EXAMINATION OF PARALLEL IMPORT AND TRADEMARK MONOPOLY IN ETHIOPIA

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A paper submitted in partial fulfilment for the Degree of Master of Laws (LL.M)

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Declaration

This thesis is my original work, has not been submitted for a degree in any university and the materials used are duly acknowledged.

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Abstract

In this paper the legal status of parallel import, whether or not it infringes the trademark owner's exclusive right, its practice in Ethiopia and its impediments are dealt with. Parallel imports are goods produced and sold by the trademark owner (IP owner) or with his consent, and the buyer subsequently imports them to another market in which they are offered for a higher price without the authorization of the trademark owner. The research has found out that parallel import is subject to trade laws (laws of the market) and intellectual property laws (Trademark law). It does not offend both legal rimes and is lawful in Ethiopia. Therefore, parallel import does not infringe the exclusive right of the trademark owner and his authorized distribution channels.

Abbreviation and Acronyms

IP	Intellectual Property
IPR	Intellectual Property Right
TRIPS	Trade Related Aspects of Intellectual Property Rights
IMF	International Monetary Fund
GATT	General Agreement on Trade and Tariff
WTO	World Trade Organization
USA	United States of America

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Introduction

Parallel imports are one of the most iridescent phenomena of international trade. They are not only subjected to the law of the market (laws of trade) but also are subject of the law of intellectual property. Normally for they promote free movement of goods and intra–brand competition they strictly adhere to the law of competition. Whereas, intellectual property owners are pressing for general barriers in order to maintain price differences of goods among various countries. On the contrary, consumers find such price differences hard to understand in a world that is fastmarching towards free international trade by removing trade barriers.

To the extent parallel imports are the subject of intellectual property laws, they are the natural consequences of exhaustion doctrine. There is a huge divergence among scholars, both economic and legal, and of course countries, about the need to harmonization of the principle of exhaustion. The stark contrast position held by most developed states on the one hand and developing and least developed states on the other, about whether or not to adopt harmonized exhaustion doctrine within the frame work of Trade Related Aspects of Intellectual Property Agreements (TRIPS) in Uruguay Round of Negotiation is a case in point. The inability states to agree lead to leaving the adoption of the exhaustion doctrine to the choice of individual countries.

Parallel imports are goods produced and sold by the intellectual property owner (trademark owner) or with his consent, and the buyer subsequently imports them to another market in which they are offered for higher price without the authorization of the trademark owner. The trademark owner segments the market depending on the willingness of the consumers to pay. He/she charges higher prices in the market where the consumers are price inelastic and lower prices in the market where there are price elastic consumers. This is often called price discrimination.

Where the price discrimination between the two markets in which the goods are offered is wide, the tariff and regulatory frame works in the country in which the goods are sold at the higher price are favorable, shipping and insurance costs are not expensive in such a way that,it prevents making profit through parallel imports, a parallel importer buys the goods in the market they are offered at a lower price and imports them in to the market they are sold at a higher price. Parallel

import generates inter-brand competition and there by yield lower prices to the consumers against whom the trademark owner discriminates. The competition from the parallel importer forces the authorized channel of distribution of the trademark owner to make price adjustments unless he/she contain the effect of the parallel import to a tolerable limit through various techniques. This technique may be pricing control or non-pricing controls,such as, monitoring, product differentiation and service differentiation.

There is a global consensus with regard to the application of exhaustion doctrine in respect of intellectual property rights in general and trademark in particular. There is no dispute as to the exhaustion of intellectual property rights. The dispute relates to the scope of the exhaustion of the right. The disagreement is whether the scope of the exhaustion of the intellectual property right should be National or Regional or international. Where the scope of exhaustion adopted by specific country is Regional or International, parallel imports acquire a legal status and the intellectual property owner has to bear the burden of competing with unauthorized dealers of their own products. However, where the scope of the exhaustion doctrine adopted by a given country is National, parallel import is outlawed and the trademark owner has the right to control the distribution of the products across boarder.

The research has attempted to examine parallel import in light of the trade mark protection and trade laws of Ethiopia.The research is organized as follows: the first chapter is devoted to understanding the concept of parallel import, providing back ground of the problem, framing research questions, defining the scope and methodology of the research. The second chapter examines the legal status of parallel imports under the trademark protection and the various trade laws of Ethiopia.

The third chapter grapples with the practice of parallel imports and its possible impediments in Ethiopia.

Finally, the research provides concluding remarks and recommendation.

CHAPTER ONE
UNDERSTANDING PARALLEL IMPORT

1. Background of the Study

The emergence of intellectual property rights protection in Ethiopia can be traced back to its major codification process undertaken in the 1960s. The 1960 Civil Code introduced for the first time in the history of the country intellectual property law regimes particularly the copyrightlaw.[1]

- Protection of Literary and Artistic Works of the mind is provided in Book III title XI under Art. 1647–1674 of the civil code. Due to the command economic ideology, Ethiopia had been pursuing and other factors it took nearly half a century to come up with Proclamation No 123/1995 which provides for the Protection of Inventions, Minor Inventions and Industrial Designs, Copy Rights and NeighbouringRights Protection Proclamation No 410/2004, Trademark Registration and Protection Proclamation No 501/2006 and other intellectual property related laws.[2]

Though the trademark law is a very recent phenomenon in Ethiopia, trademark has been in use for a long time. Before the coming in to force of the trademarklaw, marks which distinguish either the product or service of a business undertaking were protected by the unfair competition provisions of the 1960 Commercial Code and the Civil Code.[3]

Article26 of ProclamationNo501/2006 provides for the exclusive right of the trademark owner. The trademark owner has the right to use or authorize any other person to use the trademark in relation to any goods or services for which the trademark has been registered. He has also the

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[1] The 1960 Civil Code of Ethiopia

[2] Inventions, Minor Inventions and Industrial Designs Proclamation No. 123/1995, Proclamation to protect Copy Right and Neighboring Rights No. 410/2004, Trademark Registration and Protection Proclamation No 501/2006

[3] Abebe Getachew (1997) *Trademarks: The Law and The Practice*(Addis Ababa: AAU Law Library, unpublished), at 80

right to exclude others to use the mark or asign which resembles the trademark and possibly mislead the public.[4]

On the other hand, Art 27 of the same proclamation puts a limit on the right of the trademarkowner. The limitation on the right of the trademark owner has two limbs. The first relates to the resale of the goods or services identified by the trademark and the second deals with the case of established use of the mark relating toindividuals' names, addresses, pseudonyms, geographic names or exact indications concerning the kind, quality, quantity, destination, value, place origin, time of production or supply of their goods or services which does not mislead the public as to the source of the goods or services.

The research is interested in exploring the first limb of the limitation imposed by the law on the trademark owner. Does the right of the trademark owner encompasses the right to control the distribution of the trademarked product? In other words, does Art 26 of the Trademark Protection Proclamation confer on the trademark owner the right to control the distribution of the trademarked goods or services? This question leads to another important question, assuming that the answer for the preceding question is in the negative, why does the legislature opts to put the issue of distribution or resale as a limitation where the right does not exist at the first place?

On top of this, given the territorial nature of intellectual property rights in general and trademark in particular, what is the legal status of the unauthorized importation of the trademarked goods in to Ethiopia from the market in which they were put in circulation by the trademark owner or his licensee with his consent?

Generally, the questions are whether or not the trademark owner has a legal right to control the distribution of the trademarked goods?When doesa trademark ownerexhaust his/her right? What are the competing intellectual property right exhaustion doctrines or theories? What is the exhaustion doctrine adopted by Ethiopia and its merits? What is the legal status of unauthorized importation (parallel import)ofa trademarked goods that are acquired from the trademark owner or his licensee? Does the exhaustion doctrine adopted by Ethiopia conformstothe free movement

4 Proc No 123/1995, and Proc No 501/2006, supra n 2

of goods advocated by globalization and the World Trade Organization rules or principles or the national interest of Ethiopia?

