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# After Gallo Winery v Lion Nathan: Does a parallel importer of trade-marked goods infringe the mark?

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*The High Court in Gallo Winery v Lion Nathan left open the question whether a parallel importer of trade-marked goods uses the trade mark. However the court's non-use decision has implications for parallel importers. This article seeks to resolve uncertainties about whether a parallel importer infringes the registered mark.*

## INTRODUCTION

The High Court, in *E&J Gallo Winery v Lion Nathan Australia Pty Ltd* (2010) 241 CLR 144; 84 ALJR 352 (French CJ, Gummow, Heydon, Crennan and Bell JJ), did not decide whether a parallel importer of trade-marked goods infringes the registered mark. Rather, the court decided that where the registration of a mark is attacked for non-use, the importation of trade-marked goods by a third party can constitute use of the mark by the registered proprietor in the course of trade in Australia in certain circumstances. However, that non-use decision has implications in the different context of infringement issues, because in both contexts the court must decide whether the mark has been used. The purpose of this article is to draw out those implications and as a result to state what the answer to the posed question is, as the law currently stands.

## PARALLEL IMPORTATION BEFORE GALLO WINERY

Assume the simplest scenario where a parallel importation issue arises:

1. A company is the registered proprietor of the same trade mark in respect of the same goods, in Australia and in an overseas country.
2. Goods are manufactured in an overseas country and the trade mark is applied to the goods, or to a label attached to the goods, or to packaging containing the goods, in the overseas country by, or with the consent of, the proprietor.
3. The goods are sold overseas.
4. An Australian company then purchases the goods and imports them into Australia and offers to sell, and sells, them here. The Australian importer has no dealings with the registered proprietor.
5. The proprietor is unaware of the parallel importer's conduct until it finds the genuine goods offered for sale in Australia by the Australian importer at the same or a lower price, in competition with identical overseas-manufactured goods which the proprietor, or a related company, has imported into Australia, and which are offered for sale and sold here through distributors.

Prior to *Gallo Winery*, the most authoritative relevant decision concerning parallel imports was *Transport Tyre Sales Pty Ltd v Montana Rims & Tubes Pty Ltd* (1999) 93 FCR 421; 43 IPR 481, in which the Full Federal Court decided that the sale of genuine overseas-marked goods in Australia by the Australian parallel importer constituted use by it of the Australian registered mark (at [94]). An earlier decision under the *Trade Marks Act 1955* (Cth) to the opposite effect by Young J, *R&A Bailey & Co Ltd v Boccaccio Pty Ltd* (1986) 4 NSWLR 401; 6 IPR 279, applying *Champagne Heidsieck et cie Monopole Society Anonyme v Buxton* [1930] 1 Ch 330; 47 RPC 28, was not referred to by the Full Court in *Transport Tyre*. An important aspect of *Transport Tyre* (at [72]-[93]) was the holding by the court that the fact of the goods being marked overseas did not mean that the goods were not marked with "the Australian" mark.

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The reasoning in the *Champagne Heidsieck* line of cases<sup>1</sup> which suggests that the parallel importer does not use the mark as a trade mark, and hence does not infringe the mark, is that if a registered mark is a badge of origin, rather than a badge of control, then the parallel importer in selling the goods in Australia correctly indicates the origin of the trade-marked goods. The goods are genuine, not counterfeit, goods to which the mark has been applied by or with the consent of the registered proprietor. The importer does not falsely indicate to the Australian public that it was the originator of the goods. Rather, it correctly indicates the origin of the goods.

Clauson J in *Champagne Heidsieck* held:

the use of a mark by the defendant which is relied on as an infringement must be a use upon goods which are not the genuine goods, ie. those upon which the plaintiffs' mark is properly used, for any one may use the plaintiffs' mark on the plaintiffs' goods, since that cannot cause the deception which is the test of infringement.<sup>2</sup>

Section 123(1) was newly introduced by the *Trade Marks Act 1995* (Cth). There was no similar provision in the 1955 Act. Section 123(1) provides:

In spite of section 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.

The Full Court in *Transport Tyre* held that the s 123(1) defence applied in favour of the parallel importer and so the Australian registered mark was not infringed.<sup>3</sup>

It is fair to say that the introduction of s 123(1) has caused some judicial re-interpretation of *Champagne Heidsieck*. The Full Federal Court in *E&J Gallo Winery v Lion Nathan Pty Ltd* (2009) 175 FCR 386; [2009] FCAFC 27 stated (at [58]):

It was held [in *Champagne Heidsieck*] that a registered proprietor could not sue for infringement a person selling goods to which the registered proprietor had applied the mark. As Branson J said in *Parfums Christian Dior (Australia) Pty Ltd v Dimmeyes Stores Pty Ltd* (1997) 39 IPR 349 at 353-354, citing *Revlon Inc v Cripps & Lee Ltd* [1980] FSR 85, it is reasonably argued that the philosophical basis for the rule in *Champagne* is that the registered proprietor consents to the use of its trade mark in those circumstances. That is entirely consistent with the introduction in the 1995 Act of s 123. That section provides that a defence to infringement is that the mark was applied to the goods with the consent of the registered proprietor. That is to say, it is a statutory recognition that absent s 123 the mere sale by an importer of goods already marked would be an infringing use of the mark by the importer.

Experience has shown that it can be difficult for the parallel importer to prove to the court the necessary consent by the proprietor to the application of the mark required by s 123(1),<sup>4</sup> in respect of which the defendant bears the onus of proof.<sup>5</sup> The manufacturer of the goods and/or the first overseas seller of the goods, may be different companies to the registered proprietor. There may be a number of companies between the first overseas seller of the goods, and the seller to the parallel importer such that it may not be possible to prove with particularity the provenance of the goods back to the registered proprietor. Relevant documents may not have been kept, or retained, or be able to be located, especially if years have passed. The registered proprietor may not disclose what happened overseas concerning related companies and the alleged infringer may have difficulty in proving that itself.

