (Griffith CJ, criticising the other members of the Court for unduly conflating the infringement and passing off actions).

⁶³ Our emphasis. See also s 123(2), which applies the same rule to services. This aspect of the defence has a highly limited sphere of operation because services cannot be re-traded in the same way as goods. See n 94 for a consideration of this subsection, and what it fails to achieve, in the context of the use of a trade mark in relation to retail services.

One consequence of the requirement that the trade mark must have been applied to, or in relation to, the goods by, or with the consent of, the registered owner of the trade mark is that the defence can have no operation in relation to products that were not intended to reach the market as the branded goods of the trade mark owner. *Brother Industries Ltd v Dynamic Supplies Pty Ltd*⁶⁴ illustrates this issue nicely. In that case, the plaintiff was a manufacturer of printer cartridges. The defendant acquired unbranded drums which it claimed had also been made by the plaintiff. The defendant then imported these drums into Australia in packaging bearing the plaintiff's BROTHER mark. The defendant sought to rely on s 123, an argument that always seemed doomed to failure given that the wording of the provision is unequivocal. Section 123 thus removes any doubt about the status of unbranded goods. Third parties are not entitled to apply a trade mark to goods that were sold by the trade mark owner in an unbranded form. As such, s 123 overturns the outcome in old cases like *Condy v Taylor*, discussed in Part 2(a) above, and thus clarifies an issue over which there had been some lingering doubt as regards the application of the *Champagne Heidsieck* rule.⁶⁵ This is perhaps the one desirable consequence of locating the freedom to engage in parallel importation solely within the confines of the statutory exception. The economic case for allowing the branding of otherwise unbranded goods is much more complicated than that for allowing parallel importation of branded goods or the resale of second-hand goods. Specifically, if trade mark owners cannot safely sell unbranded goods without running the risk of them being branded by third parties, they may simply decline to sell unbranded goods at all, with a corresponding negative impact on consumer choice. Take, for instance, a producer of expensive wine who is faced, in a particular year, with significant production overrun. In such situations the producer might wish to sell the surplus as cleanskin wine at a significant discount. Faced, however, with the possibility of a retailer being able to brand such wine with the producer's mark, the producer might wish to destroy the stock, with adverse consequences for consumers and the environment.

(b) Quality differences

The issue of unbranded goods has some relation to how the law should operate in cases where there is a difference in quality between the branded goods normally associated with the trade mark owner and the branded goods being sold by the defendant. This is an issue that continues to attract discussion in the literature,⁶⁶ but the legal position established by s 123 is clear. Differences in quality have no bearing on the application of the statutory exception. The section turns solely on the question of whether the mark was applied to the goods by or with the consent of the trade mark

⁶⁴ *Brother Industries Ltd v Dynamic Supplies Pty Ltd* (2007) 163 FCR 530.

⁶⁵ See Burrell and Handler, n 15, pp 376–377.

⁶⁶ For recent consideration, see Duke and Taylor, n 49, 274–277; Harper Review, n 1, p 176.

owner. That quality differentials are not sufficient to exclude the operation of s 123 is consistent with the strong pro-parallel importation position taken by Australian policy-makers. To confine the operation of the defence to goods of the same quality might place parallel importers in a difficult position, with owners being able to rely on small differences that have little impact on consumers to bring themselves outside the scope of the defence. Nor was it the case that the *Champagne Heidsieck* rule would ever have operated to restrain the importation and sale of legitimately branded goods that were of a different quality to those put on the market by the trade mark owner in the country into which the importation was sought to be made. Indeed, it is important to recall that in *Champagne Heidsieck* itself, the wine imported into the UK was of a different quality from that sold in the UK by the plaintiff.

This is not to suggest that we should be entirely untroubled by the parallel importation of goods that are different in quality from those sold by the trade mark owner in Australia and, at this point, it is worth briefly exploring the appropriateness of the position under Australian law as outlined in the previous paragraph. The most obvious concern is that Australian consumers might purchase goods that have qualities or characteristics that they do not expect or do not like, and this is undesirable for both those consumers and for the brand owner, particularly if those consumers choose to avoid the Australian product thereafter. A second concern relates to how brand owners might respond when faced with consumers avoiding the Australian product because of the impact of a product intended for a different market. This latter concern is one that opponents of parallel importation like to play up. A fairly typical sort of claim is that a manufacturer might produce a product for the Fijian market that differs in some significant way from the Australian product. This is likely to be because of market research that demonstrates that consumers in Fiji desire products with particular characteristics or ingredients. Faced with evidence that the parallel importation of the Fijian product was harming its business in Australia, the manufacturer might withdraw from the Fijian market, with adverse consequences for Fijian consumers.