2. Research Hypothesis

This research is meant to test whether parallel import infringes the right of the trademark owner and his/her authorized distribution channels.

3. Statement of the Problem

Parallel import constitutes a significant portion of the global trade in goods. Generally speaking, parallel import is primarily motivated by price discrimination.[5] Price discrimination is the case where the trademark owner compartmentalizes the global market depending on its behaviour and impose a different price for the same goods. A personwho acquired the trademarked goods from the manufacturer or his licensee in the market (country) in which the manufacturer imposes a lower price exports the goods to the market in which the manufacturer imposes a higher price and put them on the market for a lower price than charged by the trademark owner. To do this the parallel importer takes in to account the relative market size and thetariff rate of the country to which he intends to export the goods. [6]He also considers the price gap of the country in which the goods are circulating for lower price (as far as he is concerned a country in which he buys the goods and exports the goods from) and the country in which the goods are offered for a higher price (the country to which he wants to export).[7]

For the parallel import to take place, the trademark owner should not have control on the distribution of trademarked goods put on the market by himself or with his consent. This is believed by most scholars'[8]as a trading policy that promotes free market democracy or market competitiveness, customer's choice and the global free flow of goods.

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[5] K. E. Markus and Y. Chin (2002) "Parallel import in a model of vertical distribution: Theory, Evidence, and Policy" in *Pacific Economic Review, Vol.7, No 2, at 320*

[6] Ibid.

[7] *Id.*

[8] Ibid; J. Hur and Y. E. Riynato (2006) "Tariff Policy and Exhaustion of Intellectual Property Rights in the Presence of Parallel Import" Oxford Economic Paper Series, Vol. 58, No 3, at 564

However, some argue that parallel import undermines the intellectual property right. The most important function of trademark,such as, guaranteeing quality, the source of the goods and reputation of the product could not come about without the presale and after sale investment of the trademark owner most specifically on advertisement, warranty and service support.[9] Allowing parallel import is allowing the parallel importer to free ride on the investment of the trademark owner and discourages his investment on fundamental functions of the trademark.

It is in this context that intellectual property laws and competition laws inter play. Understanding the interplay of the two laws is vital and is not an easy task. The research makes an endeavour to examine the inter play of Trademark Protection and competition Laws of Ethiopia.Intellectualproperty laws though they essentially promote competition they are for the most part centres on the protection of the right of the intellectual property holder. On the other hand, competition laws primary focuses on the competition rather than the competitors. [10]

A trading policy that allows parallel import results in an interbrand competition. Whereas, adopting a policy that prohibit parallel import inhibits interbrand competition. The choice between the two options requires an in depth study of the merits and demerits of each policy option.

Studying the trading policy adopted by Ethiopia in relation to trademarks by the trademark law and other related laws of the country shades light on the country's foreign trade strategy and its comparative advantage in relation to its domestic manufacturing businesses.

4. Research Questions

1. What is the legal status of parallel import(unauthorized import) in Ethiopia?
2. Does parallel import infringethe exclusive right of the trademark owner or exclusive distribution channels?
3. Is the exhaustion doctrine adopted by Ethiopia in tune with major international trade instruments (WTO)?

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[9] Ibid.

[10] G. Ghidini, Intellectual Property and Competition, (Edward Elgar Publishing, 2006), at 99 ff.

4. What are the exclusive rights of the trademark owner and how does this impact parallel importation?
5. What is the impact of online/boarder less market on the right and distribution agreements entered in to by the trademark owner?
6. Does the trademark owner have a right to control the distribution of the trademarked product?
7. What is the enter play between trademark law and the law of competition in Ethiopia?

5. Literature Review

The 19th century which is marked by the industrial revolution necessitated the creation and evolution of firms which trade both nationally and internationally.[11] By the same token the 2nd half of the 21st century which is often termed as the age of globalization (information) significantly changed the global economic land escape.[12] Due to the ground breaking technological advancements in the area of communication in different spheres of life, the world is said to have been reduced in to a village.

Intellectual property right has an indispensable role in the global transfer of information. At the international level the production and distribution of goods may take different form .Intellectual property rights protection promotes the production and use of information by excluding free riders.[13]Trademark rights influence the production and the use of information by enabling information to be economized by reducing consumer search costs.

a. What is Parallel Import?

A review of both legal and economic literatures in the area of parallel import reveals that there are no major scholarly disagreements about the definition of parallel import. This does not in any way mean that the concept parallel import does not deserve definition. Defining or adopting a working definition is warranted by any scholarlyendeavour. For the purpose of better elucidation

[11] D. Faulkner and G. Johnson (1992) The Challenges of Strategic Management (London: Kogan page), at 118-120

[12] Ibid

[13] J.S. Chard and C.J. Mellor,(1989) "Intellectual Property Rights and Parallel Imports" Journal of World Economy, Vol.12, Issue 1, at 70

of the concept the definition adopted by Markus and Chen is adopted and examined.They defined parallel import as “products that, once placed in to circulation in one country by the owner of a trademark, copyrightor patent, are sold in a second country without the authorization of the right holder in the second market”.[14]

According to this definition, the trademarked good is first put in the market circulation by the trademark owner or by another person with his consent. However, it is imported to the same country or a different country in which the trademark is protected without the authorization of the trademark owner. The unauthorized importer legitimately acquired the goods and deals with so acquired genuinegoods and not counterfeits.

The parallel import may take different forms. Goods may be produced domestically for export and then imported back into the domestic market without the authorization of the domestic owner [15], or goods which are put in a foreign market by the trademark owner or with his consent may be imported by unauthorized importer and compete with the domestically produced goods, and/or [16]goods may be made available in a foreign market with the consent of the trademark owner and imported by two or more people in which at least one is authorized and the other is unauthorized to import the goods and eventually the unauthorized import competes with the authorized import.[17]In other words, goods produced by a given manufacturer or goods manufactured with the authorization of the trademark owner are competing in the same market. This is oftenreferred as inter – brand competition.

From the definition it goes that, the parallel imported goods can compete with the goods put in the market by the trademark owner or with his authorization only where it is bought in the market in which it is offered at a lower price and imported to the market in which it is offered at a higher price.[18] This implies that the trademark owner circulates the trademarked goods in

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[14] Markus and Chin, supra n 5, at 319

[15] Ibid.

[16] *Id.*

[17] *Id.*

[18] Chard and C.J. Mellor, supra n 13, at 71

different markets(countries) at a different price by discriminating against the consumers in the country where the goods are offered at a higher price.

The difference between the goods traded by the parallel importer and that of the trademark owner is the distribution channel through which they are put on the market. The parallel importer uses a distribution channel that is not authorized by the trademark owner. The parallel importer,however,acquires the goods from the authorized channels of distribution including the manufacturer usually the trademark owner.[19]The goods so acquired are those intended for another market and not to the country of import.

There is nothing illegal or dubious about the acquisition of the goods by the parallel importer. The goods so bought or acquired by the parallel importer when they reach their destination country compete in the market with the same goods of the manufacturer. The goods are genuine and not counterfeits.