<sup>1</sup> *Champagne Heidsieck et cie Monopole Society Anonyme v Buxton* [1930] 1 Ch 330 at 338-341; *R&A Bailey Co Ltd v Boccaccio Pty Ltd* (1986) 4 NSWLR 401; 6 IPR 279 at 283-286, where the authorities are referred to and considered.

<sup>2</sup> *Champagne Heidsieck et cie Monopole Society Anonyme v Buxton* [1930] 1 Ch 330 at 341.

<sup>3</sup> *Transport Tyre Sales Pty Ltd v Montana Rims & Tubes Pty Ltd* (1999) 93 FCR 421 at [94].

<sup>4</sup> *Brother Industries Ltd v Dynamic Supplies Pty Ltd* (2007) 163 FCR 530 at [69]-[80]; 73 IPR 507 (Tamberlin J); *Sporte Leisure Pty Ltd v Paul's International Pty Ltd [No 3]* (2010) 88 IPR 242; [2010] FCA 1162 (Nicholas J).

<sup>5</sup> *Transport Tyre Sales Pty Ltd v Montana Tyre Rims & Tubes Pty Ltd* (1999) 93 FCR 421 at [81]; *Brother Industries Lt v Dynamic Supplies Pty Ltd* (2007) 163 FCR 530 at [71], [72]; *PZ Cussons (International) Ltd v Rosa Dora Imports Pty Ltd* (2007) 74 IPR 372 at [38]-[40]; [2007] FCA 1642 (Kenny J); *Sporte Leisure Pty Ltd v Paul's International Pty Ltd [No 3]* (2010) 88 IPR 242 at [12], [100] (Nicholas J).



Accordingly if the introduction of s 123(1) had the effect of overruling the *Champagne Heidsieck* line of authority, so that parallel importers of genuinely-marked goods were using the proprietor's mark as a trade mark and so infringing the mark and a s 123(1) defence could not be made out, then that achieved a change in the law. The parallel importer now would use the mark as a trade mark, and infringe it, when before s 123(1) was introduced it did not do so.

It is perhaps unclear whether Parliament intended such a result. One's view as to that could be affected by whether one approves or disapproves of the parallel importation of genuine, and genuinely-marked, goods. Section 123(1) appears to have been intended to ensure that such conduct was not unlawful. The difficulty and uncertainty of application of s 123(1) for parallel importers suggests that that legislative intention may not have been achieved.

In any event, a parallel importer need not have to rely upon the defence to an infringement allegation provided by s 123(1) if it has not infringed the mark under s 120(1), because the mark was not used by it as a trade mark. After *Gallo Winery* the question arises: Is the parallel importer in that position, or must it rely upon s 123(1) in order to avoid the court finding trade mark infringement?

### **GALLO WINERY**

The main issue which the High Court decided in *E&J Gallo Winery v Lion Nathan Australia Pty Ltd* (2010) 241 CLR 144 was that the Australian registered trade mark was not invalid due to non-use within the meaning of s 92 of the 1995 Act, as had been contended by the alleged infringer Lion Nathan Australia Pty Ltd. The High Court went on to find that the mark was infringed.

The relevant non-use period was from 7 May 2004 to 8 May 2007. E & J Gallo Winery Pty Ltd was a Californian wine production company which became the proprietor of the Australian Barefoot mark, registered in respect of wine, on 17 January 2005. In defence of the non-use allegation Gallo relied upon conduct concerning Gallo's predecessor in title, Mr Houlihan. There was no argument to the effect that Gallo was not entitled to rely upon the prior conduct of Mr Houlihan. From 1999 Mr Houlihan licensed the registered mark to a US company, of which he was President, known as Barefoot Cellars.

In 2001, 60 cases of wine bearing the mark were shipped by Barefoot Cellars in California to a German company in Germany, with which Barefoot Cellars had a distribution arrangement. The Barefoot-marked labels on the wine identified the wine as Californian wine vinted and bottled by Barefoot Cellars, and named the German company as the importer. From the 60 cases, the German company sold bottles of wine to a Victorian liquor wholesaler, Beach Avenue Wholesalers Pty Ltd. Beach Avenue imported the wine into Australia in July 2002 and commenced selling the wine in Australia in March 2003. Beach Avenue imported and offered 144 bottles for sale in Australia during the non-use period. Forty-one bottles were sold by Beach Avenue during the non-use period and 18 were given away.

The trial judge (Flick J), found that neither Mr Houlihan nor Barefoot Cellars at material times knew that the bottles of wine were offered for sale or sold by Beach Avenue in Australia. No challenge to that finding<sup>6</sup> was made subsequently.

In the Full Federal Court (Moore, Edmonds and Gilmour JJ) Lion Nathan's non-use application succeeded,<sup>7</sup> as it had done before the trial judge, but the High Court reversed the Full Court's decision and held that that application failed because there had been use by the registered proprietor (or its predecessor), during the non-use period.

In the High Court (at [31]-[36]):

- (a) Gallo contended that the placement of the mark on the labels of the wine bottles by Barefoot Cellars under licence from Mr Houlihan was use by him of the mark as a trade mark, which use continued while the bottles of wine remained in the course of trade, which included the later importation of the wine into Australia by Beach Avenue, and its offering for sale and the sale of the wine here.

<sup>6</sup> *E&J Gallo Winery v Lion Nathan Australia Pty Ltd* (2008) 77 IPR 69 at [133].

