

ed in the CUP to refer to “laws, regulations, administrative and technical requirements other than tariffs imposed by a Partner State whose effect is to impede trade”.<sup>124</sup> While the national trade mark laws of the EAC Partner States must be regarded, based on their capability to restrict free movement of goods, as a category of non-tariff barriers, the EAC policy makers’ attention has hitherto not been drawn to this reality.

According to an EAC report released in 2007, intellectual property rights are not regarded among the factors that pose some dangers to the free movement of goods and which are supposed to be categorised as non-tariff barriers.<sup>125</sup> This practical reality contradicts the EAC Partner States’ agreement to report on existence of non-tariff barriers guided by the non-tariff barriers categorisation codes of the World Trade Organisation (WTO) among which intellectual property issues feature.<sup>126</sup>

### ***C. Possible solution to the mischief***

#### *I. Principles of trade mark law*

The potential of trade marks to impede free movement of goods “is primarily debated in the context of parallel importation,<sup>127</sup> i.e. attempts made by trade mark proprietors to seal off national markets as an element in price discrimination strategy”.<sup>128</sup> The question that stems from the principles of trade

124 Article 1 of the CUP.

125 The prevailing view of the stake holders in the EAC regards the following as the leading forms of non-tariff-based impediments: police road blocks, standards, sanitary and phyto-sanitary requirements, customs procedures and documentation, etcetera cetera (cf. M.A. Consulting Group, *supra*, p. 17).

126 Cf. IHJA, S. N., “Monitoring Mechanism for Elimination of Non-Tariff Barriers” – a project undertaken on behalf of the East African Community & East African Business Council in 2009 (see particularly p. 11)  
<[http://www.eac.int/customs/index.php?option=com\\_content&view=article&id=4:ntbs-monitoring-mechanism&catid=3:key-documents&Itemid=141](http://www.eac.int/customs/index.php?option=com_content&view=article&id=4:ntbs-monitoring-mechanism&catid=3:key-documents&Itemid=141)> (Status: 30 July 2012).

127 “Parallel Importation occurs when an intellectual property owner or his licensee sells protected goods in one market under such circumstances that those goods can be purchased there for export and imported into another market for sale against the wishes of the intellectual property owner and in competition with similar goods enjoying equivalent protection in the second market” (HAYS, T., “Parallel Importation under the European Union Law” 1 (Sweet & Maxwell, London 2004).

128 Cf. KUR, A. “Strategic Branding: Does Trade Mark Law Provide for Sufficient Self Help and Self Healing Forces?” in: GOVAERE, I. & ULLRICH, H. (eds.), “Intellectual Property, Market Power and the Public Interest” 191 (P.I.E. Peter Lang, Brussels; New York 2008). The electronic copy of the publication under reference is available at

mark law is whether the reliance on the national trade mark rights to impede free flow of goods to the scale of the entire EAC Common Market is legally justifiable. As a matter of principle, it is sensible to inquire whether such restriction on the free movement of goods is necessary for the trade mark concerned to perform its functions. Additionally, it is also logical to find out whether such restrictions would be justified on the basis of the principle of exhaustion – a principle that tends to describe the extent of trade mark proprietor’s monopoly in relation to commercialisation of branded goods.

## 1. Trade mark functions

A trade mark protection regime is not a self-enclosed system but a system that involves “entire markets” – national and global – as a playground of marketers, manufacturers and consumers, just to mention but a few, and should for that matter be justified on various grounds.<sup>129</sup> Thus, an array of functions a trade mark may possibly perform can be singled out: (1) to identify the actual physical origin of goods and services, (2) to guarantee the identity of the origin of goods and services, (3) to guarantee the quality of goods and services, (4) to serve as a badge of support or affiliation, and (e) to enable the consumer to make a lifestyle statement.<sup>130</sup> This enumeration should not be regarded profound, but just as a suggestive “template” of guidelines for the assessment of specific issues of trade mark law. For the purpose of this chapter only two functions, namely, the guarantee of origin and quality, are detailed.

### a) Trade mark as a badge of origin

A trade mark is primarily expected to identify the actual physical origin of goods and services. This function has been categorised by the ECJ as essential function of a trade mark.<sup>131</sup> The ECJ has, however, clarified that a trade mark’s function

- <<http://ssrn.com/abstract=1311243>> (Status: 30 July 2012).
- 129 PHILIPS, J., “Trade Mark Law: a Practical Anatomy” 22 (Oxford University Press, Oxford 2003).
- 130 A detailed analysis of these functions is made in PHILIPS, J., “Trade Mark Law: A Practical Anatomy” 23-27 (Oxford University Press, Oxford 2003).
- 131 ECJ, Case C-102/77, *Hoffmann-La Roche & Co. AG v Centrafarm* [1978] ECR 01139, para. 7. Cf. also ECJ, Case C-487/07, *L’Oréal SA and Others v Bellure NV and Others* [2009] ECR I-05185, para. 58.