In general, parallel import isa phenomenonof dealing with the genuine goods of the trademark owner which are obtained from distribution sources authorized by the manufacturer or the manufacturer himself and imported into the market to which they are not intended for and compete with identical goods of the manufacturer without the authorization of the trademark owner. They are genuine goods except that the parallel importer did not receive authorization to import and distribute them from the trademark owner.

b. Arguments for and against Parallel Import

Parallel import is controversialtrading policy among the global economic actors. In Uruguay Round of Negotiation which made Trade Related Aspects of Intellectual Property ("TRIPS") part of the single undertakingsof World Trade Organization ("WTO") member states could not agree on making international exhaustion doctrine as a standard trading policy.[20]

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[19] Ibid.

[20] J. Hur and Y. E. Riynato, supra n 8, at550; R. K. Rai and S. Jagannathan (2012) "Parallel Imports and un Parallel Laws: an examination of the exhaustion doctrine through the lens of pharmaceutical products" J. of Information and Communication Law, Vol. 21 No 1, at 65

The issue of international exhaustion doctrineresulted in North-South states controversy. The developed states sought to include a strong intellectual property ("IP") protection by out lawing international exhaustion doctrine. They argued that only strong intellectual property ("IP") protection in which parallel import is prohibited can result in a fair competition in a free market.[21]

On the contrary, the developing states argued that strong IP protection adversely affects their ability to access new technology and consequently discourages diffusion of knowledge and transfer of technology which they need in order to improve their economy.[22]

Owing to the strong disagreement the WTO member states could not come up with a single trading policy (exhaustion doctrine)in relation toIP products. Consequently,under Art 6 of the TRIPS Agreement they reserved the right to define the exhaustion doctrine applicable to the respective intellectual property laws to each and every member states.[23]

The disagreement as to whether to legally allow parallel import through the adoption of international exhaustion doctrine is not limited to the WTO member countries. Rather it often triggers a heated debate among economists and legal scholars. The most commonly raised arguments regarding the pros and cons of international exhaustion doctrine which legalizes parallel import is treated here under.

i. Arguments for Parallel Import

Developing countries which are major technology importing countries and developed countries like New Zealand, Australia, Japan and United Kingdom argue for parallel import. It also has many scholar proponents who are pro free trade and free movement of goods.[24]The following are

[21] Ibid

[22] *Id.*

[23] *Id.*

[24] C. Heath "Parallel Import and International Trade" available at <www.wipo.int.sme.atrip_gva_99_6> (last accessed on 15 May 2017)

some of the major arguments adduced in support of international exhaustion doctrine through it parallel import:

ii. Consumers'Welfare

The parallel importer is importing the trademarked goods for gain. He usually buys the goods in the market in which the goods are offered for a lower price and import them to a market in which they are being distributed for a higher price by the trademark owner or the distributor he authorized. Unless the parallel importer anticipates to recover his purchase price, transport and other costs involved in marketing them in the country of import with a certain margin of profit, parallel import is not an attractive venture. In other words, the parallel importer is not motivated by the price discrimination applied by the trademark owner across different markets; rather he is motivated by potential profit he is able to make by taking in to account the relative mark size and tariff rate of the country of import and the relative price gap between[25]the two markets in which he acquires the goods and imports and trades them for a lower price set by the trademark owner himself or the distributor authorized by the later.

This clearly depicts that the consumers will be better off by consuming the goods put on the market by the parallel importer for a relatively reduced price. Thus to the extent it provides a choice and a reduced price for the consumers it promotes consumer welfare.[26]

iii. Promotes Free Trade by Undermining Price Discrimination

As we are living in the age of globalization which is marked by the principle of free trade, price discrimination stands as a non-tariff barrier to the global commerce. Parallel import enables free movement of goods across the global market by deconstructing the market compartmentalized by the trademark owner for the purpose of price discrimination. It inhibits the ability of the trademark owner to discriminate consumers often against the rule of economic efficiency, especially to the detriment of those who are relatively price inelastic ones.[27]

[25] Ibid. ;J.Hur and Y.E. Riynato, supra n 20, at 556

[26] *Id*.

[27] *Id*.; Markus and Chin, supra n 5, at 326

By so doing it will replace or at least attempts to replace entrepreneurialdictatorship with market democracy.

iv. Undermine Collusive Agreements

The law of anti–trust or competition requires that price is determined efficiently by the operation of market forces. For this to happen there should not be any collusive agreements which affects the efficiency of the market.[28]

Collusive agreements may be the result of horizontal or vertical integration in which prices are set artificially not by the market. This results in a rent seeking capital economy in which people derive undue advantage without working for it. The trademark owner and his authorized distributors or licensees may resort to segmenting markets and imposing an artificial price for each market and reap unreasonable profit against the law of competition.[29]

However, where parallel import is allowed to play, though it can't all together stamp out collusive agreements in fixing price it will have a significant role in reducing its aggregate effect.

v. Promoting Intra-brand Competition

The consumers benefit fromthe lower price charged by the parallel importer comes from the inter-brand competition made possible through parallel import. Identical goods, both in terms of quality and trademark, are being put in competition by the manufacturer or person authorized by the trademark owner on the one hand and same goods put on the market by the unauthorized distributor (parallel importer). The authorized distribution channel and unauthorized distribution channel compete in the market with identical goods.[30]

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[28] Heath, supra n 24, at 4

[29] *Id.*

[30] R. Ahmadi and B. R. Yang (2000), "Parallel Imports: Challenges from the Unauthorized Distribution Channels" Journal Marketing Science, Vol.19, No 3 at 280

The intra-brand competition yields lower prices, increases the consumers range of choices, ensures non–international price discrimination and also corrects inefficient investment on trademark capital, hence results in market efficiency.[31]

vi. Correcting an Informational Market Failure

Our globe has experienced unprecedented technological development especially in the area of information technology. This being the case, the uneven development of countries in the world greatly impacted how market information is gathered, analysedand imparted to the world.

On top of this, unexpected or unforeseen changes in the currency exchange rate and production costs may occur. The trademark owner who compartmentalizes the global market and imposes discriminatory prices keeps this information for himself to the prejudice of the consumers. Consumers come to realize they are unduly charged by the authorized channel of distribution through the parallel import which provides them the goods with a favourable price.This hugely affects the behaviour of the market. Parallel import bridges such informational market failures.[32]This is of course one of the possible causes of the emergence of parallel import.

c. Arguments against the Practice of Parallel Import

The proponent of banning parallel import includes as it is evidenced by the Uruguay Round of Negotiation of TRIPS Agreement are the developed countries who are the major exporters of technology led by United States of America, the intellectual property right holders and some scholars.The arguments propounded against international exhaustion or parallel import include:

i. Breeds Free Riders on the Trademark Investment

The supply of reputed trademark goods involves a large investment by the trademark owner. The trademark owner heavily invests on presale services like advertising, showroom facilities and training sales personnel. For after sale services the trademark owner incurs expenses in relation to warranty and repair.[33]The trademark owner had to recoup such expenses in addition to the cost

[31] Ibid.
[32] Chard and Mellor, supra 13, at 77
[33] Ibid.

of production. In order to recoup an already incurred expense and have an incentive to make similar investment he needs to control the distribution process of the trademarked goods.

The unauthorized distributor, in this case a parallel importer, takes advantage of the large investment expenditures the trademark owner has undertaken. And there by freely ride from both the presale and after sale investments of the trademark owner or the authorized distributor.[34]

ii. Causes Erosion of Trademark Rights and Destroy Investment Incentives

It is a common knowledge that the trademark owner has the right to use, authorize use or exploit the trademark in respect of goods or services it is registered for. The right to use includes the economic rights of production and sale. Equally the exploitation right includes an exclusive right to import. Thus, the right to importation should be an exclusive right of the trademark owner and no one should be allowed to import the trademarked goods without his consent.[35]

On top of this, the goods with which the parallel importer deals without the authorization of the trademark owner are usually top brands with a big reputation. The parallel importer enjoys the brand he/she did not develop and enjoy the goodwill for whicha large investment has been incurred by the trademark owner. It also inhabits the capacity of licensees to pay their license fee for the trademarkowner.[36]

Allowing parallel import is nothing more than eroding the trademark right and discourage the trademark owner to make the requisite investment that makes the mark reputable and eventually the goods it distinguishes high quality.

iii. Deception of Consumers and Illicit Copies

The manufacturer or the authorized distributor provides adequate services both before sale and after sale to its consumers. These services would not be often given by the parallel importer.