<sup>7</sup> *E&J Gallo Winery v Lion Nathan Australia Pty Ltd* (2009) 175 FCR 386 at [25]-[61].



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- (b) Gallo contended that the lack of knowledge of Mr Houlihan and Barefoot Cellars of Beach Avenue's Australian trade in the wine was beside the point.
- (c) Gallo contended that the Californian company, Barefoot Cellars, was an authorised user of the mark for the purposes of s 8(1), as a result of which Gallo, as successor in title to Mr Houlihan, could rely upon Barefoot Cellar's use of the trade mark under s 8(4).
- (d) Gallo did not contend that the Australian company, Beach Avenue, was an authorised user, but made an alternative contention to (a)-(c) that such use of the mark as occurred in Australia was not trade mark use by Beach Avenue, and therefore must have been use by the registered owner, via Barefoot Cellars.

The alternative contention was said by Gallo to be consistent with the parallel importation *Champagne Heidsieck* line of cases. The High Court described (at [34]) that decision as holding that a trade mark is not infringed by a third party importing, offering for sale and selling, without the owner's consent, goods to which the registered owner, or its licensee, had affixed the mark. The High Court stated (at [34] (fn 10)) that s 123 reflected the principle established by *Champagne Heidsieck*. In the High Court, counsel for Gallo submitted, based on the *Champagne Heidsieck* line of cases, that the parallel importer of genuine goods does not itself use the mark independently of the trade mark proprietor. Counsel for Lion Nathan submitted to the contrary that the parallel importer of genuinely-marked goods does use the mark as a trade mark.<sup>8</sup>

The Full Court had decided that the importation and sale by Beach Avenue of the wine bearing the Barefoot mark on the labels was trade mark use by that company.<sup>9</sup> However, importantly for present purposes, the High Court expressly held (at [53]) that it was not necessary for it to decide the alternative contention concerning parallel importation, and the court accordingly did not do so. As the Full Court's non-use decision was overturned, the Full Court's decision that Beach Avenue had used the Barefoot mark must be regarded as being of persuasive authority only.

The High Court held that it was not necessary to decide whether Beach Avenue used the mark (in addition to whether the registered proprietor had used the mark), for two reasons (at [53]):

1. Provided that Barefoot Cellars was an authorised user (as the court held it was), the circumstances of the case were sufficient to constitute a use of the mark by the registered owner.
2. The issue was whether there had been use by the registered proprietor, and hence it was not relevant whether Beach Avenue had also used the mark.

Gallo in the two different ways was seeking to rely upon Beach Avenue's conduct in Australia to defeat the alleged infringer's non-use allegation. One means of testing the implications of *Gallo Winery* concerning parallel importation is to ask whether if Gallo instead had sued Beach Avenue for trade mark infringement, hence disowning rather than adopting the importer's conduct, would Gallo have succeeded? Assume also that Beach Avenue could not have established a s 123(1) defence. I suggest that this is a reasonable assumption because if the interests of Gallo and Beach Avenue were adverse, it is unlikely that Beach Avenue would have been able to prove the provenance of the imported wine back to California, via Germany, with the necessary particularity.

In any event, it is desirable for clarity of analysis to put the possible application of the s 123(1) defence to one side and focus upon the issue whether s 120(1) infringement would be established, but also because the Full Court in *Transport Tyre* moved quickly to the s 123(1) defence without elaborating why trade mark use and infringement was otherwise found. By this analysis, I seek to squarely deal with the use by Beach Avenue point, which the High Court did not decide in *Gallo Winery*.

## THE HIGH COURT'S NON-USE REASONING

1. Under the s 17 definition of a trade mark, an essential characteristic of a trade mark is to indicate the origin of the goods to which the mark is applied. Goods of the registered owner are distinguished from goods of others by the mark indicating a connection in the course of trade

<sup>8</sup> *E&J Gallo Winery v Lion Nathan Australia Pty Ltd* [2009] HCATrans 317.

<sup>9</sup> *E&J Gallo Winery v Lion Nathan Pty Ltd* (2009) 175 FCR 386 at [57].



between the goods and the registered owner. Use as a trade mark is use of the mark as a badge of origin in the sense that it indicates a connection in the course of trade between goods, and the person who applied the mark to the goods (*Gallo Winery* at [41]-[43]).<sup>10</sup>

2. The foreign owner of an Australian mark uses it in Australia when it sells goods for delivery abroad to Australian retailers and those retailers import them into Australia for sale and sell them here. The mark is the owner's property although the goods have ceased to be. The mark continues to be used by the owner so long as the goods are in the course of trade and it is indicative of their origin, that is as the owner's goods (at [46]).<sup>11</sup>
3. The capacity of a trade mark to distinguish a registered owner's goods from those of others does not depend on whether the owner knowingly projects the goods into the Australian market. It depends on the goods being in the course of trade in Australia (at [51], [33]). Use of a trade mark is to be determined objectively and without reference to the subjective trading intention of the user (at [33]).
4. An overseas manufacturer who has registered a trade mark in Australia and who himself (or through an authorised user), places the trade mark on goods which are then sold to a trader overseas can be said to be a user of the trade mark when those same goods, to which the trade mark is affixed, are in the course of trade, that is, are offered for sale and sold in Australia. This is because the trade mark remains the trade mark of the registered owner (through an authorised user if there is one), whilst the goods are in the course of trade before they are bought for consumption.<sup>12</sup> As affirmed by Gummow J in *Wingate Marketing Pty Ltd v Levi Strauss & Co* (1994) 49 FCR 89 at 136, "whilst a trade mark remains on goods, it functions as an indicator of the person who attached or authorised the initial use of the mark". During the trading period, the trade mark functions as an indicator of the origin of the goods, irrespective of the location of the first sale (*Gallo Winery* at [52]).
5. As Barefoot Cellars was an authorised user, the circumstances of the case were sufficient to constitute use of the mark by Gallo in the course of trade in Australia during the non-use period (at [59], [53]).