It must, however, be remembered that brand owners can always take steps to distinguish their products in different markets. Consider, for example, a toothpaste manufacturer that sells toothpaste for the Fijian market that differs significantly in terms of flavour and chemical composition from the toothpaste it sells in Australia. The manufacturer could always employ a different sub-brand to distinguish the Fijian and Australian products. In light of this possibility, there would simply be no reason to withdraw the Fijian product. As regards the concern that Australian consumers might be confused, prompting manufacturers to use sub-brands in this way also seems to solve the potential problem. Indeed, in the face of increased international mobility we might well take the view that trade mark law ought to point in the direction of having manufacturers use different sub-brands in different markets: as consumers move from one jurisdiction to another they will be better informed

of potential quality differences. Moreover, insofar as one is concerned about confusion of Australian consumers when confronted with the same brand on different quality goods within Australia, it is important to remember that the *Australian Consumer Law* (“*ACL*”)⁶⁷ can be used to pursue importers and retailers of legitimate goods that employ marketing strategies that might induce Australian consumers to conclude that they are purchasing the Australian product with which they are familiar.⁶⁸ For example, reference to an endorsement by Australian dentists that in fact applies only to the Australian toothpaste would unquestionably constitute misleading or deceptive conduct.

To our mind, the *ACL* also provides the best means of dealing with the issues thrown up by branded goods that are being sold in a degraded or deliberately altered condition. To be clear, we are now no longer concerned with differences in quality resulting from a decision of the trade mark owner to sell different products under the same mark in different jurisdictions. Rather, we are now dealing with situations where the quality or condition of the goods has diminished through the passage of time, or where the person dealing in the goods or another third party has altered the condition of the goods, including their packaging, in some way. The starting point under the *TMA* is clear. There is no basis for differentiating between goods in their original condition or goods in an altered or degraded condition: provided the mark was applied to the goods, or in relation to the goods, by or with the consent of the owner, the statutory defence applies. A clear example is *Scandinavian Tobacco Group Eersel BV v Trojan Trading Co Pty Ltd*. That case involved the parallel importation into Australia of genuine cigars acquired overseas whose packaging bore one of three registered word marks. In order for these cigars to be sold in Australia, their packaging needed to comply with the *Tobacco Plain Packaging Act 2011* (Cth). The importer therefore removed the cigars from their original packaging, repackaged them with the brand names re-applied on the compliant packaging, and sold them in Australia. Allsop CJ held that this conduct fell within the scope of s 123, as interpreted by both s 9(1)(b) and s 7(4): the marks had been “applied in relation to” the cigars by having been applied to the original packaging by the registered owner, and “used in relation to” the cigars by the Australian importer’s application of the marks on the repackaged cigars and the sale of them.⁶⁹

Admittedly, there will be situations where the goods have been so drastically altered that they can no longer be considered to be the same article of commerce, and hence can no longer be said to be “the goods” to which the mark was applied. To our mind, however, cases of this type are likely

⁶⁷ That is, Schedule 2 to the *Competition and Consumer Act 2010* (Cth).

⁶⁸ See not only s 18 of the *ACL* but, more specifically, s 29(1)(a), (c), (e)–(g) and (k).

⁶⁹ *Scandinavian Tobacco Group Eersel BV v Trojan Trading Co Pty Ltd* (2015) 115 IPR 246 at [82]–[84].

to be rare, and courts should resist the temptation to expand this limitation to the scope of s 123 beyond the clearest and most obvious cases. We have reached this conclusion for five reasons.

First, it should be noted that the never-commenced *Trade Marks Act 1994* (Cth) contained an elaborate scheme, in ss 132 and 134, for excluding the operation of the defence in cases of changed or impaired goods. Parliament must be taken to have realised that this regime was likely to create so much uncertainty for parallel importers and those dealing with second-hand goods that its costs outweighed its benefits, and there is no basis for concluding that the notion of “the goods” in s 123 of the *TMA* should be interpreted in such a way as to recreate the effect of these never-commenced provisions by some other means. Second, it needs to be acknowledged that there are many reasons why goods might be altered for legitimate reasons. Consider, for example, the sale of electric guitars imported into Australia from the US. For those goods to work in Australia, the parallel importer will need to modify them to make them suitable for the different voltage used in Australia.⁷⁰ Indeed, one might bear in mind that a rational economic actor would never deliberately alter goods prior to their importation unless these alterations were likely to facilitate sales. Third, the proposition that the sale of goods in an altered condition is often perfectly justifiable is entirely obvious when one considers the sale of goods in second-hand markets. We would often expect expensive, durable goods to be sold after they have been reconditioned. It has never seriously been suggested, for example, that car manufacturers ought to have the right to prevent the resale of their vehicles, even in circumstances where those vehicles have been radically altered. The judicial exclusion of altered goods from the aegis of s 123 would be highly undesirable if it were to create any doubt about the legitimacy of the resale of a family car that had been significantly altered by the addition of a larger engine, spoiler, mag wheels and sports body parts. Fourth, it is notable that the Full Federal Court in *Wingate* held, under the former Act, that goods that had been reconditioned, even to a very significant degree, could be legitimately sold in Australia bearing their original trade marks by virtue of the trade mark use requirement.⁷¹ It seems reasonable to speculate that this judgment, handed down in March 1994, is likely to have been a factor that persuaded Parliament to abandon the elaborate scheme set up in the 1994 Act, outlined above.⁷² If one takes the view that the pre-*TMA* case law is now embodied solely within s 123, then this must include the outcome in *Wingate*, and this strongly suggests that any exclusion from s 123 must be read in an extremely

