BANWO & IGHODALO

Fair Trade, Monopoly and Competitiveness: appraising the Legal Rights of Franchisees against Parallel Imports in Nigeria

Nigeria's population of about 170 million, with a demography that is skewed in favour of the youth makes it a choice market for most manufacturers, particularly manufacturers of fast moving consumer goods. It is no news that of major concern for manufacturers seeking to market their products in Nigeria is the wide scale of intellectual property rights violations through the activities of copyright pirates, counterfeiters as well as weak legal and regulatory framework for the protection and enforcement of these rights. However, of equal concern to manufacturers, particularly foreign manufacturers, is "parallel imports", a common practice amongst dealers of imported goods which, unfortunately, is not expressly regulated by any of the intellectual property statutes in Nigeria.

Parallel Import occurs where a person other than the person authorized by the proprietor of a trademark ("the franchisor") imports goods with the trademark into another country or region (the "target market") in which the proprietor already has authorized/licensed dealer(s) ("the franchisee(s)") for the purpose of selling same therein, without the authorization or permission of the franchisor or the franchisee. In practice, the franchisee is appointed through a contractual arrangement as the distributor for the goods within the target market. Parallel import violates the existing franchise and essentially makes the third-party importer an unfair competitor to the franchisee for market share.

Opinions however differ from country to country and from region to region, as to the propriety or legality of parallel imports and whether a franchisor or the franchisee for his goods has legal right to claim against or restrict the trade and activities of a parallel importer. Arguments in support of parallel imports usually emphasize that the contractual arrangements between the franchisor and the franchisee restrict the free flow of goods, create absolute monopolies and reduce the overall competitiveness of an economy. This they say will put the consumers at a disadvantage and in the long run, impact negatively on economic growth. Many countries in continental Europe have, in view of this, legislated against business arrangements that seek to impose restraint of trade. Opposers of parallel imports however maintain that it creates unfair competition and violates the sanctity of contracts, which they believe will constitute a disincentive to investors. Countries that adopt this view have either expressly legislated against parallel imports or put in place regulatory regimes that set some limits.

Currently, in Nigeria, no statutory prohibition against parallel import exists. There have been certain judicial decisions that seek to protect the contractual rights and economic interests of licensed importers/dealers in franchised goods. However questions remain whether such rights and interests are, in the absence of any express prohibitive legislation (probably due to economic growth considerations) against importation and distribution of grey goods in Nigeria, adequately protected. In this article, we seek to provide practical answers to such questions through a holistic analysis of the Nigerian legal framework in comparison with other major international jurisdictions.

EXHAUSTION DOCTRINE AND TRADE PROMOTION

Except in few permitted instances, agreements that tend to limit acts of free trade or economic exploitation generally have long been held to be contrary to public policy (particularly in the UK and Europe). Hence, at Common Law (applicable in Nigeria by virtue of Section 32 of the Interpretation Act, Cap. 123, Laws of the Federation of Nigeria, 2004, which affirms the 'reception clause' in the Supreme Court Ordinance of 1914), clauses which impose restraint of trade in commercial agreements are prohibited except if shown to be reasonably necessary in protection of relevant commercial rights. Similarly, the exclusive proprietary control of an owner of a trademark, or of a product covered by IPR, is limited only to the "*right of first sale",* after which such exclusive right becomes exhausted against a *bonafide* third party purchaser, who is then permitted to resell the product in the market. This is generally known as the "*Exhaustion Doctrine"*.

In essence, the Exhaustion Doctrine extinguishes the proprietary rights of owners of trademarked, copyrighted or patented products, once the products are sold, either by the rights proprietors or their licensed importers. For this reason, the purchaser of a branded product is deemed to have, amongst other implied licenses, an implied license to re-sell the product wherever he chooses; and this license runs with the product. Therefore, a parallel importer of goods is presumed to have the right to sell the goods anywhere, inclusive of a territory where the trademark proprietor or his licensee did not intend that product to be sold or in spite of any exclusive rights granted by the trademark proprietor in relation to the exploitation of the product in the territory.

The current wave of globalization is further driving the Exhaustion Doctrine across the various regions of the world and in effect, oiling the wheel of parallel importation. This appears to be the unintended consequence of the vigorous promotion by major political and economic blocs around the world of free market economy, elimination of trade barriers and the adoption of single, common market and tariff system for regional groups. As a result, developing countries such as Nigeria are mostly encouraged to adopt trade policies which remove restraints to trade and keep competition alive so as to stimulate growth. This then creates a dilemma for such countries which may want to protect the IPR of domestic inventors, trademark owners and their licensees, against unauthorized parallel importation and sale of their goods.