It emerges clearly enough then, I suggest, that:

- (a) Gallo as registered proprietor used the Barefoot mark in Australia by reason of Beach Avenue's conduct in importing the marked wine into Australia from Germany, and offering to sell the wine, and selling it, in Australia. If Beach Avenue had not engaged in that conduct and the Californian wine had been consumed in Germany, rather than re-sold by the Germany company to Beach Avenue, plainly there would have been no relevant use of the mark by Gallo because in such circumstances the wine would never have entered the course of trade in Australia.
- (b) It was necessary to the trade mark use finding in favour of Gallo that Barefoot Cellars was an authorised user of the mark, because otherwise there would have been no connexion between Mr Houlihan as the registered proprietor of the mark at relevant times, and the placing of the mark on the labels of the wine by Barefoot Cellars.
- (c) As the wine did enter the course of trade in Australia and that continued until Beach Avenue sold the wine in Australia, then together with (b), that was sufficient to constitute Beach Avenue's conduct use of the mark by the registered proprietor. The proprietor's use of the mark did not cease upon the Californian wine being sold to the German company.
- (d) It was not necessary for Gallo, or its predecessor in title, to have had any dealings with Beach Avenue, or to have had any knowledge of Beach Avenue's Australian conduct. In the circumstances, Gallo had used the mark in Australia, via Beach Avenue, nonetheless.
- (e) In Australia, the Barefoot mark on the labels of the imported bottles of wine continued to function as a badge of origin of the goods, that origin being in the registered proprietor, via Barefoot

<sup>10</sup> Citing with approval *Coca-Cola Co v All-Fect Distributors Ltd* (1999) 96 FCR 107 at [19]; 47 IPR 481 (Black CJ, Sundberg and Finklestein JJ).

<sup>11</sup> Citing with approval *Estex Clothing Manufacturers Pty Ltd v Ellis & Goldstein Ltd* (1967) 116 CLR 254 at 266-267 (Windeyer J).

<sup>12</sup> *Estex Clothing Manufacturers Pty Ltd v Ellis and Goldstein Ltd* (1967) 116 CLR 254 at 266-267.



Cellars. The mark continued to do so notwithstanding that the proprietor was unaware of the Australian conduct because the issue of trade mark use is determined objectively: the question is whether the marked goods were in the course of trade. The subjective knowledge or intention of the proprietor as to that was irrelevant.

- (f) It follows that there was no occasion to ask whether the proprietor by its conduct impliedly consented to or authorised the Australian conduct by Beach Avenue.

## **WAS BEACH AVENUE AN INFRINGER?**

Those matters being so, if one turns again to the different scenario of Gallo alleging that Beach Avenue was an infringer but on the same facts, would Beach Avenue have been using the Barefoot mark itself as well as Gallo? It will be recalled that in the non-use context, the High Court did not decide whether or not Gallo was correct in its alternative argument that Beach Avenue did not use the mark as a trade mark, and therefore Gallo did. In an infringement context, Beach Avenue would argue that Gallo used the mark as a trade mark, and therefore Beach Avenue did not do so.

I suggest that both arguments are incorrect. It does not follow from no use by Beach Avenue that there was usage by Gallo, or from use by Gallo that there was no usage by Beach Avenue. In each instance whether there was trade mark usage by the two companies, or not, are simply different questions.

We know from the High Court's decision in the non-use context that Gallo used the mark in Australia because of Beach Avenue's Australian conduct. In the different hypothetical infringement context, I suggest that Beach Avenue by way of defence would be correct in contending that likewise Gallo used the mark in Australia because of Beach Avenue's Australian conduct. If so, then two contradictory arguments of some force would arise.

First, Gallo, alleging infringement, would contend that it would be nonsense to suggest that Beach Avenue's conduct was trade mark usage by Gallo, but not also by Beach Avenue itself. While Gallo was the registered proprietor and Beach Avenue was not, the only relevant conduct in the course of trade in Australia was by Beach Avenue. Beach Avenue's conduct was attributable to Gallo. However, the High Court in *Gallo Winery* clearly stated (at [29]): "the offer for sale and selling, by Beach Avenue, of the bottles of wine which bore the registered mark constituted 'use' of the mark in Australia within the meaning of s 7(4)." Gallo would contend that it would be wrong for a court to hold that Beach Avenue did not also use the mark itself, because it was Beach Avenue which engaged in the relevant conduct. Gallo would rely upon the Full Court decision in *Transport Tyre*. Accordingly, Beach Avenue used the Barefoot mark as a trade mark.

Secondly, Beach Avenue, resisting infringement, would rely upon the High Court's reiteration of trade mark usage as constituting use of the mark as a badge of origin in the sense of indicating a connection in the course of trade between goods and the person who applied the mark to the goods. Gallo, via Barefoot Cellars, so used the mark in Australia. Objectively considered Beach Avenue, in offering to sell and selling the Barefoot-marked wine, engaged in no conduct which suggested that it had applied the mark to the labels on the bottle. Plainly enough, Beach Avenue was not a wine producer or bottler. It was a wholesaler. To adapt the obiter statement of the High Court in *Estex Clothing Manufacturers Pty Ltd v Ellis & Goldstein Ltd* (1967) 116 CLR 254 at 271 (Barwick CJ, McTiernan, Taylor and Owen JJ), Gallo was the only person which had the right to use the mark and Beach Avenue to which the wine was sold for re-sale did not, in any relevant sense, use the mark.