is not confined to the actual origin of goods or services<sup>132</sup> for it may also be used to distinguish different products or services of a single (origin) trade mark proprietor.<sup>133</sup>

## b) Trade mark as a guarantee of quality

Consumers are basically interested in the quality of goods rather than their trade origin.<sup>134</sup> This view is in line with the opinion of Attorney General *Ruiz-Jarabo Colomer* who once remarked:

It seems to me to be simplistic reductionism to limit the function of the trade mark to an indication of trade origin.... Experience teaches that, in most cases, the user is unaware of who produces the goods he consumes. The trade mark acquires a life of its own, making a statement, as I have suggested, about quality, reputation and even, in certain cases, a way of seeing life.<sup>135</sup>

The consumer's decision to purchase the goods is dictated by previous experience. The trade mark's guarantee-of-quality function becomes self evident when the mark enables relevant consumers to identify the differences between the products or services that it designates from goods which come, or from services provided, from a different source and to develop an impression that all the "products or services that it designates have been manufactured, marketed or supplied under the control of the owner of the mark and that the owner is responsible for their quality".<sup>136</sup> The consumer's mind can, therefore, reiterate, as *Lord Mackenzie Stuart* sums it up well, that "[t]his mark, this brand has always served me well in the past. Therefore I can rely on it once again".<sup>137</sup>

In view of the foregoing, a trade mark may be regarded as performing another sub-category of a guarantee-of-quality function, namely, to raise consumer's trust in relation to the goods or services.<sup>138</sup> This becomes eminent when a trade mark has been developed to a level that attracts consumers' trust in it due to the

132 ECJ, Case C-487/07, *L'Oréal SA and Others v Bellure NV and Others* [2009] ECR I-05185, para. 58.

133 FEZER, K.-H., "Markenrecht" (13th ed.) 81 (Verlag C.H. Beck, Munich 2009).

134 TRITTON, G., "Parallel Imports in the European Community", A paper prepared for the Intellectual Property Institute – London, 1997.

135 ECJ, 12 November 2002, Case C-206/01, *Arsenal Football Club plc v Matthew Reed* [2002] ECR I-10273, para. 46.

136 ECJ, 5 March 2003, Case C-194/01 *Unilever NV v OHIM* (not reported in the ECR), para. 43. Cf. also ECJ, Case C-39/97, *Canon* [1998] ECR I-5507, para. 28.

137 STUART, M., "The Function of Trade Marks and the Free Movement of Goods in the European Economic Community", 7(1) IIC 27, 31 (1976).

138 FEZER, K.-H., "Markenrecht" (13th ed.) 82 (Verlag C.H. Beck, Munich 2009).

assurance it has given them that the proprietor cannot betray this trust since he/she is economically interested in maintaining the value of the mark.<sup>139</sup> In this regard, the consumer will say to himself: “I need not investigate the attributes of the brand I am about to purchase because the trade mark is a shorthand way of telling me that the attributes are the same as that of the brand I enjoyed earlier”.<sup>140</sup>

The distinction between a trade mark’s functions of identifying an actual, physical origin of goods or services or of guaranteeing that the goods or services are of a certain quality is very fine. From the point of view of the guarantee of quality function, trade mark binds the trade mark owner (as a brand exploiter) to his customers. On the other hand, the guarantee of identity of origin function “sees trade marks as a sort of buffer which stops competing businesses getting too close together”.<sup>141</sup> Analysed from a different point of view, this distinction would be seen just a matter of theoretical exercise that does not emulate the practical reality: If consumers are interested in origin of the goods or services it is normally because the origin imports an expectation about some quality of the goods or services concerned.<sup>142</sup>

#### c) Trade mark functions and markets compartmentalization

It is clear from section B (II) of this chapter that, in theory, a person may secure registration of a single trade mark in all EAC Partner States. It is also accentuated in the same Section that this kind of registration virtually provides a trade mark proprietor with a legal power to impose some constraints on the movement of his own goods from one national market to another. This necessitates an inquiry as to whether the trade mark proprietor’s power to impede free movement of goods can be justified in view of trade mark functions.

139 DAVIS, J., “To Protect or Serve? European Trade Mark Law and the Decline of the Public Interest”, 25(4) E.I.P.R. 180, 182 (2003).

140 LANDES, W. M. & POSNER, R. A., “Trademark Law: An Economic Perspective” 30 J.L. & Econ. 265, 269 (1987).

141 PHILIPS, J., “Trade Mark Law: A Practical Anatomy” 26 (Oxford University Press, Oxford 2003).

142 CORNISH, W.R. & PHILLIPS, JENNIFER, “The Economic Function of Trade Marks: An analysis with Special Reference to Developing Countries”, 13(1) IIC 41, 43 (1982).