⁷⁰ The alternative, namely that the US goods can only be used in conjunction with an external adaptor, clearly makes the goods less portable and less desirable, and frustrates the aim of making parallel imported goods readily available to Australian consumers.

⁷¹ *Wingate Marketing Pty Ltd v Levi Strauss & Co* (1994) 49 FCR 89. See especially at 110–111 (Sheppard J, with whom Wilcox J agreed).

⁷² Here it might also be noted that removing the trade mark and selling the goods under a different label might expose the vendor to liability for inverse passing off. Recognition that relabelling might not be a safe option was one of the factors that led Laddie J to seek to expand protection for parallel importers in *Zino Davidoff SA v A & G Imports Ltd (No 1)* [1999] RPC 631 at 644.

limited manner. Finally, it must be emphasised that Australian law already adequately deals with any problems that might be created for consumers through the sale of altered or degraded goods. In cases where goods are of such a quality as to pose any degree of threat to consumer safety, parties will expose themselves to not only civil but also criminal liability.⁷³ In less dramatic cases, the *ACL* provides an adequate means of redress. In addition to the general prohibition on misleading or deceptive conduct, the *ACL* also prohibits the making of certain false or misleading representations, such as that goods are of a particular standard, quality or composition, or have had a particular history or previous use.⁷⁴

The discussion thus far might seem to suggest that s 123 has a broad sphere of operation—certainly, the unqualified protection it offers in actions for registered trade mark infringement in cases where goods are of a different quality or have become degraded goes well beyond what many trade mark owners are comfortable with. However, as we have already intimated, there are circumstances in which s 123 offers an entirely unsatisfactory level of protection.

(c) Split ownership

One problem that is now widely recognised is that s 123 can have no operation in cases where a foreign trade mark and an Australian trade mark are owned by different legal entities, and the owner of the foreign mark applied it to the goods that were imported into Australia. This is because s 123 requires the mark to have been applied to the goods by or with the consent of the “registered owner”, meaning the owner of the Australian mark. In some situations this limitation is perfectly justifiable, as it is still often the case that the same or confusingly similar marks are owned in different countries by completely unrelated parties. Potential difficulties arise, however, in two scenarios.

First, there is the situation where different companies within the same group, or companies that are otherwise closely associated with one another (for example, being in a manufacturer–distributor relationship), own marks on a national basis. By way of illustration, assume that a Japanese manufacturer has set up subsidiaries in Singapore, New Zealand and Australia, with each subsidiary owning the registered mark in, and producing branded goods for, that country. If an Australian parallel importer wishes to import the Singaporean goods or the New Zealand goods, then *prima facie* s 123 will not apply.⁷⁵

⁷³ See, for example, Part 3-3 of the *ACL*.

⁷⁴ See *ACL*, ss 18 and 29(1)(a) and (c). In addition, an action in passing off under the *ACL* will always be available if the importer falsely represents that the goods have been endorsed or approved by an authorised distributor: see, for example, *Pioneer Electronics Australia Pty Ltd v Lee* (2000) 108 FCR 216. A similar argument failed on the facts in *Scandinavian Tobacco Group Eersel BV v Trojan Trading Co Pty Ltd* (2015) 115 IPR 246 at [95]–[97].

⁷⁵ *Lonsdale Australia Ltd v Paul’s Retail Pty Ltd* [2012] FCA 584 at [47]. On appeal, the Full Court did not address this issue, but in any event it should be noted that this conclusion is consistent with the way in which the litigation in

A second problem is where the ownership of the mark has been transferred before the impugned sale takes place in Australia. The situation we have in mind is where a trade mark is applied to goods by the then-owner of the mark, but by the time the goods come to be re-sold in Australia, ownership of the mark has been transferred. For example, and expanding on some of the facts of *Transport Tyre*, a Japanese manufacturer might initially own registered marks for Singapore, New Zealand and Australia and export branded goods to those markets, but might later assign its Australian trade mark in gross to its unrelated Australian distributor. If an Australian parallel importer wishes to import the Singaporean or New Zealand goods, s 123 can have no application. This is the case even if the parallel importer acquires goods bearing the mark that was applied by the Japanese company at the time it was the registered owner of the Australian mark. Section 123 is clear: the section is framed in terms of the consent of the “registered owner”, which is defined to mean “the person in whose name the trade mark *is* registered”.⁷⁶