DAMAGE TO INTELLECTUAL PROPERTY RIGHT

In other to fully appreciate the nature of damage which parallel imports may cause to intellectual property, it will be instructive to take a look into how the concept is generally viewed. According to the World Intellectual Property Organisation ("WIPO"), *"IP refers to creations of the mind, such as inventions; literary and artistic works; designs; and symbols, names and images used in commerce … IP is protected in law by, for example, patents, copyright and trademarks, which enable people to earn recognition or financial benefit from what they invent or create. By striking the right balance between the interests of innovators and the wider public interest, the IP system aims to foster an environment in which creativity and innovation can flourish".*

Intellectual Property laws create monopolistic rights in IPR owners in relation to the exploitation of their intellectual properties. IPR owners are however permitted to authorize other persons to participate in the exploitation of the IPRs and these authorizations may be limited geographically amongst other limitations. In the light of the above, parallel imports almost always result in reputational risk, loss of patent rights, breach of contract and economic interests of an IPR owner, or his licensee/franchisee.

As once argued by the International Trademark Association ("INTA"), *"prices at which products are sold can vary from country to country for a great variety of legitimate reasons, among them differences in regulatory requirements, environmental standards, labor and material costs, and government subsidies and taxes. Parallel importers exploit these conditions by buying products in a market where they are relatively cheap and selling them where the price is higher… parallel importers have little or no incentive to maintain the goodwill of the mark and its ability to attract customers in the future. The parallel importer spends less time and effort to ensure the quality of the product and may provide little (if any) warranty or service".*

Again, *"given the wide diversity of personal preferences among consumers and of environmental standards and conditions in unrelated cultures and economies, products with the same trademark often vary when produced for sale in different markets. For example, personal care or cleaning products sold for use in some countries are formulated to meet hard water conditions which do not exist in other countries. A brand of toothpaste in one country may taste different from the same brand sold in another country because the brand owner has researched local flavor preferences and tailored the product accordingly. Ingredients in motor oils need to be adjusted according to the climate in which they are intended to be sold",* argued INTA.

INTA further maintains that *"price alone is not a consumer's only concern when buying a product. The consumer relies on the trademark to identify specific goods or services that will meet certain expectations about the quality and characteristics of the product and the level of after-sales service. If these expectations are not met because a consumer receives a product intended for sale in another market, even if he or she has not been deceived in any way about the product, the consumer will be disappointed and will usually blame the trademark owner. Thus the trademark owner's reputation is damaged and the brand value diminished".*

THE NIGERIAN LEGAL FRAMEWORK

As stated earlier, grey goods generally are genuine (not counterfeit) products, but they may have been manufactured for a different market, and are usually imported into a target market without the consent of the patent/trademark owner. These goods are then further distributed within the target market without the permission of the franchisee(s) appointed for that market. Therefore, the legal status of parallel import in a given jurisdiction rests squarely, on the treatment that is given to the doctrine of exhaustion of IPR, in the applicable IP laws.

The Nigerian IP regime is governed by a number of statutes which include the: Trademarks Act (Cap. T13, LFN 2004); Merchandise Marks Act (Cap. M10, LFN 2004); Copyright Act (Cap. C28, LFN 2004); Trade Malpractices (Miscellaneous Offences) Act (Cap. T12, LFN 2004); and the Patents and Designs Act (Cap. P2, LFN 2004).

Admittedly, these statutes create the basis for the ownership, proprietorship and authorship of patentable inventions and registrable innovative brands, and (sometimes) criminalize any acts that violate or compromise the genuine image of registered proprietary rights, such as counterfeiting or false misrepresentation or any other forms of infringement. However, the laws unfortunately are all silent on the extent to which an IP owner, or his licensed representative in respect of any branded product, can legally restrict the distribution and sale of such product in the market by an unlicensed importer or trader.

In the Nigerian IP statutes as earlier stated, neither parallel imports nor the exhaustion doctrine is specifically noted. However, there have been a number of judicial pronouncements by the Nigerian courts on the knotty issue of parallel imports. In the case of *The Honda Place Limited Vs. Globe Motors Limited [2005] 14 NWLR (Pt.945) 273,* the Plaintiff, who was licensed by the Japanese manufacturer of Honda cars for the Nigerian market, entered a sub-dealership agreement with the Defendant granting the right to import and sell the cars allotted to the Plaintiff by the manufacturer. The Plaintiff claimed that the Defendant, in breach of their contract, was engaging in parallel importation of Honda cars from the United States instead of Japan and in order to protect its business and reputation, sued the Defendant on the grounds that Honda cars from the United States were ill-adapted for the Nigerian climatic conditions and fuel specifications. In delivering a consent judgment (adopted by the parties), the Federal High Court ordered the defendant to cease from importing Honda cars from the United States or any other country different from Japan.

Whilst the decision by parties to amicably settle the above case seems to have deprived us of the opportunity of a full judicial pronouncement, on the legal rights of IP owners and their licensed agents against the parallel importation of their branded goods, the issue appears to have been settled by the Court of Appeal in the case of *Pfizer Specialties Limited Vs. Chyzob Pharmacy Limited* (LER [2006] CA/L/282/2001), where the court held that parallel importation is a foreign doctrine, which is not actionable under Nigerian Law.