## aa) Guarantee of origin

A tenable argument premised on the position that a legal monopoly associated with a trade mark only serves to indicate the origin of the proprietor's goods and/or services may be advanced to the effect that reliance on trade mark rights to impede free movement of goods in the EAC Common Market, whereby such use is not necessary for the trade mark to perform the origin function, would be outlawed. Thus, it would be impossible for a single undertaking to seal off the national markets of the EAC Partner States based on multiplicity of trade mark registrations. Further commercialisation of the trade-marked goods would not be objected since the trade mark on the goods still genuinely indicates the proprietor as the source of the goods and not the parallel importer who gets access to the goods after the initial commercialisation by the owner of the trade mark.

However, there is a motivation to circumvent the guarantee of origin function: The practice of obtaining different registrations in various States for a single trade mark and for the same goods and/or services impacts positively on the proprietor's business since he can sell identical goods at different prices in different Partner States – a business scheme whose determinant factors may, *inter alia*, depend on transport and other costs. Thus, traders devise some legal means allowing them to rely on their trade marks to create trade barriers against entry into the national market of similar goods, bearing identical trade mark, from a different country.

It is commonplace that traders who want to benefit from a trade mark monopoly are incorporated in some forms of legal personality, such as limited liability companies. In the circumstances, whenever a company plans for a business establishment in a location other than the home country will probably establish a manufacturing and/or a distributing subsidiary which will be the trade mark owner in that country. Thus, the doctrine of trade mark origin is rendered redundant and does not come to the rescue of the free movement of goods since the identical trade mark is registered in the name of the subsidiary company in each of the EAC Partner States. This is because a subsidiary's legal personality is distinct from that of the parent company. As a corollary to this, each subsidiary will have a right to claim a right of origin in relation to the goods it manufactures or distributes. This has the legal effect that a subsidiary company may legally object when goods are imported into the territory where it is established. The sound reason for such objection is obvious: The subsidiary did not mark the goods with the indication of origin that they bear and which it owns for its territory.

However, economic perspectives in relation to the discrimination over the trade mark ownership (exemplified in the above scenario) would not justify

compartmentalisation of the national markets of the EAC Partner States.<sup>143</sup> Two arguments supporting this conclusion loom high: (a) the goods emanate from a single commercial group or linkage, and (b) the trade marks are just used to inform consumers the differences in the legal personalities of the companies constituting the group.<sup>144</sup>

## bb) Guarantee of quality

The last paragraph of section C (I)(1)(b) of this chapter clarifies that, if consumers are interested in origin of the goods or services it is normally because the origin imports an expectation about some quality of the goods or services concerned. This implies that the trade mark proprietor has a right to prohibit further commercialisation of goods which have been subjected to a poor storage or any condition that result in deterioration of the quality after those goods have left the proprietor's sphere of control. Thus, quality control of branded goods is in the consumer interests, hence overrides the EAC principle of free movement of goods. The prevailing opinion in this connection holds that:

Trade marks enable entrepreneurs to reap the fruits of their commercial efforts, and they thereby encourage further investment in the quality and variety of goods offered. This benefits consumers, who also profit from the massive reduction of search costs entailed by the use of trade marks, an aspect which, from the perspective of information economics, figures as the primary objective and justification for trade mark protection.<sup>145</sup>

It must be accentuated that trade mark rights are essential for the attainment of a system of fair competition in the products' (or services') relevant market. Such a system of competition would be distorted, unless competitors are "able to attract and retain customers by the quality of their goods or services, which is made

- 143 The US legal position may serve as a role model in this respect: A US trade mark proprietor cannot restrict parallel imports of trade-marked goods, provided that "the mark on the goods is an application of a foreign trade mark and the foreign and the US trade mark owners are the same entity or are in a parent-subsidiary relationship or are subject to common ownership or control" (*cf.* HAYS, T., "Parallel Importation under the European Union Law" 11 (Sweet & Maxwell, London 2004).
- 144 *Cf.* CORNISH, W.R. & PHILLIPS, JENNIFER, "The Economic Function of Trade Marks: An analysis with Special Reference to Developing Countries", 13(1) IIC 41, 45 (1982).
- 145 *Cf.* KUR, A., "Strategic Branding: Does Trade Mark Law Provide for Sufficient Self Help and Self Healing Forces?" in: GOVAERE, I. & ULLRICH, H. (eds.), "Intellectual Property, Market Power and the Public Interest" 192 (P.I.E. Peter Lang, Brussels; New York 2008).