Admittedly, the parallel importer might attempt to make an argument based on “implied consent”. That is, it might argue that the consent of the registered owner (that is, the Australian subsidiary or distributor) to the application of the mark (by the Singaporean or New Zealand subsidiary in the first example, or by the Japanese manufacturer in the second example) is somehow to be implied. The difficulty with this idea is that it relies on a highly attenuated reading of “consent” that does not require any power to object to a course of conduct. In neither scenario could it be said that the Australian subsidiary or distributor would have any power to object to the application of the mark to the goods that are later sought to be parallel imported. At best, it might be said that in the “distributorship” scenario, the Australian distributor might acquiesce to the overseas manufacturer’s application of the mark to all goods destined for Australia. If such acquiescence were held to be sufficient consent for the purposes of s 123, this would lead to the bizarre result that the defence would be available in relation to the importation of goods originally destined for Australia but diverted at some point, but not in relation to identical goods that the overseas manufacturer originally intended for another market.⁷⁷ Consequently, the problems with s 123 cannot be overcome by reference to some notion of “implied consent” and, in any event, the courts have thus far shown no interest in reading s 123 in this way.

It might also be possible to argue that, where a registered mark has been assigned in gross, the continued use of the mark in Australia might be liable to cause confusion, given that the mark

Transport Tyre unfolded. See also, in *obiter dicta*, *Brother Industries Ltd v Dynamic Supplies Pty Ltd* (2007) 163 FCR 530 at [79].

⁷⁶ *TMA*, s 6(1) (our emphasis). Cf. Working Party, n 27, which anticipated this problem by recommending that the defence covering use on second-hand goods should apply if the mark was applied with the consent of the registered owner at the time of the application: Recommendation 22D(5).

⁷⁷ See Davison M, “Parallel Importing of Trade Marked Goods—An Answer to the Unasked Question” (1999) 10 *Australian Intellectual Property Journal* 146, 149.

would remain a badge of origin of the goods of the overseas manufacturer. This might mean that the registration of the mark could be liable to be cancelled under s 88(2)(c). This is a proposition that we believe needs to be taken seriously, and one that might serve to check the enthusiasm of some companies using assignments in this way to avoid the operation of the parallel importation provisions. However, it must also be acknowledged that the possibility of using s 88(2)(c) in this way has not been tested. Moreover, a well-advised Australian subsidiary or distributor might be able to structure its affairs, in particular by exercising a degree of genuine quality control over the goods, such that the use of the mark would not be deceptive.⁷⁸

It therefore seems that multinational companies can avoid the operation of s 123 by dividing ownership of their marks on a national basis. This seems undesirable insofar as it provides such companies with a means of thwarting legislative intent (that is, that parallel importation should generally be allowed). This problem was recognised by both the Intellectual Property and Competition Review Committee in 2000⁷⁹ and, implicitly, in the Harper Review in 2015. Whether the problem of divided ownership and hence the need for legislative reform could have been avoided by an imaginative application of the *Champagne Heidsieck* rule was not directly considered by either review body, but it is notable that, writing in 1979, Sam Ricketson concluded that *Champagne Heidsieck* might well offer a solution to the divided ownership problem.⁸⁰ In such cases, the goods can still clearly be understood as “legitimate” goods and, insofar as *Champagne Heidsieck* and the decisions that followed it do not address the issue of divided ownership,⁸¹ it should be remembered that assignment of registered trade marks was fully liberalised only with the passage of modern Anglo-Australian trade marks legislation in the 1990s.

(d) Marks applied without the “consent” of the registered owner

A different, but no less troubling, problem with s 123 is created by its focus on whether the mark was applied by or with the owner’s “consent”. Unlike the trade mark use doctrine, which focused on the question of whether the goods were legitimate, the notion of consent points towards a different, highly fact-intensive enquiry. If it can be demonstrated that a mark was applied to goods in breach of a relevant condition of a licence agreement between the owner and a licensee, or a licensee and a

⁷⁸ In addition, although this sort of assignment might raise concerns under s 45 of the *Competition and Consumer Act 2010* (Cth), it might be difficult to show that any restriction on parallel importation would substantially lessen competition in the market in question.

⁷⁹ Intellectual Property and Competition Review Committee, *Review of Intellectual Property Legislation under the Competition Principles Agreement* (AGPS, 2000), pp 190–191.

⁸⁰ Ricketson, n 20, 67–69.

⁸¹ To the extent that Burchett J in *Fender Australia Pty Ltd v Bev’k (t/as Guitar Crazy)* (1989) 25 FCR 161 sought to distinguish *Champagne Heidsieck* in a case involving divided ownership (as between a US manufacturer and Australian distributor/assignee of the registered mark), we would agree with Davison’s criticisms of the case that the judge gave undue weight to the irrelevant factor that the Australian distributor had generated independent goodwill in the mark: Davison, “An Answer to the Unasked Question”, n 77, 151–152.

sub-licensee, then there can be no consent, and the defence falls away. Two recent cases illustrate the problems that this can cause for defendants.