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[34] *Id.*

[35] K. Rai and S. Jagannathan, supra n 20, at 61.

[36] Ibid.

However, customers who enjoys consuming the goods due to the quality services provided by the trademark owner or the authorized distributorconfuses a parallel importer with the authorized distribution channel.[37]

It is also possible for the unauthorized distributor to pretend to provide after sale services like providing warranty and repair services. It does not stop here; parallel import might emerge as a channel in which illicit copies or counterfeits find themselves in the market. This deception prevents consumers enjoying the consumption of quality products and services and may, at times, end up in consuming counterfeits.

iv. Inhibits the Welfare of Developing Economies in Fitting Price to the Specific National Condition

The market in the developing or least developing countries is small in size and its purchasing ability compared to the developed and industrialized countries. The developing countries demand generally is price elastic which easily changes its consumer behaviour with the increase or decrease of a price.[38]On the other hand, the developed countries consumer'sbehaviour is characterized byprice inelasticity. Despite the existence of the option to consume a substitute good, consumers in such market have the power and the willingness to pay higher prices set by the trademark owner.[39]Thus, they absorb higher prices.

The price to be imposed for the same trademarked good is fixed by taking into account the willingness and ability of the consumers. If a similar price is charged for both consumers due to the existence of parallel import it decreases the welfare of the consumers of the developing countries and also inhibits the ability of the trademark owner to recover his investment on the trademark capital and discourages future investment as well.[40]

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[37] *Id.*; Chard and Mellor, supra n 13, at 75

[38] Markus and Chin, supra n 6, at 321

[39] Ibid.

[40] Chard and Mellor, supra n 13, at 73

This is to say that the consumers in developing countries who would have benefited from the lower price due to the price discrimination will be subject to a higher price pushed by theexistence of the parallel import.

6. Principle of Exhaustion or First Sale Doctrine

The exhaustion doctrine of IP (patent, copy right, trademark etc.), limits the exclusive right of the IP owner to control the disposition of an article (product) after it has been disposed by the right owner or under his authorization. According to this doctrine, an authorized sale of a trademarked product terminates the exclusive right of the trademark owner as to that product.[41] In other words, the trademark owner foregoes his monopoly on the product when sells same.

The trademark owner who sold the trademarked product losses his right to control the resale or redistribution or use of such sold product. The basic rational of the exhaustion doctrine is that, without the application of the exhaustion doctrine, the original trademark holder would have enjoyed a perpetual exclusive right over the sale, use of the product or services embodied.[42] This effectively makes the ownership of the person who acquired the product from the trademark owner or from the authorized distributor or licensee meaningless. The acquirer of the product or the services could not enjoy the attributes of ownership rights like resale, use or even using it.[43]

By the first sale of the trademarked product or services it is believed that the trademark owner has realized the benefits of the protection. The realization of the benefit of protection requires the forfeiture of his right to hold back the trademarked product from the market.[44]

Though, the doctrine of exhaustion is in use both in the continental and common Law legal systems, its effects are differently understood.In the continental legal system exhaustion doctrine

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[41] J. Hur and Y. E. Riyanto (2006) "Tariff Policy and Exhaustion of Intellectual Property Rights in the Presence of Parallel Imports" Journal of Oxford Economic Paper, Series, Vol. 58, No 3 pp. 549-568; R. K. Rai and S. Jagannathan (2012) "Parallel Import and Unparallel Laws: an examination of the exhaustion doctrine through the lens of pharmaceutical products" Journal of Information and Communications Technology Law, Vol.21, No 1, pp. 53-89; K. E. Maskus and Y. Chen (2002), "Parallel Import In a Model of Vertical Distribution: Theory, Evidence, Evidence, and Policy" Journal of Pacific Economic Review, Vol.7, No 2, at 321

[42] Ibid.

[43] *Id.*

[44] *Id.*

is regarded as an absolute extinction of the exclusive rights of the intellectual property right owner.[45] First sale of the IP products kills the monopoly right of the right owner. The intellectual property right owner cannot make the distribution of the intellectual property the subject of a contract once he has disposed it or it is disposed with his consent. In other words, the right owner losses distribution control on the products sold under his authorization. No contractual distribution condition could be attached on the sale of the intellectual property. [46]

On the other hand, the common law legal system has a different application of the exhaustion doctrine. In principle, the common Law legal system accepts that first sale kills the exclusive right of the intellectual property owner. However, the right owner can with an express contractual clause reserve his right on the distribution of the intellectual property after sale.[47] Thus, first sale is not an absolute exhaustion of the exclusive right of the intellectual property. It all depends on the contract entered between the right owner and the authorized distributor.

a. Scope of the Doctrine of Exhaustion

There are different types of exhaustion doctrines. These are national, regional or international exhaustions.The idea of codifying the international exhaustion doctrine in TRIPS agreement did not succeed during the Uruguay Round of Negotiation in 1994 on parallel import.[48]

TRIPS Agreement which is the most important agreement relating to IP could not set an international standard on the doctrine of exhaustion. Accordingly, Article 6 of TRIPS Agreement has left it toevery individual country to adopt its own exhaustion doctrine.

i. National Exhaustion

First sale within a domestic territory in which the trademark is registered exhausts the trademark owner's right to control the distribution of the sold product within the domestic territory. A person who bought a trademarked goods from the authorized distribution channel can freely

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45 Heath, supra at 24, at 4

46 Ibid.

47 *Id.*

48 J. Hur and Y. E. Riyanto, supra n 41, at 550; R. K. Rai and S. Jagannathan, supra n 41, at 63; K. E. Maskus and Y. Chen, supra n 41, at 319

resale, use or exploit the goods he has bought.[49]Once the trademark owner puts the goods in a domestic market he cannot control the subsequent circulation of the goods in the domestic territory.

National exhaustion is based on the principle of territoriality of IP right. According to the principle of territoriality,IP right protection is granted on a national basis and the issues relating to scope of protection, validity, maintenance and termination of rights are determined by the Law governing the country for which protection is granted.[50]The exclusive IP right granted to the intellectual property right owner covers only the state granting protection and its infringement can only take place in the same boundary.

Under this exhaustion doctrine where the intellectual property (trademark) is sold abroad even with the consent of the trademark owner, it cannot be imported without the consent of the trademark owner.[51]Thus, the trademark owner can effectively prevent parallel import in to the territory in which the mark is registered.

The national exhaustion doctrine is adopted though not under all circumstances by countries who argue for restriction of parallel import, such as the United States of America.[52]

ii. InternationalExhaustion Doctrine

According to international exhaustion doctrine, the rights to control the distribution of the protected product exhausts at the first sale anywhere onthe globe.[53] The trademark owner cannot restrict the movement of the trademarked product irrespective of where and how it is first sold with his consent.

This doctrine is based on the universality theory of IP rights. According to the theory of universality, intellectual property rights are considered as an extension of the personality of first

[49] Ibid.

[50] Heath, supra n 24, at 7

[51] Hur and Riynato, supra n 8, at 550

[52] Ibid.