possible only by distinctive signs allowing them to be identified”.<sup>146</sup> Thus, the trade mark’s function of guaranteeing a quality is best realised through strong distribution systems based on the trade mark proprietor’s ability to oppose marketing, by parallel traders, of lesser quality goods or the marketing of identical trade-marked products sold through unauthorised distribution systems and which do not enjoy “after-sales services”.<sup>147</sup>

## 2. The Principle of trade mark exhaustion

The principium of trade mark exhaustion is one of the legal mechanisms employed to ensure that trade mark rights are only used in consonance with the functions intended of them. One of the legal pronouncements of the 20<sup>th</sup> century regards exhaustion of trade-mark rights as:

[A] figurative expression of the principle that it is incompatible with the limited purpose of the trademark monopoly for a trademark owner to impede on grounds of trade mark law the marketing of goods which have initially been marked and placed on the market with the trademark owner’s consent.<sup>148</sup>

This liberal pronouncement, which was rendered in the course of the court’s interpretation of the German Trade Mark Act, has since been reduced to a limited form commensurate with Germany’s obligations under the European law.<sup>149</sup>

### a) Forms of trade mark exhaustion

The principle of trade mark exhaustion confines a proprietor’s trade mark monopoly right within a certain geographical area.<sup>150</sup> The specific scale of this

146 ECJ, Case C-2006/01, *Arsenal Football Club plc v Matthew Reed* [2002] ECR I-10273, para. 47.

147 HAYS, T., “Parallel Importation under the European Union Law” 9 (Sweet & Maxwell, London 2004).

148 *Bundesgerichtshof* (German Federal Supreme Court) 02.02.1973 Case: I ZR 85/71 CINZANO, 4(3/4) IIC 432 (1973).

149 Before its amendment to comply with Article 7 of the TD (which is similar to Article 13 of the CTMR) which requires Member States to observe the principle of regional exhaustion (*cf.* section C (1)(2)(d) of this chapter), the German Trade Mark Act enforced the principle of international exhaustion.

150 This is in line with the position that since the “function of the trade mark is to be assessed in reference to a particular territory” (ECJ, Case C-9/93, *IHT Internationale*

area has to be stipulated in the law governing the trade mark rights concerned. The conditions for trade mark registration and the extent of exclusive rights stemming thereof are also determined by the same law which sets out the geographical scale relevant for exhaustion of trade-mark rights.<sup>151</sup>

The territorial linking of the principle of exhaustion may take one of the three forms, namely, national, international and regional trade mark exhaustion.

## b) National exhaustion

Trade mark law of a particular country is said to enforce the principle of national exhaustion if it does not grant the proprietor of trade mark rights some powers to restrict others from further commercialising goods bearing the proprietor's trade mark, where the proprietor or any other person permitted by him had initially placed those goods on the national market in the country where the trademark rights are protected.<sup>152</sup> The principle of national exhaustion is essentially recognition of the reality that intellectual property laws of country A exist independently of intellectual property laws of country B or country C. It is natural that intellectual property laws of country A should have no legal effects on the extinction of intellectual property rights created in accordance with the laws of country B or country C and vice versa. Thus, any event taking place in country B or country C in relation to goods bearing a trade mark registered in country A should have no legal impact on the rights protected in country A. The proprietor of a trade mark in country A is thus empowered by the principle of national trade mark exhaustion to prohibit marketing in country A of the goods he has consensually put on the market of country B or country C.<sup>153</sup>

The economic justifications of the principle of national exhaustion are associated with the need to reserve the national market for the proprietor against parallel importers of the goods marketed outside the national territory of a country in which the proprietor's trade mark is protected. As with any other form

*Heiztechnik GmbH v Ideal-Standard GmbH* [1994] ECR, I-02789, para. 48), so should the principle of exhaustion of trade mark rights.

151 Cf. MÜHLENDAHL, A. & STAUDER, D., "Territorial Intellectual Property Rights in a Global Economy – Transit and other 'Free Zones'", in: PRINZ ZU WALDECK UND PYRMONT, W., et al. (eds.), "Patent and Technological Progress in a Globalized World, Liber Amicorum for Joseph Straus" 653*et seq.* (Springer, Berlin 2009).

152 Cf. SLOTBOOM, M. M., "The Exhaustion of Intellectual Property Rights – Different Approaches in EC and WTO Law", 6 JWIP 421 (2003).