In *Paul's Retail Pty Ltd v Sporte Leisure Pty Ltd*,⁸² the defendant, Paul's, imported clothing bearing registered "Greg Norman" and "shark" device marks. The evidence was that an Indian licensee was entitled to apply the marks to clothing in India for sale in India. The licensee was approached by a Pakistani company to supply it with branded clothes, and it agreed to fulfil this order in breach of the territorial restriction in its licence. Consequently, it could not be said that the marks had been applied by or with the consent of the registered owner, such that Paul's, which had acquired the Pakistani goods via a Singaporean intermediary, was liable for infringement.⁸³ This is despite the fact that the Pakistani goods and the Indian goods were seemingly identical, and it is not clear how Paul's could have ever distinguished between the two, as it would have had no way of knowing, or gaining access to, the terms under which the Indian licensee was operating. A similar outcome was reached in *Paul's Retail Pty Ltd v Lonsdale Australia Ltd*.⁸⁴ The key facts of that case were that a number of Australian-registered "Lonsdale" marks were originally owned by a UK company, LSL. LSL licensed a German company, Punch, to sell goods bearing "Lonsdale" trade marks within Europe. Under the terms of the licence, Punch was able to have such goods manufactured in China. In June 2011, LSL assigned ownership of the Australian marks to Lonsdale Australia. Two months later, Punch entered an agreement with a Cypriot company, Unicell, to sell Lonsdale-branded goods to it. Punch arranged for these goods to be manufactured in China. The goods were sold to Unicell, then on-sold to a US intermediary, from which they were acquired and sold in Australia by Paul's. The Full Federal Court held that Paul's could not rely on s 123 because the *sale* of the goods to Unicell had taken place in China, this being outside the terms of the LSL–Punch licence (under the licence, Punch was only allowed to sell goods in Europe).⁸⁵ The court dismissed Paul's s 123 defence on the basis that the application of the marks did not meet the threshold of having been applied with consent, without even having to address the divided ownership point that had led Gordon J at first instance to reject Paul's argument.⁸⁶ While Paul's defence was almost certainly destined to fail because ownership had become divided, on the

⁸² *Paul's Retail Pty Ltd v Sporte Leisure Pty Ltd* (2012) 202 FCR 286.

⁸³ *Paul's Retail Pty Ltd v Sporte Leisure Pty Ltd* (2012) 202 FCR 286 at [73]–[81]. In contrast, in *Facton Ltd v Toast Sales Group Pty Ltd* (2012) 205 FCR 378, the registered owner had authorised the application of marks to goods, which were then supplied to a Greek company, on the condition that the goods were not to be sub-distributed to retailers not authorised by the registered owner. Quantities of these goods were then acquired by the defendant. Middleton J held that the marks had been applied by the consent of the mark owner at the time of their application, distinguishing *Paul's v Sporte Leisure* on the basis that in that case the Indian licensee knew that the goods to which it was applying the marks were to be supplied outside India.

⁸⁴ *Paul's Retail Pty Ltd v Lonsdale Australia Ltd* (2012) 294 ALR 72.

⁸⁵ *Paul's Retail Pty Ltd v Lonsdale Australia Ltd* (2012) 294 ALR 72 at [37]–[47].

⁸⁶ See n 75.

consent issue it is again notable that Paul's would not have had the ability to assess, at the time of purchasing the goods, whether the marks had originally been applied in accordance with the conditions of the relevant licence.

The findings of a lack of consent in these cases are unassailable. But, at a policy level, to put so much weight on the presence or absence of consent to the application of the mark seems to be a poor basis for determining whether a parallel importer should or should not infringe. Changing the facts of *Paul's v Sporte Leisure* very slightly, if the Indian licensee had applied the marks to goods which then sat in its warehouse, and had *then* been approached to sell those goods in Pakistan, it would still have breached its contract with the registered owner, but it is hard to see how the *application* of the marks could be said to have been non-consensual.⁸⁷ And putting aside the divided ownership issue in *Paul's v Lonsdale*,⁸⁸ the finding of a lack of consent would surely have been different if the sale of the branded goods by Punch to Unicell had in fact occurred in Europe. In these revised scenarios, it needs to be emphasised that the goods that would have ended up in the hands of Paul's would have been identical to those that Paul's acquired in real life. This raises questions about the desirability of making the liability of a parallel importer turn on technicalities of consent rather than the legitimacy of the goods.⁸⁹ The focus on consent in s 123 seems to impose significant costs on parallel importers and retailers, which have to be passed on to consumers, undermining the benefits of allowing parallel importation. To the extent that it might be said that any other outcome that might legitimise parallel importation in the circumstances we have described above would be unfair to trade mark owners, it is important to emphasise that such parties can always bring actions for their licensees' breaches of contract. The fact that there might be difficulties in enforcing such actions strikes us as one of the costs of doing business and outsourcing manufacture (and jobs) to countries where the rule of law might run thin.