[53] J. Hur and Y. E. Riyanto, supra n 41, at 550; R. K. Rai and S. Jagannathan, supra n 41, at 74; K. E. Maskus and Y. Chen, supra n 41, at 319

user.[54] For this theory the trademark represents the trademarked goods on the world. The most important thing here is that the consumers enjoy the genuine goods. In as for as, the trademark distinguishes the goods origin (source) and consumers are not confused there will be no infringement of the trademark right. The central point here is that, trademark is protected not for the sake of the trademark owner but for the sake of the consumer. [55]

However, the international exhaustion doctrine balances between the interests of the consumer and the trademark owner. When the trademark owner first put the trademark product in the market, he realizes his benefits from the protection. The global circulation of such goods without his consent does not infringe his trademark rights to the extent it is genuine and he had recovered his costs from the first sale.[56]As far as the consumers are concerned there is no deception for the goods are genuine.

The international exhaustion doctrine is adopted by countries which are proponents of parallel import both developed countries such as,Japan, United Kingdom, New Zealand and Australia, and developingcountries such as, India, Thailand, Singapore, Argentina, Chile and Hong Kong.[57]

In countries which adopt international exhaustion doctrine, since first sale anywhere in the world exhausts the right of the trademark owner, he cannot prevent the subsequent circulation of the goods across the globe. The mode in which the sell transaction is effected i.e. whether it is an on line sell or not does not matter.Hence, parallel import is legally allowed.

iii. Regional Exhaustion

This is ahybrid of national and international exhaustion doctrines. Regional exhaustions works with a group of countries on the basis of multilateral treaties in economic regions like the European Union. [58]

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[54] Ibid

[55] *Id.*

[56] *Id.*

[57] *Id.*

[58] Markus and Chin, supra n 5, at 319

That is why it is sometimes referred to as a community wide exhaustion doctrine. The marketing of a trademarked product exhausts at the first sale of such product within the economic region.The exhaustion of the right extends beyond the national territory. Where a trademark owner puts his product on the market within the European Economic Community his exclusive right on the product exhausts within the 27 member states of the European Union.[59]Parallel import within the economic union (region)is not objectionable. However, any import of the trademarked product from outside of the region is regarded illegal.

The preceding theoretical discussions are purely based on the literature or knowledge that is globally available. Globally there are extensive researches conducted on parallel import. However, similar researches are yet to be done In Ethiopia. There are of course researches conducted by few students for the fulfilment of their LL.B.degree on trademark.

7. Literature Review of Ethiopian Works

Abebe Getachew, wrote under the title:" trademarks: the law and the practice."His research was done in 1997 before the promulgation of the Trademark Protection Proclamation.[60]

In his research,Abebe, has identified the Commercial Code, the 1957 Penal Code, Civil Code, Public Enterprise Proclamation No 52/92 and the FDRE Constitution as the basic legal regimes of trademark protection. He has also established that Ethiopia protects trademark through the rule of unfair protection.

He adopted a comparative approach. He recommended that Ethiopia could not adequately protect trademark through unfair competition rules and hence needs a separate legal regime governing Trademark.[61]

Another author on trademark is, Gebrekiros Amare,under the title: "Right of registered trademark owner and limitations on the rights under Proclamation No 501/2006".[62]It was written in partial fulfilment for LL.B. Degree in the year 2007.

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[59] Ibid.

[60] Abebe Getachew, supra n 3, at 80

[61] Ibid.

Gebrekiros,He identified marks which are legible for registration and which are not. The trademark owner has rights ,such as, the right to use the mark in relation to the goods and/or services it is registered for, the right to authorize others to use or exploit the mark, and the right to seek relief in the event of infringement of these rights as exclusive right of the trademark owner.[63]

He identified the resale of the goods, duration of the trademark and non-use of the mark as limitations to the right of the trademark owner.

Though, Gebrekiros, stated that first sale anywhere in the world limits the right of the trademark owner to control the circulation of the trademarked good, he did not explore the matter in a greater depth, such as, as to when the trademark right exhausts? The various doctrines of exhaustion related to trademark right, whether parallel import is an infringement to the trademark right, he did not dealt with the conceptual issues related to the distinction of limitation of right and exhaustion of the right of the trademark owner, The pros and cons of allowing parallel import, the legal status of parallel import in Ethiopia, the enter play of trademark right and the law of competition, in general he did not go in to the exhaustion of trademark rights rather he focuses on the content of the right and the limitations to the right.

Thus, this research endeavours on issues that are not touched up on and sufficiently explored by the two researches cited above.

8. Objective of the Research

The objective of the research is to seek an answer for the research questions by following the accepted scientific research processes. The research will examine parallel import in light of both the exclusive right of the trademark owner, trade laws and competition laws of Ethiopia. To this end, the various intellectual property right exhaustion doctrines will be examined and an attempt will be made to test the merit of the exhaustion doctrine adopted by Ethiopia.The legal status of

[62] Gebrekirose Amare (2007) The Right of Registered trademark owner and the limitation on the right under Proclamation No 501/2006 (Addis Ababa: AAU Law Library, unpublished)

[63] Ibid.

parallel import in Ethiopia will be explored. The practice of parallel import and the possible instruments to limit its negative consequences will be examined.

9. Research Methodology

The research is doctrinal. Thus, it focuses on examining the relevant legal regimes governing parallel import such as the 1960 Commercial Code, Proclamation on Trade Competition and Consumer Protection No 813/2013, Trade Registration and Licensing Proclamation No 980/2016, Trademark Registration and Protection Proclamation No 501/2006, Investment Incentives and other legislations where relevant.

An interview is conducted with officials and experts of Ministry of Trade, Trade Competition and Consumer Protection Authority, Intellectual Property Office, Custom and Revenue Authority, former prosecutor, draft man ship of the major laws under examination and now a practicing lawyer. By way of secondary sources books, journals and other resources are consulted.

Due to lack of information about domestic manufacturers of internationally recognized trademarks and domestic importers with exclusive or Sol importer agreement the research could not collect data of parallel imports. Thus, the researcher based on his experience made personal observation in few car dealers such as Marathon Motors which deals with Hyundai cars, Moenco Ethiopia which deals with Toyota carsand Glorious PLC. which deals with Sony and other electronic products on the one hand and other dealers with same products in order to detect the existence of parallel import.

10. Scope of the Research

The research focuses on testing whether or not parallel import (unauthorized import) infringes the trademark owner's right and the legal status of same. Most importantly the research explores the question whether or not the trademark owner enjoys the right on the circulation of the trademarked products after the first sale.

Due to financial and time constraint,the research does not dwell on the impact of parallel import.

11. Significance of the Study

The research has a paramount importance to the research community, policy makers and research consumers in general.The literature review depicts that there are no researches conducted on Parallel Import in Ethiopia. The research will attempt to fill the knowledge gap and inspire further researches in the area.

For the policy makers, it will help in the process of understanding the policy they put in place and its implications. On top of this, it will reflect on the significance of integrating the various policy decisions they make and the important factors that should be taken in to account in making trade related policies.

With respect to research consumers, usually traders and the general public it will impart vital in formations on the status , nature, merit and demerit of parallel import. Such information is important in their decision making to embark up on trade for traders and inmaking an informed consumption decisions to consumers.

12. Limitation of the Research

Though there is a dearth of research globally, there is no research conducted on parallel import in Ethiopia. This lack of prior research is a big limitation of the research for it limits the knowledge available. The secretive nature of doing business in Ethiopia, poor organization of information both in public and private entities, the time allotted for the research are the notable limitations of the research.

CHAPTER TWO

THE LEGAL STATUS OF PARALLEL IMPORT IN ETHIOPIA

As it has been explored in the preceding chapter, parallel imports in simple parlance are the importation of a trademarked products without the authorization of the trademark owner or his/her licensee to Ethiopia where the trademark is duly registered.