153 Cf. HAYS, T., "Parallel Importation under the European Union Law" 8 (Sweet & Maxwell, London 2004).

of exhaustion, national trade mark exhaustion safeguards the interests of a trade mark holder by limiting the rights of third parties to use the trade mark. In this sense, the national exhaustion principle guarantees a reward to a trade mark proprietor for his investment by extending to him a right to be the first to place the goods bearing the trade mark on the national market.<sup>154</sup>

This is in line with the hypothesis advanced in section B (II) of this chapter that, relying on the principle of national trade mark exhaustion and the right to have multiple trade mark registrations in various countries, trade mark proprietors are able to foreclose the ability of third parties to engage on further commercialisation of trade-marked goods after the first marketing by the proprietor of the said goods in any part of the EAC territory. Indeed, a proprietor's goods bearing a trade mark registered in Tanzania cannot be lawfully marketed in Tanzania if the first sale takes place in Kenya or in Uganda. Thus, national exhaustion principle is likely to affect trade between the EAC Partner States.<sup>155</sup> Such rule of exhaustion does not encourage parallel importation of branded goods, and thus making it difficult for the consuming public to have access to cheaper products due to higher prices resulting from the absence of competition through parallel trade and inter-brand competition.<sup>156</sup>

### c) International exhaustion

When international exhaustion is applicable to a certain trade mark, the geographical confinement of the rights concerned does not matter. All that a trade mark proprietor is required to do in order to exhaust his trade mark rights is just to place the goods bearing his trade mark on any part of the world.<sup>157</sup> It does not make any difference if this part of the world is the market in a developing, least or fully developed country. It follows that, unless the condition of the goods

154 Cf. "The Economic Consequences of the Choice of Regime of Exhaustion in the area of Trade Marks: Final Report for DG XV of the European Commission" – A study report prepared (in 1999) by the National Economic Research Associates (NERA), SJ Berwin, and IFF Research (henceforth, the NERA report)), p. i.

155 As a matter of principle, the Protocol on the Establishment of the EAC Common Market aims to remove trade barriers between Partner States. However, this aim may not be realised due to the absence of the nexus necessary to achieve this end insofar as the relationship between trade marks and the free movement of goods is concerned (cf. section B (II) of this chapter).

156 Commission of the European Communities, "Exhaustion of Trade Mark Rights" – A Working Document from the Commission Services of 21 June 1999, at p.3.

157 Cf. TORREMANS, P., "Intellectual Property Law" (5th ed.) 448 (Oxford University Press, Oxford 2008).

is altered, the principle of international exhaustion has the consequences that a proprietor of a national trade mark cannot prohibit the importation into the domestic market of the goods he has marked abroad and placed them on the market there.<sup>158</sup>

While international exhaustion of trade mark rights is a tool that diminishes the ability of trade mark proprietors to dissect the global market into national markets, it also serves as a legal mechanism that destabilises price differences across regions or countries<sup>159</sup>. This is achieved through arbitrage. Where a trade mark proprietor adopts differential pricing as a marketing tool, arbitragers learn closely the trade mark proprietor's business scheme to identify the markets where branded goods are sold at the lowest price and the highest price. After mastering the business scheme, arbitragers buy the lowest price products and compete with the trade mark proprietor's goods in the highest price market.

The principle of international exhaustion may thus be criticised mainly because "it is not able to take account of differences in intellectual property regimes, nor of the policy decisions that favour isolated markets".<sup>160</sup> Moreover, only those firms with the capability to respond to the global market according to differing national tests may benefit from the rule of international exhaustion. Opponents of this rule argue that insofar as the world market is not unified in a single commercial, economic and regulatory framework international exhaustion should be avoided.<sup>161</sup> By the same token, if the low-quality goods are parallel imported to compete with the higher-quality goods, consumers would be confused since both products bear identical trade marks. To avoid consumer confusion the trade mark proprietor would be inclined to set up some control mechanism, which may turn out to be costly, and thus outweigh the whole concept of differential pricing. On the other hand, "parallel imports conducted by different agents and through different ports, are likely to confuse customs officials and make it more difficult to identify counterfeits, thus increasing the flow of the latter".<sup>162</sup>

A common argument for maintaining differential pricing (which works successful under legal conditions of national or regional exhaustion<sup>163</sup>) is that

158 Cf. The judgment of the German Federal Supreme Court in *Maja* case, 66(7) GRUR 372 (1964).

159 More on differential pricing, see SZYMANSKI, S., "International Exhaustion: A Review of Economic Issues" (Intellectual Property Institute, London 1999).

160 HAYS, T., "Parallel Importation under the European Union Law" 7 (Sweet & Maxwell, London 2004).

161 Cf. The NERA report, p. 52.

162 Cf. The NERA report, p. 53.

163 Regional exhaustion is covered in section C (I)(2)(d) of this chapter.

countries have different levels of tax rates, environmental standards, and advertising costs, just to mention but a few.<sup>164</sup> A trade mark proprietor has to take into account all these factors and accordingly determine which price in a given market will minimally or sufficiently reward him.

It is questionable whether adoption of international trade mark exhaustion in the EAC would be an economically justifiable policy decision. If one considers the level of economic development of the individual EAC Partner States (all of whom, except Kenya, are categorised by the United Nations Organisation as least developed countries (LDCs))<sup>165</sup> and their combined GDP and average GDP per capita,<sup>166</sup> it would be apparent that the rule of international trade mark exhaustion would not have any positive impact on the EAC.