The problems associated with proving consent are only exacerbated by the fact that the defendant has the onus of establishing the s 123 defence. In contrast, the requirement that the defendant's use be "use as a trade mark" forms part of what the plaintiff needs to establish to maintain an infringement action under s 120.⁹⁰

⁸⁷ This was recognised in *Facton Ltd v Toast Sales Group Pty Ltd* (2012) 205 FCR 378, where Middleton J noted that "had [the Indian licensee] manufactured the clothing for sale inside India, but subsequently sold it outside India, [the trial judge] would have found that the trade marks had been applied with the requisite consent": at [126].

⁸⁸ As well as the fact that two of the Lonsdale marks applied by Punch were thought to be not substantially identical to the Lonsdale mark that LSL had given Punch the licence to apply: *Lonsdale Australia Ltd v Paul's Retail Pty Ltd* [2012] FCA 584 at [27].

⁸⁹ See Rothnie W, "Trade Marks and Parallel Imports" (2014) 22 *Competition and Consumer Law Journal* 39, 44, 47.

⁹⁰ *Transport Tyre Sales Pty Ltd v Montana Tyres Rims & Tubes Pty Ltd* (1999) 93 FCR 421 at [82]; *Brother Industries Ltd v Dynamic Supplies Pty Ltd* (2007) 163 FCR 530 at [72]. Cf. *PZ Cussons (International) Ltd v Rosa Dora Imports Pty Ltd* (2007) 74 IPR 372 at [40], raising the possibility that s 123 should be understood not as a defence, but rather as a provision that reduces the ambit of s 120. While we are supportive of this position as a policy outcome, it must be incorrect.

(e) Associated marketing of parallel imported goods

A final problem with s 123 is that it significantly limits the way in which a retailer of parallel imported goods, which the retailer has the right to sell under s 123, can engage in associated marketing in relation to those goods. Assume, for example, that a jeans manufacturer has a registered compound mark consisting of the words “BURRELL Original Quality” rendered in a red cursive font set inside a simple square device. Jeans to which that mark has been applied by the owner are acquired, imported into and sold in Australia—something that is clearly permitted by s 123. The retailer also wishes to advertise them online and in flyers by saying that “We are now selling genuine Burrell jeans”. The difficulty is that this use on promotional material would be a use not of the registered compound mark, but rather of a deceptively similar mark, and the s 123 defence applies only if the defendant uses “a registered trade mark”.⁹¹ This will include use by a defendant of a substantially identical mark,⁹² but as soon as the defendant goes beyond this to use a deceptively similar mark the defence falls away. Consequently, the use of “Burrell” alone in the advertisements, rather than the registered compound mark or a mark substantially identical to it, would fall outside the scope of the defence.⁹³ This is another difficulty that could be avoided by a flexible application of the trade mark use enquiry.⁹⁴

5. Conclusion: Resurrecting Trade Mark Use to Legitimise Parallel Importation

Australia’s approach to the parallel importation and second-hand sale of trade marked goods has rightly been described as unsatisfactory.⁹⁵ We have lost the flexibility of being able to consider the issue through the lens of trade mark use. The *Champagne Heidsieck* rule has been read out of

⁹¹ *Transport Tyre Sales Pty Ltd v Montana Tyres Rims & Tubes Pty Ltd* (1999) 93 FCR 421 at [96].

⁹² This is because of the effect of *TMA*, s 7(1), which defines use of a mark as including using variants “with additions or alterations that do not substantially affect the identity of the trade mark”.

⁹³ *Facton Ltd v Toast Sales Group Pty Ltd* (2012) 205 FCR 378 at [118]. This situation is not altered by *E & J Gallo Winery v Lion Nathan Australia Pty Ltd* (2010) 241 CLR 144 at [69], where the High Court was considering whether the use of a word in conjunction with a device that did not substantially affect the identity of the word could be taken to be use of the registered word mark.