The central question here is that, how does parallel import or unauthorized import treated under the Ethiopian legal regime. The major legal regimes which govern trading activity in Ethiopia includes theCommercial Code of 1960, the Trade Licensing and Business Registration Proclamation No980/2016, Trade Competition and Consumer Protection Proclamation No 813/2013 and the Trademark Registration and Protection Proclamation No 501/2007 are the most pertinent.

To properly understand the legal status of parallel import in Ethiopia, it is imperative to examine how the aforementioned legal regimes regulate the subject.

1. The 1960 Commercial Code of Ethiopia

The Commercial Code is the first codified commercial law in the history of Ethiopia. The Commercial Code does not have an explicit provision dealing with parallel import or unauthorized import nor provisions governing trademark protection.

In the absence of clear regulation, the possible logical test may be, whether parallel import directly infringes the “business interest”of the trademark owner? This query may be answered by making two interrelated investigations of the law. The first is whether parallel importconstitutes the business element of the business a trader runs under a specific trade mark. The second is whether parallel import constitutes an act of unfair competition?

Business element is defined under Art. 127 – 129. Under these provisions elements of a given business consists of manly of the good will, incorporeal elements and corporeal elements, such as,equipment and goods. Art127 providesan illustrative list of incorporeal elements of a business. Pursuant to sub article 2(b)of the article a trademark constitutes an element of a business. Sub 2(e) ofthe same article which is a catch basket provision provides a guidingprinciplein relation to non–listed incorporeal elements of the business.

The sub- article restricts the non-listed incorporeal elements should only be those related to the business and not to the trader. This leads to a question, does a trademark owner has the right to authorize the importation of products known by such mark. If there is any such right, is it an

incorporeal right or a right exercisable on the trademarked product. And if such right is regarded incorporeal whether it relate to the business or the trademark owner.

The question whether there exists a right to authorize the import of a trademark product is a proper subject matter of trademark law. That is why theCommercial Codedid not provide for such right. By the same token, the two subsequent questions are also the subject matter of the trademark protection law. From this it goes that only where the authorization of importing a trademark product constitute the subject of a trademark protection or the right of the trademark owner, the authorization right, if any, falls within the ambit of the elements of a business under Art 127 of the code. The proper place to treat the three basic questions will be the subsequent section which examines the trademark protection law.

The other test under the Commercial Code is the test of unfair commercial competition. This is whether the parallel import of the trademarked product unfairly competes with the same product dealt with by the trademark owner. What constitutes unfair competition is provided under Art 133of the Commercial Code. The provision provides for three basic legs on which unfair competition stands.

These are (a) dishonest commercial competition, (b) any act likely to mislead consumers regarding the undertaking, products, or commercial activities of the competitor, and (c) any false statement discrediting the undertaking, product or activities of the competitor. Where any one of these acts is committed the victim has the right to claim damage he suffered from and stop the unfair trading practice.

A parallel importer is a person who imports trademarked goods he acquired from the trademark owner or from his licensee to another market without the authorization of the trademark owner. The goods he is dealing with are genuine and same quality goods with that of the trademark owner. What happens is that the goods offered by the trademark owner or with his consent in a given market and whichgoes into the hands of the parallel importer are imported to a different market in which the trademark owner or his licensee operates andcreates an interbrand competition. Since the competition is inter brand, the goods offered by the parallel importer are genuine, not counterfeits and the consumers are not misled as to the goods quality or source or

the trademark owner. The goods are legitimately acquired with the consent of the trademark owner and hence no dishonest activity on the part of the parallel importer. Nor the parallel importer made any false statement as to the undertaking or the product or the trademark owner or the licensee. Therefore,there is no any unfair competition resorted toby the parallel importer.

Our courts in different levels have held that enter brand competition does not constitute an act of unfair competition.[64] From the foregoing discussion one can safely hold that parallel import does not offend the Commercial Code.

2. Trade Competition and Consumer Protection Proclamation No 813/2013

The main objective of this Proclamation is putting in place trade competition and consumer protection rules by protecting the business community from anti–competitive and unfair market practices and consumers from misleading market conduct and prevent the proliferation of goods and services that endanger the health and wellbeing of consumers.

In order to achieve its objective the Proclamation has provided for various regulatory mechanisms. Regulations of abuse of market dominance and anti-competitive agreements, concerted practices and decisions and unfair competitionare the areas covered by the Proclamation and which are closely related to the issue of parallel import. The Proclamation prohibits abuse of market dominance, anti–competitive agreements, concerted practices and decisions and unfair competition. Transgressing these prohibitions of the law constitute unfair trade practice pursuant to Art 2(9) of the proclamation.

2.1. Market Dominance

The principle of abusing market dominance is provided under Art 6 of proclamation No 813/2006. Either acting alone or together with others, a business person acting in a relevant market is deemed to have a dominant market position if he has the actual capacity to control (1)

[64] *M.A. Sherrif PLC v Tays PLC* (Federal Supreme Court Cassation Division, C.F.N. 47682; Vol. 2); *Solo Sirkarna A.S and Ministry of Trade and Industry v Getian PLC* (Federal Supreme Court Cassation Division, C.F.N. 23628; Vol. 6); *Uniliver PLC Pert Sunlight Wiral Mercy Seid v Get Eshet Detergent Manufacturing and Distribution PLC* (Federal Supreme Court Cassation Division C.F.N. 55162; Vol. 12).

prices;(2) other conditions of commercial negotiations; (3) eliminate or utterly restrain competition.Art 5(2)interprets the principle laid down under Art 6 in to specific instances which constitute acts of abusing market dominance. Due to the scope of the research, space and time limitation only those which have a close association with the parallel import are examined. Accordingly,cases coming under Art 5(2) (c), (f) and (h) are considered.

(i) Pursuant to Art. 5(2) (c) directly or indirectly imposing unfair selling price or unfair purchase price is regarded as an act of abusing market dominance. In the first chapter it has been pointed out that oneof the grounds that brought about parallel import is the trademark owner's segregation of market and imposing different prices. The sub article outlaws any price discrimination made by the business person directly or indirectly. The Proclamation does not define market. Though the Proclamation doesnot apply to a foreign land the trademark owner's act constitutes an indirect act of imposing unfair price.

It is clearly a set out objective in the preamble that the Proclamation is meant to promote competitive and free market. We are living in the era of globalization which promotes free flow of goods and services across national borders by calling for liberalization of global market. In view of the globalized world Ethiopia cannot be an Island and coin its trade laws only within the national contest. On top of this, the words directly or indirectly imposing unfair price may imply the global market segregation by the business person.

Parallel import somehow is an entrepreneurial intervention to an inefficient way of fixing price by the trademark owner. Thus, to the extent trademark monopoly can be abused by fixing unfair price and there by resulting in anti–competitive trade practice, it is tenable to assume that the law promotes inter brand competition by allowing parallel import.

(ii) Pursuant to Art 5(2)(f) discrimination of consumers in respect of price, supply and purchase of goods and services is an abuse of market dominance. This sub article clearly prohibit price discrimination and supply discrimination of consumers. Price or supply discrimination has a direct link with the distribution method adopted by the business man appointing different dealers for compartmentalized market.The trademark owner by controlling the supply chain

dictates how the goods circulate in the market. This gives him the opportunity to fix different prices for different markets and assign different distributors for each. This will definitely deny consumers choices by limiting the supply chain and discriminate them in price simply because they are found in a given market.

Preventing parallel import of the goods subjects the consumers to price discrimination and denies same a choice inrespect of anew supply channel. This action of the business man denies consumers a choice.