Further, Beach Avenue would rely upon the decision of the Full Federal Court in *Coca-Cola Co v All-Fect Distributors Ltd* (1999) 96 FCR 107; 47 IPR 481, that concerning use as a trade mark one does not ask whether the sign indicates a connection between the alleged infringer's goods and those of the registered owner; rather the question is whether the mark as used indicates origin of the goods in the user of the sign – whether there is a connection in the course of trade and the user of the sign (at [20]). Beach Avenue would contend that by offering to sell and selling the wine, it did not indicate that the goods originated with it. Rather, the labels (correctly) indicated that the goods originated with the registered proprietor of the mark, via Barefoot Cellars. Accordingly, Beach Avenue did not use the Barefoot mark as a trade mark.



I suggest that after *Gallo Winery*, the correct answer is that Beach Avenue itself did use the Barefoot mark as a trade mark. The reasons are as follows:

1. Beach Avenue's conduct occurred in the course of trade and must be considered objectively.
2. The proprietor's usage of its mark did not cease upon the application of the mark to the goods.
3. To constitute trade mark use by the parallel importer, it was not necessary that its Australian conduct identified it as having itself applied the mark.
4. It was sufficient to constitute trade mark usage by Beach Avenue that by its conduct in the course of trade here, it indicated that the origin of the goods was in another party, namely in the registered proprietor, via Barefoot Cellars.
5. While Beach Avenue could be said to only have used the mark in a limited sense as an intermediary or re-seller, it did use the mark itself in the fundamental trade mark sense of indicating the origin of the goods, via the Barefoot mark on the label of the bottles of wine which it offered to sell and sold.
6. Properly understood, *Coca-Cola* is not inconsistent with that proposition. The Full Federal Court there was not dealing with a parallel importation case, but it was in *Transport Tyre*.

### THE REGISTERED PROPRIETOR'S EXCLUSIVE RIGHTS

If then Beach Avenue used the Barefoot mark as a trade mark in the course of trade in Australia, would that mean that it had infringed the mark and if so why? The answer is that the Beach Avenue infringed the mark because it had had no dealings, directly or indirectly, with Gallo (or its predecessor in title) by which it was entitled to so use the mark.

It is at this point that non-use and infringement issues diverge, and in a fundamental way. The High Court clearly held that in the non-use context, Mr Houlihan and Barefoot Cellar's lack of knowledge of Beach Avenue's conduct was beside the point. The issue instead was the objective one of whether the goods entered and remained in the course of trade during the applicable non-use period, by reason of Beach Avenue's Australian conduct (at [51]). However, in an infringement context, that same lack of knowledge would establish that infringing conduct by Beach Avenue had occurred. It is important to identify why this is so.

The lack of knowledge by the registered proprietor of Beach Avenue's Australian conduct proves that the trade mark usage of the mark by Beach Avenue occurred without the licence, authority or consent of the proprietor. Accordingly, infringement would be demonstrated. That this is so follows from the main infringement provision, s 120(1), together with the provisions which define the nature of the rights which registration confers, s 20(1), (2).

Section 120(1) does not define infringement in any way by reference to an absence of licence, authority or consent by the proprietor to the impugned conduct:

120(1) A person infringes a registered trade mark if the person uses as a trade mark a sign that is substantially identical with, or deceptively similar to, the trade mark in relation to goods or services in respect of which the trade mark is registered.

However, s 20(1), (2) provides as follows:

- (1) If a trade mark is registered, the registered owner of the trade mark has, subject to this Part, the exclusive rights:
  - (a) to use the trade mark; and
  - (b) to authorise other persons to use the trade mark;in relation to the goods and/or services in respect of which the trade mark is registered.
- (2) The registered owner of a trade mark has also the right to obtain relief under this Act if the trade mark has been infringed.

It is the owner's s 20(1) rights that are infringed by conduct of another as described in s 120(1). The owner's s 20(1)(a) exclusive right to use the trade mark in relation to goods means the use of the mark upon or in physical or other relation to the goods (see s 7(4)). However, that does not mean that the proprietor's rights are exhausted then. Although such physical usage of the mark establishes the mark as a badge of origin (see s 17), the proprietor's use of the mark as a badge of origin continues for so long as the marked goods are in the course of Australian trade. A parallel importer cannot



successfully contend that it has not used the mark on the imported goods as a badge of origin because it did not apply the mark to the goods, or to the labels or the packaging of the goods. Hence, the proprietor's s 20(2) right to sue for infringement includes the right to prevent a parallel importer from using its mark in the course of trade in Australia as a badge of origin without its licence, authority or consent. Under s 20(1)(a) only the proprietor has the right to use the mark here, unless it otherwise agrees.

Professor Davison argues that s 120(1) should probably be read as: "A person infringes a registered trade mark if the person uses as a trade mark [without the authorisation of the registered owner] a sign."<sup>13</sup> I suggest that such a reading of s 120(1) is unnecessary and potentially confusing. What would make Beach Avenue's conduct an infringement of the Barefoot mark is that it used the mark as a trade mark when Gallo (and its predecessor) had the exclusive right to do so. There were no dealings between the registered proprietor and Beach Avenue by which the proprietor in any way derogated from its exclusive right to use the mark. Beach Avenue's infringing conduct was not in authorising anyone else to use the mark when only the proprietor had the right to do that (compare s 20(1)(b)).