⁹⁴ A related issue is that the s 123(1) defence covers use by a defendant only on goods that are the same as, or similar to, goods in respect of which the mark is registered. The little remarked upon s 123(2) applies only where the defendant uses the mark in relation to services that are the same as, or similar to, services in respect of which the mark is registered. But where a mark is registered in relation to goods, use of a mark by a defendant in relation to *services that are closely related to the goods* in respect of which the mark has been applied (which would be *prima facie* infringing under s 120(2)(b)) fall outside the scope of the s 123 defence: see *Facton Ltd v Toast Sales Group Pty Ltd* (2012) 205 FCR 378 at [114]. Thus, if the jeans company had registered the word mark BURRELL, the retailer’s import and sale of genuine jeans bearing the mark would not infringe, but the retailer would be prevented from offering retail services using “Burrell” as a mark. However, this might not necessarily be a problem: as is clear from *Caterpillar Loader Hire (Holdings) Pty Ltd v Caterpillar Tractor Co* (1983) 1 IPR 265, retailers can make “nominative use” of other parties’ brands in a manner that does not involve trade mark use in the first place, and it is not clear why a party like the defendant in *Caterpillar* ought to have the benefit of a defence.

⁹⁵ Davison, “What Is the Objective”, n 2, 173.

Australian law by the Federal Court by way of a narrow, selective reading of the case law and a misunderstanding of the scope of former British trade mark law. As a result, we have forced the issue to be determined solely by reference to a statutory exception that not only has drafting glitches but is incapable of bearing the weight of some of the more complex issues thrown up by parallel importation and second-hand use—such as divided ownership of marks and the relevance of breaches of licence agreements that do not affect the quality of the goods in question. It is clear that the entire issue needs to be rethought, and we are heartened to see the Harper Review recently recommend that the operation of the defence should be independently reviewed,⁹⁶ and that this is likely to be undertaken by the Productivity Commission as part of its *Intellectual Property Arrangements* inquiry.⁹⁷ We strongly support the idea that the law should be reformed. The much bigger question is: in what way?

The most obvious option would be to reform s 123 of the *TMA* so as to introduce a “common origin” doctrine: that is, a rule that can go behind the legal form and determine whether there is a common, historical owner of both sets of marks. On first sight, this seems promising: Australian law already contains a limited version of the common origin doctrine, and New Zealand uses a broader version of this doctrine in order to facilitate parallel importation.

To explain, following the IPCRC Report, the Australian government chose to introduce an amendment to the *Copyright Act 1968* (Cth) that attempts to set up a “common origin” rule. The amendment recognises that many device marks will also be original artistic works for the purposes of copyright law, and that it would be an odd result if a parallel importer’s liability were to differ depending on whether an action by the mark owner were brought for copyright infringement or trade mark infringement. Section 198A(1) of the *Copyright Act* thus provides a defence to *trade mark* infringement where the importation of the goods bearing the mark would have constituted an infringement of copyright but for the operation of a “parallel importation provision” in the *Copyright Act*,⁹⁸ and, crucially for present purposes:

(c) the trade mark was applied by, or with the consent of:

(i) a person who, at the time the mark was applied, was the registered owner of the mark; or

⁹⁶ Harper Review, n 1, p 178. This echoes the earlier call in the House of Representatives Standing Committee on Infrastructure and Communications, *At What Cost? IT pricing and the Australia Tax* (July 2013), Recommendation 4.

⁹⁷ Productivity Commission, *Intellectual Property Arrangements: Issues Paper* (October 2015), p 23.

⁹⁸ The “parallel importation provisions” of the *Copyright Act* mentioned in s 198A are ss 44C and 112C (relating to accessories to articles), 44D and 112D (sound recordings), 44E (computer programs), and 44F and 112DA (electronic literary or musical items).

(ii) a person who, at the time the mark was applied, was the owner of the mark in the place where the mark was applied and who had been a registered owner of the mark at any time before then.⁹⁹

This aspect of the defence is broader than s 123 of the *TMA*. However, if this language were to be transposed to the *TMA* it would be insufficient to deal with the full range of problems we have identified in Part 4. Most obviously, although s 198A(1)(c)(ii), if transposed, would deal with the *Transport Tyre* scenario (that is, where the overseas owner has subsequently assigned its mark to an Australian distributor), it would not cover a situation where a company has structured its affairs from the outset in such a way that local subsidiaries own the mark in their jurisdictions. In the latter type of case, the foreign manufacturing entity would not have “been a registered owner of the [Australian] mark at any time”.

A more appealing option might be to look to New Zealand’s 2011 reform of its parallel importation laws.¹⁰⁰ Section 97A(1) of the *Trade Marks Act 2002* (NZ) now provides a defence to infringement if goods are put on the market anywhere in the world under the trade mark by the owner, with the owner’s express or implied consent, or by an “associated person of the owner”. As set out in s 97A(2), this last category applies if:

- (a) they are in the same group of companies; or
- (b) they are both bodies corporate and they consist of substantially the same members or are directly or indirectly under the control of the same persons; or
- (c) either of them has effective control of the other’s use of the trade mark; or
- (d) a third person has effective control of the use of the trade mark by each of them.

Under s 97A(3), a person has effective control if it can “authorise the use of the trade mark or has significant influence over how it is used, regardless of how that authorisation or influence arises (for example, whether directly or indirectly and whether by way of proprietary interest, contract, arrangement, understanding, a combination of those things, or otherwise)”.