(iii) Art 5(2) (h) provides that controlling the distribution channel, such as, the supply of goods and services, as to where or to whom or in what conditions or quantities or at what prices the goods or services shall be resold or exported shall constitute an act of abuse of dominant market position. This is a provision which limits the power of the manufacturer on the supply or distribution of the goods he manufactured. The manufacturer or his licensee cannot control the resale or export of the goods they once put on the market.

Accordingly, the trademark owner by virtue of this sub article does not have control on the distribution of the trademarked goods. He does not have the right to authorize importation of the trademarked goods nor can he prevent same.

However, exceptionally in cases coming under Art 5(3) the trademark owner may enjoy control over the distribution of the trademarked goods. He shall have control over distribution of the trademarked goods where it is justified by the maintenance of quality or safety of the goods, levelling price with the competitor or achieving efficiency and competitiveness and other reasons provided in the regulation to be issued under the proclamation.

2.2. Anti-competitive Agreement, Concerted Practice and Decision

This is governed under Art 7 of Proclamation No 813/2006. The provision outlaws any anti – competitive agreement or concerted practice either between business persons in vertical or horizontal relationship. Sub-Art 4 of the article provides that horizontal relationship exists

between competitors whereas vertical relationship exists between business persons and their customers or suppliers or both.

Bringing the matter to the issue under consideration a trademarked product owner's distributor is his customer. Thus, by virtue of Art 7(4) of the Proclamation they have vertical relationship.Anyagreement or concerted practice between them which significantly affect or lessens competition or involve setting a minimum resale price isunacceptable. It can only be tolerated where it is proved that its technological, efficiency or other pro-competitive gain resulting from it outweighs that effect. The prohibition under this article is not an absolute prohibition. Rather it is a relative prohibition which would be treated on case by case basis depending on its effect on competition.

Only an agreementof merger as defined under Art 9 of the Proclamation, which needs the approval and Registration of the Trade Competition and Consumer Protection Authority. Agreements including distributor-ship or licensing agreements are not subjected to the approval of the Trade Competition and Consumer Protection Authority. However, the agency can investigate any agreement or concerted practice it deems anti–competition pursuant to Art 36ffof the same Proclamation. The investigation may be initiated by the agencies on site and off sitesupervision or information it obtains from the general public.

Where the investigation reveals that the agreement or the concerted practice is anti–competitive, it will apply to the administrative tribunal established within the authority, so that the latter take appropriate action in the circumstances as per Art 32 of the Proclamation. Therefore, soledistributorship agreement or sole importer agreement is not regarded anti–competitive in principle. This position of the Proclamation appears to conflict with the position taken by the Trade Registration and Business License Proclamation No 980/2016.

2.3. Unfair Competition

Consistent with the Commercial Code the Trade Competition and Consumer Protection Proclamation outlawedunfair trading practice. Under Art 8 of the proclamation a business person is prohibited in the course of trading not to resort to dishonest, misleading or deceptive and

harms or likely to harm the business interest of a competitor. In particular a business person has to refrain from acts that cause or likely cause confusion, any act of disclosure, possession or use of information of another without his consent contrary to honest commercial practice, any false or unjustifiable allegation that discredit another business person or activities or goods or services, falsely comparing goods and services, disseminating false information about the price, nature or manner or place or suitableness of manufacturing or quality of goods and services, obtaining or attempting to obtain the business secrete of another and other similar acts are acts of unfair competition. The parallel importer does not mislead or confuse customers for he deals with the genuine products of the trademark owner. In the instance, he advertises the products he does not need to make false allegations.

On the other hand, in the lists provided under Art 8 dealing with genuine trademarked goods is not regarded as act of unfair competition. Thus, it is tenable to hold that parallel import is not an act of unfair competition with the trademark owner or his licensee.

3. Commercial Registration and Business Licensing Proclamation No 980/2016

Prior to the promulgation of the new Commercial Registration and Business Licensing Proclamation No 980/2016, the legal status of sole importership agreement was a subject that is left to the general rules of contract and the rules of unfair competition. It was believed that the trademark owner has the right to authorize as to who may distribute and where to distribute his products and services. Any distribution activity without the authorization of the manufacturer was held anti–competitive and sanctioned. There was no also a specific regal regime which governs a sole importer contract that may be entered into between the manufacturer and the distributor.

Ato Teshome Tetemiche, asenior expert in consultation and information at Business Registration and Licensing Directorate at the Ministry of Trade, in an interview conducted on 29 December2016,reiterated that prior to the coming in to force of proclamation No 980/2016 the Ministry use to issue a sole importer or distributor license based on the agreement of the manufacturer and the importer. However, Ato Nuredin Mohammed who have been working for a

long time in the Ministry of Trade and now working as a project coordinator does not agree with Ato Teshome in an interview he had with me on 5June, 2017. AtoNuredin said that a trading position “exclusive importer” is not established in the Ministry. There is no way we could have issued such license and we did not issue one.

Once the importer is granted a sole importer trade license, according to Ato Teshome, for the products of a given manufacturer no other business person can apply for a similar license nor allowed to import those products. But he could not give me a sample sole importer trade license. Any unauthorized import of the goods in respect of which a sole importer license is granted, constitute an act of unfair business practice. The sole importer can seek damages and require the discontinuance of the unauthorized import.

However, pursuant to Art 38 of Proclamation No980/2016sole importership or soledistributorship agreement is prohibited and outlawed. The Ministry revoked those sole importership licenses it had issued and cease to issue new ones. A sole importer or sole distributorship agreement can only be permitted by the regulation to be issued under the Proclamation by the council of Ministers.

The Council of Ministers may allow sole importer or sole distributorship based on the business and its significance to the national economy. The Council of Ministers Regulation No 392/2016 which is issued under the Proclamation is silent on the subject matter. Itdid not err mark as promised by the Proclamation businessesin respect of which sole importer or sole distributor agreement or operation is allowed. Therefore, it could be argued that Ethiopia has adopted a trading policy that outlaws sole importership or sole distributorship agreement. From this it follows that sole importership or sole distributorship agreement is regarded as anti–competitive trading practice.

Consequently, a trademark owner cannot claim or enjoy control on the market circulation or distribution of his products which are put by him or with his consent on the market. He does not enjoy the right to authorize either the sole importation or sole distribution of the trademarked goods put by him on the market or with his consent. In other words, a parallel importer need not

seek authorization to import the trademarked goods he acquired from the trademark owner or his licensee to import into an Ethiopian market.

4. Trademark Registration and Protection Proclamation No 501/2006

Pursuant to Art 26 of the Proclamation the owner of a registered trademark is vested with the right to use or authorize any other person to use the trademark in relation to any goods or services for which it has been registered. Such right extends to the right to preclude any use of a mark or a sign resembling it which confuses the public for goods or services in respect of which the trademark is registered and any other similar acts. The trademark owner may exploit the mark himself or allow another to exploit the mark. He can exclude others to use the mark or any other similar mark or sign that confuses the public.

There are two basic limitations imposed on the right of the trademark owner under Art 27. The first pertains to the resale of goods that are legitimately acquired from the trademark owner or with his consent and the second is third party's bona fide use of their names, address, pseudonyms, a geographical name, or exact indications concerning the kind, quality, quantity, destination, value, place of origin, time of production or supply of their goods and services in so far as such use does not mislead as to the source of the goods. Due to scope limitation, the paper will only focus on the first limitation imposed on the right of the trademark owner.

The first question to be raised here should relate to the use of the concept limitation. As it has been expounded in the first chapter in relation to the doctrine of IP exhaustion, first sale is not a limitation on right rather it relates to the exhaustion of the right.With respect to intellectual property rights in general, trademark in particular, first sale of the product marks the exhaustion of the right. The most appropriate concept relating to sale of a product which is protected by an intellectual property law is not limitation of the right doctrine rather the exhaustion doctrine.