It is a necessary element of the proprietor's infringement cause of action to prove that its exclusive trade mark usage right has been violated. Traditionally, that is pleaded by an allegation that the defendant's conduct occurred without the licence, authority or consent of the registered proprietor. Reference is usually made here beyond a want of authority, to a lack of a licence having been granted, and to a failure to provide consent, because trade mark owners can and frequently do lawfully deal with their marks in ways which do not constitute another person an authorised user of the mark for the purposes of s 8.<sup>14</sup> In practice, this aspect of the proprietor's case is typically simple to prove: evidence is led on behalf of the proprietor that it had no dealings with the defendant (much less any dealing which inhibited its ability to complain about a violation of its exclusive right to use the mark).

Concerning parallel imports, it is instructive to compare s 20(1), (2) with the trade mark law which applies in the European Economic Area. Article 7(1) of the Trade Mark Directive<sup>15</sup> deals with the exhaustion of the proprietor's right to bring infringement proceedings where the goods have been first marketed anywhere in the European Union with the proprietor's consent:<sup>16</sup>

#### Article 7

Exhaustion of the rights conferred by a trade mark

1. The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent.

Plainly enough, s 20(1), (2) is not subject to any limitation such as that provided by Art 7(1). To the extent that s 123(1) indirectly limits a proprietor's s 20(1) rights in the context of an infringement proceeding, s 123(1) is a narrower limitation than that provided for by Art 7(1). Section 123(1) relates only to the proprietor's consent to the application of the mark, and not also to its consent to the defendant's use of the mark. If an infringer establishes a s 123(1) defence, in a sense the proprietor can be considered to be taken to have impliedly consented to the defendant's trade mark usage. If the proprietor does not protect itself by contract from parallel importation, then application of the mark to the relevant goods by or with its consent will be sufficient without more to prevent the proprietor from successfully suing for infringement (if the defendant can prove that). However, even then, such "implied consent" derives only from the proprietor's consent to the application of the mark and not from any other conduct by it.

<sup>13</sup> Davison M, "Parallel importing: Who's using what and when and what happens then?" (2009) 20 AIPJ 71 at 77-78.

<sup>14</sup> *E&J Gallo Winery v Lion Nathan Australia Pty Ltd* (2009) 175 FCR 386 at [59], [60].

<sup>15</sup> Council Directive 89/104/EEC, as amended.

<sup>16</sup> *Oracle America Inc v M-Tech Data Ltd* [2010] EWCA Civ 997 at [15]. *Trade Marks Act 1994* (UK), s 12(1) also provides: "A registered trade mark is not infringed by use of the trade mark in relation to goods which have been put on the market in the European Economic Area under that trade mark by the proprietor or with his consent."





## SPORTE LEISURE

The most recent parallel importation decision is that of Nicholas J in *Sporte Leisure Pty Ltd v Paul's International Pty Ltd [No 3]* (2010) 88 IPR 242; [2010] FCA 1162. In *Sporte Leisure*, garments were manufactured in India by an Indian company and the proprietor's registered marks were applied to the garments with the licence of the proprietor. The marks were for the words "Greg Norman" and for a device in the form of a stylised depiction of a shark, and were registered in respect of apparel, footwear and headgear in Class 25. A Pakistani company purchased marked garments from the Indian company, but they were shipped to Singapore and on-sold to a Singaporean company, from which one of the respondents purchased the garments and offered to sell and sold them in Australia. There were no prior dealings between the parallel importer and the US-based registered proprietor.

The main issue argued by the respondents was that a s 123(1) defence was made out. Nicholas J held that the s 123 defence did not succeed and that the trade mark had been infringed. As to s 120(1) infringement, the respondents conceded that even if the registered marks on the goods which they imported and sold had been applied by or with the licence of the trade mark owner, the respondents nonetheless engaged in trade mark use (at [95]). Nicholas J acted on that concession in finding infringement. The judge referred to *Transport Tyre*, and other authorities, as justifying the concession, referred to *Champagne Heidsieck* and noted (at [96]-[98]) that the question whether a person who sells goods to which a trade mark has been applied with the consent of the owner of the mark uses the mark as a trade mark had been left open by the High Court in *Gallo Winery*.

The decision in *Sporte Leisure* illustrates the difficulty for the parallel importer in making out a s 123(1) defence and hence the importance of the issue whether the parallel importer infringes the mark apart from that defence. The licence from the proprietor to the Indian manufacturer was unambiguous; the licence to use the marks was for use in "the Union of India only", and the licensee had no licence to use the marks except as expressly stated (at [16]-[20]). The relevant person from the Indian licensee did not give evidence. However, the evidence did show that the licensee had not paid royalty payments to the proprietor in respect of the parallel-imported garments. The proprietor advised the licensee when the licence agreement was nearing its expiration date that it would not be renewed or extended. Importantly, Nicholas J stated (at [78]):

Where a registered owner consents to another person applying the registered mark to goods on condition that the goods must not be supplied outside a designated territory, the registered owner would not usually be regarded as having consented to the application of the mark to goods which the other person knows at the time he or she applies the mark are to be supplied by him or her outside the territory.

In rejecting the respondents' s 123(1) defence, Nicholas J stated (at [90]) that he would have found that the proprietor consented to the application of its marks to those goods but for the fact that the goods were manufactured by the Indian licensee for sale outside India.

## OBJECTIONS

In the context of an infringement allegation against a parallel importer such as Beach Avenue, four objections could be raised to the proposition that it had infringed the Barefoot mark.

First, it could be contended that *Champagne Heidsieck* stands in the way of that view because the High Court in *Gallo Winery* referred (at [34]) to that decision, without disapproval, as standing for the proposition that a trade mark is not infringed by a third party importing, offering for sale and selling without the owner's consent, goods to which the proprietor had affixed the mark. However, as Professor Davison has demonstrated,<sup>17</sup> the decision of Clauson J in *Champagne Heidsieck* was decided in a legislative context where deception of members of the public had to be proven as an element of trade mark infringement. That is not so under the 1995 Act, especially in a parallel importation case where allegedly infringing goods bear the registered mark: it is identical. No question of deceptive similarity arises.