INTERNATIONAL REGIMES COMPARED

In other countries of the world, and of course in major regional and international economic groups, the legality or otherwise of parallel imports has always revolved around the sole consideration of the *Exhaustion Doctrine*. Exhaustion of IPR may operate at the National, Regional, or International levels.

Where exhaustion of IP right is upheld within a country/State (National Exhaustion), an IPR owner cannot object to the resale of goods that have been put in a national market by him or by another with his consent. In the case of a region/allied States within which the exhaustion principle operates (Regional Exhaustion), resale of goods that have been put on the regional market by an IPR owner or by another with his consent cannot be prevented by the IPR owner, using national laws. And in similar vein, the principle of International Exhaustion seeks to extinguish the legal right of an IP owner to prevent the resale of goods which have been put on the market anywhere in the world by him or by another with his consent.

In the past few decades, negotiations of international trade agreements have centered on the promotion of policies that encourage free movement of goods and competition across different jurisdictions. This has "inadvertently" legitimized parallel importation of goods across the global economy.

The World Trade Organisation ("WTO") introduced IP law into the international trading system at the end of the "Uruguay Round of the General Agreement on Tariffs and Trade" (GATT) in 1994 by coordinating negotiation of the agreement on "Trade-Related Aspects of Intellectual Property Rights ("TRIPS")". Unfortunately, TRIPS, which '*remains the most comprehensive international agreement on IP to date*' and which ordinarily would be expected to cover issue of parallel importation (the overall objective of the WTO/GATT is promotion of international free trade), is neutral on the subject. To avoid confusion, it was then provided in Article 6 of the TRIPS that; *"for the purposes of dispute settlement under this Agreement, ... nothing ... shall be used to address the issue of exhaustion of intellectual property rights."* Impliedly, this means that no international consensus on the issue of parallel imports currently exists.

The European Union ("EU") however operates an effective regional exhaustion principle within the European Economic Area, which have both been legislated and developed by the European Court of Justice ("ECJ"). Article 101 and 102 of the Treaty on the Functioning of the European Union ("Treaty of Rome") collectively prohibit *" (101) all agreements between undertakings, decisions by associations of undertakings and concerted practices … and (102) any abuse by one or more undertakings of a dominant position within the internal market … which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the internal market …"* In the light of this, the ECJ has constantly decided that "the substance of a patent right should basically confer the exclusive right on the inventor to the first marketing of the patented product in order to permit a remuneration for the inventive activity" (see: *Merck & Co. Inc. Vs. Stephar, 13 IIC 70 (1982) – Merck*) and that in cases where a product has been marketed by the patentee or with his consent in countries of the European Union, the exclusive right of the patent owner becomes exhausted after the first sale (see: *Merck Vs. Primecrown [1997] 1 CMLR 83*).

In the United States of America ("the U.S."), neither an exclusive right of control is given to owners of branded products that have been put on the market in any of the States within the U.S., nor an outright ban placed on parallel importation of such goods. The U.S. Customs Service regulation on importation of branded goods (effective March 26, 1999) allows importation of goods which are physically and materially different from those authorized for sale in the U.S. even if they carry the same trademark; as long as the goods carry a label with information identifying them as so.

In the West African sub-region, the treaty on free trade which encompasses the principle of exhaustion of IPR in marketed products has remained ineffective unlike the EU's Treaty of Rome. In 2008, the Economic Community of West African States ("ECOWAS") in an attempt to foster international trade within the region developed the ECOWAS Competition Rule. The ECOWAS Treaty therefore prohibits all agreements which may affect trade between ECOWAS member states and the object or effect of which are or may be the prevention, restriction, distortion or elimination of competition.

Notably to date, neither the domestication of the ECOWAS Competition Rule nor an enactment of a locally developed competition law has taken place in Nigeria. For this reason therefore, a parallel importer who is sued by an IP owner of a branded product, cannot make the ECOWAS Competition Rule a defence before the courts in Nigeria. The legal rights of IP owners to the exclusive control of their branded products in the country and the legal options available to enforce such rights will therefore continue to vary, according to the facts of each case.

CONCLUSIONS

In view of the fact that Nigeria is currently seeking to raise its level of competitiveness by opening its economy to more international trade and investments, it will be more expedient to adopt policies, like in the U.S., which will attempt to strike a fair balance between the proprietary rights of patentees, trademark owners and their franchisees on the one hand and the rights of the average entrepreneurs and consumers to legitimately trade and have free access to choices on the other.

In the meantime, in so far as *Pfizer Specialties Limited Vs. Chyzob Pharmacy Limited* continues to represent the state of the law on parallel imports in Nigeria, it is clear that 'parallel imports' is not actionable in Nigeria. Consequently, legal redress to parallel imports will have to be pursued through a multifaceted course of action which may include enforcement of contractual right; injunction for the preservation of proven economic interest; relief against the violation of registered licenses and trading standards; and any other actions in tort against unlawful interference with trade.