Admittedly, the principle of international exhaustion is in the general interests of free trade and competition and thus in the interests of consumers.<sup>167</sup> The question lies however with the preparedness and the ability of the EAC Partner States to take advantages of this free trade scheme. With their unstable and undeveloped economies, EAC States are not able to attract any meaningful parallel imports of trade-marked goods from developed economies.<sup>168</sup> This would be one of the grounds for excluding international exhaustion in the EAC, and instead devise a form of trade mark exhaustion that would be instrumental in enabling EAC firms becoming more competitive. Moreover, the appropriate form of trade mark exhaustion should comply with the fundamental principles underlying the functioning of EAC Common Market.

#### d) Regional Exhaustion

At the present time, the principle of regional exhaustion of trade mark rights is only observed in the European Union. Pursuant to this principle, the placing of

164 Cf. The NERA report, p. 52.

165 The list of LDCs is available at <<http://www.unohrlls.org/en/ldc/related/62/>> (Status: 30 July 2012).

166 EAC Partner States have a combined GDP (Market Prices) of \$79.2 billion and average GDP per capita of \$685 (Source: EAC Facts & Figures Report (2011)) (information available also at <<http://eac.int/>> (Status: 30 July 2012).

167 EFTA Court 03.12.1997 E-2/97 “*Mag Instrument*“, 29(3) IIC 316 (1998), para 19.

168 This conclusion derives from the fact that the practice of parallel importation is dependent on differential pricing, whereby goods placed on the low-price market are exported to compete with the goods a trade mark proprietor places on the higher-price market. Thus, moving from the premises that the purchasing power of EAC citizens is very low, it is economically illogical to envisage a scenario in which goods put on the higher-price market could be parallel traded in the EAC at a large scale.

trade-marked goods on any part of the respective regional bloc exhausts the trade mark rights irrespective of whether the trade mark concerned is a nationally, regionally or internationally registered trade mark. Legal, economic and practical justifications of this principle are discussed in chapter 6 *infra*.

### 3. Trade Mark Exhaustion in the EAC

#### a) The general rule

##### aa) The Tanzanian law

The exclusive rights which a proprietor of a trade mark registered in Tanzania enjoys do not extend to:

goods which have been sold or offered for sale in Tanzania under the trade mark by the proprietor or any associated company of the proprietor, wherever incorporated or with the proprietor's consent, unless the condition of the goods is modified or impaired after they have been sold or offered for sale.<sup>169</sup>

Two legal concepts may be extracted from the above quotation, namely, (1) “goods which have been sold”, and (2) “goods which have been offered for sale”. Concept (1) is a practical translation of the legal position that a trade mark only extends to its proprietor a limited monopoly in relation to the goods or services and therefore corresponds with the classical principle of trade mark exhaustion. On the other hand, it is doubtful whether concept (2) is designed to preserve interests of the trade mark proprietor. The court in Tanzania has not yet had an opportunity to expound the meaning of the term “goods which have been offered for sale”. Nonetheless, the term cannot be taken to refer to a scenario in which a trade mark proprietor may have already parted with possession of his trade-marked goods by way of sale. Thus, the inclusion of the term in Section 32(3) (c), of the Trade and Service Marks Act,<sup>170</sup> as a condition for trade mark exhaustion, takes away the right to enjoy specific subject matter of a trade mark by the proprietor.<sup>171</sup> Put into the context of the tenet of national exhaustion, the principle of specific subject matter of a trade mark connotes a trade mark proprietor's right to be the first to market his trade-marked goods in Tanzania.<sup>172</sup>

169 Sec 32(3) (c), Trade and Service Marks Act No 12/86.

170 Act No. 12/86 of the Laws of Tanzania.

171 The concept “specific subject matter” and the phrase “goods which have been offered for sale” are discussed in Chapter 6 *infra*.

172 The principle has been employed, in the EU's context, to mean that when a trade between Member States may be affected by a proprietor who relies on his right, such

The proprietor might not be able to enjoy the specific subject matter of his trade mark should his intellectual property rights be declared exhausted on the sole ground that he has directly or constructively<sup>173</sup> offered the trade-marked goods for sale without actually selling them. This can be explained in the following manner: Assume that company X offers its trade-marked spare parts for sale in Tanzania. While the spare parts are still packed in the stores, X discovers some defects in the spare parts and decides to recall them. After rectifying the defects, X changes the marketing strategy and decides to market the recalled spare parts in markets other than Tanzania. Assume further that company Y buys the spare parts sold by X in Ghana intending to parallel import the same into Tanzania. Even if company X has not yet enjoyed the specific subject matter in relation to those spare parts insofar as the Tanzania market is concerned, X cannot enjoin Y from putting the spare parts on the Tanzanian market: The first act of offering for sale done prior to the recall of the spare parts had exhausted X's respective trade mark rights.