<sup>17</sup> Davison M, "Parallel importing: Who's using what and when and what happens then?" (2009) 20 AIPJ 71 at 72-74, 76.



I suggest that the reasoning in *Champagne Heidsieck* cannot stand in the face of the express provisions of the 1995 Act (ss 20(1), (2), 120(1)). If a person uses another's registered trade mark in the course of trade in Australia as a badge of origin of the proprietor's goods without the proprietor's licence, authority or consent, then that conduct is an infringement of the proprietor's exclusive right to use the mark.

The fundamental points reiterated by the High Court in *Gallo Winery* must be borne steadily in mind. Although the overseas proprietor of the Australian mark has sold its trade-marked goods and hence no longer has property in the goods, for so long as the marked goods remain in the course of trade in Australia, the proprietor retains its s 20(1) property rights in the mark (at [29], [46], [48], [52]). The proprietor need not have intended to project the overseas manufactured and marked goods into the Australian market (at [51]). The maintenance by the owner of its Australian registration of the mark is enough (at [51]).

Although the High Court expressly left open the correctness of *Champagne Heidsieck*, I share Professor Davison's view that that decision, and those which follow it, should no longer be regarded as good law in Australia. I suggest that that line of authorities ought not, and will not hereafter, be followed in the parallel importation context. Although it perhaps does not matter, this has nothing to do with the introduction of the s 123(1) defence. The reason is that that defence concerns consent by the proprietor to the application of the mark to the goods, not also to consent by the proprietor to the importation of the marked goods into Australia.

Even if on a re-interpretation of *Champagne Heidsieck*, that case is about consent by the proprietor to the affixation of the mark rather than members of the public not being deceived, it now seems unlikely that the decision would be considered to be inconsistent with the proposition that apart from s 123(1), a parallel importer is a s 120(1) infringer.

*Secondly*, the proposition that Beach Avenue infringed the Barefoot mark because it did not have licence, authority or consent of the proprietor to act as it did, could be objected to on the basis that a trade mark is a badge of origin, not a badge of control. The implication of a trade mark being a badge of control is that if a parallel importer seeks to avoid infringing the proprietor's mark, it must first obtain the licence, authority or consent of the proprietor before importing the proprietor's goods. In practice, this will never occur. The proprietor is in the position of being able to control the use by others of its mark by suing, or threatening to sue, for infringement, unless the parallel importer can make good a s 123(1) defence.

However, I suggest that the proprietor has such control simply as a necessary consequence of its s 20(1)(a) exclusive right to use the mark. Such control is entirely consistent with the mark being used by the proprietor, or those which have its licence, authority or consent to use the mark, for its intended function as a badge of origin. I suggest that there is no relevant badge of origin/badge of control dichotomy here. Registered trade marks are badges of origin, and the extent of the proprietor's right to control the use of its mark depends upon the provisions of the Act.

*Thirdly*, it could be contended that Beach Avenue had the implied licence, authority or consent of the registered proprietor to use the Barefoot mark in Australia as a trade mark because the Californian wine was exported from the United States to Germany without any restriction upon re-sale by the German company. I suggest that no such implication would arise from that.

While it is a question of fact in each case whether the proprietor licensed, authorised or consented to the defendant's trade mark usage, so that such matters could be implied or inferred from conduct not amounting to the granting of an express licence, I suggest that the court ought be slow to draw such an inference. Due weight ought be given to the s 20(1) words, "exclusive rights". In the context of an infringement proceeding, it has already been observed that the "implied consent" to trade mark usage provided for by s 123(1) derives only from positive, unambiguous conduct, namely consent by the proprietor to the application of the mark in relation to the goods. I suggest that regarding the issue of what conduct by the proprietor would be sufficient to establish an inferred or implied licence, authority or consent by it in favour of the defendant in the absence of an express licence, some guidance can be had from the European jurisprudence concerning Art 7(1) of the Trade Mark Directive referred to above.



In *Zino Davidoff SA v A&G Imports* [2002] Ch 109 at [45], [46], [55]; [2002] RPC 403, the European Court of Justice held:

1. Consent of the proprietor to the defendant's trade mark usage could only be implied from facts and circumstances at the relevant time which unequivocally demonstrated that the proprietor had renounced its right to complain about the defendant's conduct. Such an intention will normally be gathered from an express statement of consent.
2. Implied consent cannot be inferred from the mere silence of the proprietor.

Should an Australian parallel importer run an argument that it had the implied licence, authority or consent of the proprietor to its importation arising from matters other than the proprietor's consent to the application of its mark in relation to the relevant goods, to seek to defeat the proprietor's s 120(1) infringement allegation, I suggest that the holding by the Court of Justice in *Zino Davidoff* is consistent with the statutory scheme established under the 1995 Act and ought be followed here. The European experience is that although instances of implied consent can be found, implied consent is usually not established by the alleged infringer.<sup>18</sup>

*Fourthly*, it could further be contended that Beach Avenue was in no different position than the position of an Australian retailer which had purchased the Barefoot-marked bottles of wine from an authorised distributor of the proprietor. The argument would be that such a retailer would be as unknown to the overseas proprietor as Barefoot Cellars was. If the retailer was not infringing, likewise Barefoot Cellars was not infringing. Both would have had no direct contractual or other dealings with the proprietor of the mark.