⁹⁹ As an aside, the courts have shown themselves willing to interpret the “parallel importation provisions” of the *Copyright Act* in such a way as to give s 198A a meaningful sphere of operation and so as not to circumvent the policy in the *TMA* of allowing parallel importation of trade marked goods. In *Polo/Lauren Co LP v Ziliani Holdings Pty Ltd* (2008) 173 FCR 266 the defendant had purchased old season versions of genuine Polo Ralph Lauren clothes and imported them into Australia from the US. Most of the clothes bore the famous “polo player” logo. The Full Federal Court interpreted the relevant parallel importation defence of the *Copyright Act* generously in favour of the importer, in part because it was concerned to avoid creating a situation where the mark owner could use copyright law to control the importation of authentic branded goods: at [30]–[35].

¹⁰⁰ For consideration, see Batty, n 55.

An amendment to the *TMA* along these lines would mark an improvement on the current position.¹⁰¹ However, to return to some of the other problems with s 123 of the *TMA* that we identified in Part 4, there would seem to be a real problem in having the defence continue to turn on the issue of the owner's "consent". As we saw, a trade mark owner can rely on technical, almost serendipitous breaches of licence agreements that do not impact on the quality of the branded goods that are produced and ultimately imported into Australia, to ensure that such importation and sale infringes, and nothing in the New Zealand model changes this state of affairs. As a related matter, it needs to be borne in mind that the more complex the requirements to satisfy a defence, the harder it will be for a defendant to obtain the information to give it the confidence it needs to rely on that defence. It is difficult to see, for example, how a parallel importer will ever be in a position to obtain the details of a distribution agreement between an overseas manufacturer and its local importer and assignee of the registered mark, that demonstrate that the manufacturer continues to exercise "significant influence" over how the mark is used.

Our overarching concern with both the Australian and New Zealand approaches is that it is inherently problematic to believe that this is an issue that can be ever be adequately addressed through a defence, by trying to identify with precision all the circumstances in which a defendant will not infringe. Even if s 123 were to be re-crafted around a requirement that the goods be legitimate, the difference in the onus could be determinative, particularly in cases where clear evidence as to the provenance of the goods is lacking.

To our mind, the best way forward to address the problems with s 123 of the *TMA* is to resurrect the *Champagne Heidsieck* rule and to deal with the matter entirely through the lens of trade mark use.¹⁰² We support the view expressed by Arlen Duke and Matthew Taylor that the Act should include an "express provision to the effect that the importation and distribution of parallel imported trade marked goods does not infringe a registered trade mark".¹⁰³ However, rather than this operating as a defence, we would suggest that such a provision should clarify that parallel importation—as well as the sale of second-hand goods—does not constitute "use as a trade mark" for the purposes of s 120. This would return the focus of the infringement enquiry to what was

¹⁰¹ See Advisory Council on Intellectual Property, "Submission to Competition Law Review, Draft Report" (2014), p 6, <http://competitionpolicyreview.gov.au/files/2014/11/ACIP.pdf>.

¹⁰² If this were not to occur, we would support the view taken by ACIP and by Mark Davison that the onus of proving a lack of consent to application should be on the trade mark owner, and that damages should not be available if the importer can show a reasonable belief that the mark was applied by the owner or with its consent: Advisory Council on Intellectual Property, n 101, pp 6–7 and Davison M, "What Is the Objective", n 2, 183–184, 186.

¹⁰³ Duke and Taylor, n 49, 276. Where we differ from Duke and Taylor is in their view that the trade mark owner should be able to prevent parallel importation where it can establish that this "would be likely to cause substantial harm to the owner's reputation". We consider that this involves a misapprehension of the rationale for trade mark protection (as explained in detail in Burrell and Handler, n 15, ch 1), and because adequate protection for reputational harm caused by misrepresentations or misleading or deceptive conduct already exists under passing off and the *ACL*, as we demonstrated in Part 4(b) above.

historically, and what ought to be, the key consideration here: are the goods legitimate? The breadth of this new standard would give the courts flexibility to take a real-world, commercial view in making the assessment of the legitimacy of the goods. It would be wide enough to deal with the divided ownership issue. It would be flexible enough to deal with situations like those in *Paul's v Sparte Leisure* where, had the focus been on whether the goods were genuine rather than on technicalities of the licence agreement between the owner and licensee, the outcome might have been different. And it would create an obvious procedural advantage for importers and users of second-hand goods, in that it would put the onus on the trade mark owner to demonstrate that the defendant's use is "as a trade mark" for it to infringe. While it might take some time for a body of law to develop to provide guidance as to how this standard might operate, the trade mark use enquiry has always operated as a repository of a number of important policy goals. Resurrecting the *Champagne Heidsieck* rule and revitalising the trade mark use enquiry strikes us as preferable to any other reform option.