#### bb) The Kenyan and Ugandan laws

While the position excluding trade mark proprietor from controlling goods already sold is expressly stated under the Tanzanian law, it is only by necessary implication one would conclude that such position is stipulated under the Kenyan and Ugandan laws. According to the pertinent provisions,<sup>174</sup> a proprietor cannot control tradability of the after-market goods, unless he is allowed by a contract concluded before the initial marketing of the goods concerned. The contract binds buyers only in relation to some matters, which if undertaken would be detrimental to the proprietor's investment.<sup>175</sup> This contractual weaponry should

reliance must be justified on the grounds of protecting the specific subject-matter of the right concerned. The principle, therefore, aims to prevent trade-mark rights to be used to "partition off national markets and thereby restrict trade between the Member States, in a situation where no such restriction was necessary to guarantee the essence of the exclusive right flowing from the trade mark (cf. ECJ, Case C-16/74 *Centrafarm BV et Adriaan de Peijper v Winthrop BV* [1974] ECR 01183, para. 11).

173 Constructive offer of the goods refers to a scenario whereby the trademark proprietor does not directly offer the trade-marked goods for sale but authorises another person to do so.

174 S. 9(1), K. & Secs 36 & 40, U.

175 Acts which a trade mark proprietor may prohibit by contract are described under S.9(2), K. & S. 36, U.: They include application of a trade mark to proprietor's goods after the buyer has altered their condition or the original labelling on the goods.

be regarded as an exception to the general rule regarding exhaustion after the goods had been sold.<sup>176</sup>

## b) Exception to the general rule

### aa) The Tanzanian law

An explicit stipulation in the Tanzanian trade mark law rules out exhaustion of trade mark rights in respect of goods whose condition is modified or impaired after those goods had been sold.<sup>177</sup> This exception can be collaborated by the provisions of Section 32(2), T. The provisions regard a proprietor's trade mark rights as not exhausted, particularly, when: (1) a trade mark is applied to the goods after alteration of the state or condition, get-up or packaging of these goods; (2) a trade mark which the proprietor applied to the goods is altered or obliterated; (3) Other matter are added to the goods, bearing a trade mark, in such a way as to suggest that the matter was so added by the proprietor of the trade mark or with his consent; (4) another trade mark is added to the branded goods; and (5) some description labels are added to the goods in a way that injures the acquired reputation of the trade mark concerned.

### bb) The Kenyan and Ugandan laws

As opposed to the Tanzanian position, the Kenyan and Ugandan laws incorporate a limited exception to the general principle of trade mark exhaustion. The factors mentioned in (aa) above whose proof justifies a trade mark proprietor to control the goods he had initially sold, are also enshrined in the Kenyan and Ugandan laws.<sup>178</sup> Whereas by virtue of the Tanzanian law these factors apply automatically, the Kenyan and Ugandan laws require a proprietor to conclude a contract (prior to selling the goods) with the buyers, so that when the buyers breach the conditions stipulated in the contract, exhaustion of trade mark right will be regarded not to have taken place. Thus, in absence of contractual relationship, the principle of exhaustion may prohibit the proprietor of a trade

176 A position suggesting that Kenya and Uganda observe the principle of international trade mark exhaustion is outlined in section C (I) (4) (b) of this chapter.

177 S. 32(3) (c), T.

178 S. 9(2), K. & S. 36, U.

mark registered in Kenya and Uganda from intervening in further commercialisation of the goods whose condition has been altered after the initial marketing.

#### c) Conclusion thereof

Basically, the above exception may be seen as a conduit pipe through which the quality function of a trade mark is guaranteed. The Tanzanian trade mark legislation caters fully to this guarantee.<sup>179</sup> This is opposed to the Kenyan and Ugandan laws, which makes the quality control issue dependent on a contract. Insofar as a trade mark proprietor is presumed to have no power to block sales of goods whose condition has been altered, in absence of a contract to that effect, the Kenyan and Ugandan trade mark laws do not attach a sufficient weight to the quality function of a trade mark.

### 4. Place of sale for the purpose of exhaustion

#### a) The Tanzanian law

In order for trade mark rights to be exhausted within the ambit of Section 32(3) (c), T., a sale of goods (bearing a trade mark protected in Tanzania) must take place on the Tanzanian territory. Thus, the immediately preceding provision enforces the principle of national exhaustion of trade mark rights.