I suggest to the contrary, that *prima facie* both would be infringers because they lacked the permission of the proprietor to use the mark. However, in the real world an issue about the retailer's use of the proprietor's mark would never arise because the Australian authorised distributor, and hence the trade mark proprietor, would never complain about retailers re-selling goods supplied by the distributor. Perhaps the retailer had the implied consent of the proprietor, through the distributor, to use the mark, unlike the parallel importer. In any event, Australian retailers which had purchased the marked goods from an Australian authorised distributor would have little difficulty in making good a s 123(1) defence.

## COUNTERFEIT GOODS

It is relevant in testing the analysis to consider the different parallel importation situation where the goods are counterfeit, rather than genuine goods. The goods may be counterfeit in the sense that the mark has been applied to the goods, or to the labels or packaging of the goods, without the licence, authority or consent of the registered proprietor of the mark. Also, the goods may have been manufactured by persons having nothing to do with the registered proprietor. Nevertheless, the imported goods bear the registered mark.

It is clear that a parallel importer of counterfeit goods infringes the mark.<sup>19</sup> However, it is important to be precise as to why this is so. I suggest that the same analysis applies here as in the case of genuine, genuinely-marked goods. The parallel importer uses the mark so as to indicate a connection in the course of trade between the goods and the person who has or is entitled to apply the mark to, or in relation to the goods, namely the registered proprietor. Again, that use of the trade mark will have occurred without the licence, authority or consent of the proprietor. Accordingly, s 120(1) infringement will have occurred.

There are three factual differences between the two situations, two of which do not matter while the other one does.

*First*, regarding genuine and genuinely-marked goods, the absence of the proprietor's licence, authority or consent to the parallel importer's trade mark usage comes from a lack of any dealings

<sup>18</sup> *Mastercigars Direct Ltd v Hunters & Franklin Ltd* [2007] RPC 24 at [31]-[62], [22]-[23].

<sup>19</sup> *WD&HO Wills (Australia) Ltd v Rothmans Ltd* (1955) 92 CLR 131 at 182, 188; *Pioneer Kabushiki Kaisha v Registrar of Trade Marks* (1977) 137 CLR 670 at 688 (Aickin J); *Brother Industries Ltd v Dynamic Supplies Pty Ltd* (2007) 163 FCR 530 at [40]-[54].



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between the proprietor and the importer. While that will also be so in the case of counterfeit goods, it will additionally be proven by the fact of the goods being counterfeit. In a sense, the proprietor has a stronger infringement case when the goods are counterfeit.<sup>20</sup> However, the legal point is the same: the proprietor's exclusive right to use its trade mark has been unlawfully exploited because the parallel importer's conduct occurred without the licence, authority or consent of the proprietor.

*Secondly*, the parallel importer of counterfeit goods deceives members of the public in a manner that the parallel importer of genuine and genuinely-marked goods does not. In the latter case, members of the public are not deceived as to the origin of the goods. They truly originated with the proprietor whose mark was duly affixed to the goods with its consent. By contrast, the parallel importer of counterfeit goods misrepresents the origin of the goods. Although the mark is used as a badge of origin, the goods do not have the indicated origin. Nevertheless, as proof of infringement does not depend upon the proprietor showing that as a result of the parallel importer's use of the mark members of the public were deceived, I suggest that that factual distinction makes no difference to the legal analysis. There is infringement in the case of both parallel-imported genuine, genuinely-marked goods and counterfeit goods, for the same reason: lack of permission from the proprietor to the defendant's use of the mark.

*Thirdly*, the difference that does matter is that in the case of counterfeit goods, ex hypothesi a s 123(1) defence could never be made out. The mark was not applied to, or in relation to, the goods with the consent of the proprietor. However in the case of genuine and genuinely-marked goods, a s 123(1) defence is potentially available to the parallel importer, subject to questions of proof.

### **CONCLUSION**

In the parallel importation context, authorities which illustrate descriptive use of a trade mark as a reason for the Court finding that the defendant has not used the mark as a trade mark,<sup>21</sup> are not in point. What parallel importers seek to do is precisely to use the proprietor's mark as a trade mark, with the economic advantage which that provides, without paying the proprietor for the privilege and unlike the proprietor's authorised distributors.

*Gallo Winery* is a clear re-iteration by the High Court of the legal (and economic) function of registered trade marks as badges of origin. The operation of a trade mark as a badge of origin continues for so long as the goods to which the mark has been applied remain in the course of trade. As a matter of principle, there is no distinction between trade-marked goods manufactured overseas and imported into Australia, and trade-marked goods manufactured in Australia. The s 123(1) defence has potential application to both types of goods, where the goods are genuine and genuinely-marked.

After *Gallo Winery*, the answer to the question: Does a parallel importer of trade-marked goods infringe the mark? is yes. A parallel importer's ability to continue to import and sell the goods, if challenged by the Australian proprietor of the mark, depends almost<sup>22</sup> entirely upon its ability to make good a s 123(1) defence. I suggest that the implication of *Gallo Winery* is clear: parallel importers beware!

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<sup>20</sup> *Brother Industries Ltd v Dynamic Supplies Pty Ltd* (2007) 163 FCR 530 at [46].

<sup>21</sup> See, eg *Mars Australia Pty Ltd v Sweet Rewards Pty Ltd* (2009) 84 IPR 12; [2009] FCAFC 174; *Nature's Blend Pty Ltd v Nestlé Australia Ltd* (2010) 87 IPR 464; [2010] FCAFC 117.

<sup>22</sup> The proposition is qualified because of the unlikely possibility, as discussed, that the alleged infringer may be able to defeat a s 120(1) infringement allegation on the basis of the implied consent of the proprietor to the defendant's conduct.