#### b) The Kenyan and Ugandan laws

The Kenyan and Ugandan laws do not expressly stipulate a place where the sale of branded goods should be undertaken for the proprietor to exhaust his trade mark rights. In this regard, these laws are imprecise: They do not convey an immediate understanding as to the form of exhaustion relevant for trade mark

179 The Tanzanian law takes the issue of quality control further to the realm of assignment of trade marks. Accordingly: “A licence contract shall be invalid in the absence of relations or stipulations between the registered proprietor of the trade or service mark and the proposed registered user, ensuring effective control by the registered proprietor of the quality of the goods or services of the proposed registered user in relation to which the trade or service mark is to be used” (S. 44(1), T.).

rights protected in Kenya or in Uganda. This begs a question whether such impreciseness may be justified under the provisions of the TRIPs agreement.

The TRIPs agreement is commendable for being the most successful legal instrument that sets minimum intellectual property norms with which contracting parties have to comply.<sup>180</sup> However, the agreement does not endeavour the same spirit with respect to the principle of trade mark exhaustion. Article 6 TRIPs gives a lee way to each contracting state to decide on the form of trade mark exhaustion. The Article does not oblige contracting parties to stipulate the principle of trade mark exhaustion in their trade mark laws nor does it require them to specify a form of exhaustion that is to be observed.

On the other hand, where a particular law (such as the Kenyan or Ugandan trade mark law) does not literary and expressly mention the principle of trade mark exhaustion, an inference can be drawn from Article 16 TRIPs that such a law enforces the principle of international exhaustion. This surmise may be deduced from the regime of parallel importation, which flourishes only if the extent to which trade mark rights are protected is clearly demarcated. Article 16 entitles a trade mark proprietor to exclude third parties from using in trade a sign similar or identical to the proprietor's trade mark only if the use of the sign in relation to goods or services which are similar with or identical to those of the trade mark proprietor causes consumer confusion.<sup>181</sup> Thus, "to the extent that products are identical and of equal quality, the concept of trademark protection in the TRIPs Agreement does not allow the ban of parallel imports".<sup>182</sup>

A note of caution insofar as the foregoing conclusion is concerned looms high: Article 16, including other provisions in the TRIPs agreement, does not prohibit contracting parties to extend to trade mark proprietors protection beyond the TRIPs' minimum rights.<sup>183</sup> Thus, the above interpretation of Article 16 is not mandatory; countries may still qualify it by incorporating in their national laws the principle of national exhaustion or that of regional exhaustion. The absence of express stipulation of the principle of exhaustion in the Kenyan and Ugandan laws must thus be interpreted to mean that the legislative authorities in Kenya and in Uganda have decided to comply with the minimum provisions of Article

180 Cf. SOUTH CENTRE, "The TRIPs Agreement – A Guide for the South: The Uruguay Round Agreement on Trade-Related Intellectual Property Rights" xi (South Centre, Geneva 2000).

181 See the standards of proof of the likelihood of confusion in section E (II) of chapter 4 below.

182 COTTIER, T., "Trade and Intellectual Property Protection: Collected Essays" 160 (Cameron May Ltd, London 2005).

183 Cf. Article 1(1) of TRIPs.

16 TRIPs. Hence the principle of international trade mark exhaustion applies to trade mark rights protected in these countries.<sup>184</sup>

## *II. Relevant principles of international law*

Kenya and Uganda implement the principle of international exhaustion, whereas Tanzania observes the doctrine of national trade mark exhaustion.<sup>185</sup> The stipulation of the principle of national exhaustion in the Tanzanian trade mark law does not support the regime of the free movement of branded goods in the EAC Common Market.<sup>186</sup> Does it mean that the rule in the Tanzanian law contravenes the provisions of TRIPs Agreement or of GATT?

### 1. TRIPs Agreement

#### a) Legislative freedom under Article 8 TRIPs

Article 8(1) of TRIPs allows contracting parties to formulate or amend their laws and regulations in order to “promote the public interests in sectors of vital importance to their socio-economic and technological development” provided that the laws or regulations are consistent with the provisions of the TRIPs agreement. By virtue of its Article 6, TRIPs leaves the regulation of the principle of trade mark exhaustion to the Member States.<sup>187</sup> Tanzania has therefore taken advantage of this freedom to put in place a national exhaustion principle. This law thus complies with the TRIPs agreement notwithstanding the adverse effects it has on the movement of branded goods in the EAC Common Market.

#### b) The chapeau

The restrictions that trade mark proprietors in Tanzania are able to impose on the free movement of trade-marked goods in the EAC common market may be adjudged as being contrary to the overall spirit of the TRIPs Agreement whose

184 Cf. COTTIER, T., “Trade and Intellectual Property Protection: Collected Essays” 160 (Cameron May Ltd, London 2005).

185 See section C (I)(4) of this chapter.

186 Cf. section C (I)(2)(b) of this chapter.

187 Article 6 of TRIPs is further analysed in section C (II)(1)(d) of this chapter.