First sale of the product exhausts or kills the right. Where the right is exhausted we cannot talk of limitation of a non–existing right. The doctrine that applies for intellectual property at the first sale is an exhaustion doctrine or first sale doctrine in the global intellectual property literatures. Thus, limitation of right at the first sale of the product is a misnomer and in the future

amendments of the Proclamation it should be coined in conformity with the intellectual property law jurisprudence and replaced with the doctrine of exhaustion.

The next question to be answered here is, what is the scope of the exhaustion doctrine Ethiopia adopted in relation to trademark? Art 27(1) of the Trademark Registration and Protection Proclamation states that the trademark owner's right exhausts where the goods are lawfully sold in any country under the trademark, provided that these goods have not undergone any change.

First sale anywhere in the world by the trademark owner or with his consent exhausts his trademark right. In so doing, Art 27 has clearly adopted an international exhaustion doctrine. Ethiopia being a civil law country first sale absolutely exhausts the right of the trademark owner. He/she cannot reserve the right to control the distribution of the goods in a contract he/she enters into with the authorized distribution channel(s). Once the trademark owner puts the goods in circulation on any part of the world either himself or through an authorized person he/she cannot prevent further circulation or resale of the goods. The trademark owner authorization is not necessary to resale or import or export the trademarked goods obtained from the trademark owner or with his consent. The manner in which the product is sold does not matter. Whether the sell is in an overt market or online via the boarder less market is irrelevant for the exhaustion of the right. International exhaustion by definition relieves the parallel importer from the duty to prove as to where he acquires the goods. The place of acquisition of the goods is relevant only in relation to regional and national exhaustions.

The trademark owner does not have control on the distribution of the trademarked goods he has put on the market or with his consent. A business person who acquires the goods from the trademark owner or with his consent in any part of the world does not need the authorization of the trademark owner to import them into the Ethiopian market. Parallel import of a trademarked product into an Ethiopian market is a legally authorized act for which the trademark owner's authorization is unnecessary. Thus, parallel import does not constitute an infringement of the trademark owner's right on the mark. Nor does it infringe the distribution channels authorized by the trademark owner.

5. The Merit of Legalizing Parallel Import in Ethiopia

The three exhaustion doctrines are competing doctrines globally. The international exhaustion doctrine adopted by Ethiopia is a subject of disagreement owing to various arguments for and against parallel import.

International exhaustion doctrine is a foundation on the basis of which parallel import is built. In other words, parallel import is a function of international exhaustion doctrine. Thus, the argument raised against parallel import are arguments against international exhaustion and those arguments propounded in support of parallel import equally up hold international exhaustion.

This being the case, one can raise a three-level argument in support of the international exhaustion doctrine or legalization of parallel import in Ethiopia.

The three arguments which may be raised are arguments based on the principle or rule of WTO, the position of the developing and least developed states and the specific economic reality of Ethiopia.

5.1Argument based on the WTO Rules and Principles

The WTO is anchored on the fundamental theory of comparative advantage propounded by the British economist David Ricardo. According to this principle, in international trade a country should engage in producing goods in respect of which it has comparative advantage over its trading partner. This is to say that a country should focus on producing products which it is able to produce at the highest possible quality with the least possible opportunity cost.[65]

The theory of comparative advantage has two fundamental assumptions. These are there would be free movement of goods from "cheaper" to "more profitable" areas, and the efficient allocation of production resources globally.[66] National exhaustion restricts parallel import and eventually violates the fundamental principles of free movement of goods and efficient allocation of resources across the globe which is the core principle of WTO.

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[65] Bonadio E. (2011) "Parallel Imports in Global Market: Should a Generalized International Exhaustion be the Next Step?" *33 European Intellectual Property Review, No. 3* pp. 153-161, p. 6.

[66] Ibid.

Article XI (1) of GATT expressly forbids "quantitative restrictions" of international trade as well as "prohibitions or restrictions other than duties, taxes or other charges, whether made effective quotas, importer licenses or other measures". This is a provision which prohibits any non–tariff measures limiting international flow of goods globally. It is an established fact that non–tariff barriers are more detrimental to international trade than tariff barriers. It artificially restricts or prevents free movement of goods acrossborders and thereby deny customers freedom of choice.

Adopting national exhaustion is a ban on parallel import. Trade liberalization and reducing trade obstacles are targets pursued by the WTO through the adoption of TRIPS. Thus, a ban on parallel import is a ban on free circulation of goods in the globalized market which violates article XI (1) of GATT which provides for free movement of goods and outlaw all non–tariff barriers.

Though Ethiopia is not a member of WTO, there is a keen interest on the part of the Ethiopian government to join WTO sooner or later. The adoption of international exhaustion doctrines and allowing parallel import could be taken as a sign of adhering to the international standards which Ethiopia aspires to uphold.

5.2The Developing or Least Developed Countries Argument

In Uruguay Round of Negotiation of TRIPS, the national exhaustion doctrine put forward by USA and its allies were not accepted by the developing or least developed or even some developed states, such as, New Zealand and Australia.[67] The division on the doctrine of exhaustion to be adoptedfurther deepens in the Doha Ministerial Conference in 2001. The South-North divide agrees to disagree and leave the liberty to adopt its own exhaustion doctrine to each and every member state under Art 6 of the TRIPS Agreement.[68]

The strong arguments[69] raised by the South includes parallel import is a tool to promote competition on foreign market and prevent possible anti–competitivebehaviour of the intellectual

[67] K.E. Maskus, (2000) *Intellectual Property Rights in the Global Economy', Institute for International Economies*, (Washington; PIIE) in Bonadio E, supra n 65, at 211.

[68] Bonadio E., supra n 65, at 11

[69] S.K Verma, (1998) "Exhaustion of Intellectual Property Rights and Free Trade: Art 6 of the TRIPS Agreement", *29 International Review of Intellectual Property and Competition Law, No. 5, 559*

property right owner. And it is a good opportunity for economic growth. The National exhaustion regimes contravenes with the spirit, rules and targets of the GATT/WTO system.

It could be argued that the Ethiopian legislature has learned from the position of the developing or least developed countries who are the member of WTO in adopting international exhaustion doctrine.

5.3The Particular Economic Realities of Ethiopia

The developing or least developed countries with more or less similar economic realities with Ethiopia are pro–parallel import. Ethiopia is a net technology importing country. Prohibition of parallel import as propounded by USA in the UruguayRound of Negotiation is geared towards strongIP protection.

Intellectual Property protection in general, trademark in particular, benefits those countries who enjoys more intellectual properties i.e. developed countries against the principle of free market. Ethiopia as a net technology importing country should not opt for national exhaustion doctrine in favour of the developed states who have registered intellectual property in Ethiopia and against its own Citizens free choice of goods.

Prohibiting parallel import is allowing the trademark owner to control the circulation, use or exploitation of the trademarked goods after he has already sold them.[70] Thisamounts to duplication of his right as he can exercise his exclusive rights on both fake products and original goods sold by him abroad, and imported by third parties.[71] The implication of this may tend to result in 'a rent seeking economy' which simply reap benefit from inefficient price fixing mechanism.

On the other hand, preventing parallel import is preventing the free circulation of original goods. Where the original or genuine goods are not freely circulating, there will be less supply of the goods and high corresponding demand in which the Ethiopian consumers are forced to pay more

[70] Bonadio E., supra n 65, at 11

[71] Ibid.

than what they should. However, parallel import strengthens the trade between countries by injecting competition into international market and satisfying consumers demand and interests.

Such trade practices has a special significance in fields, such as, pharmaceutical and food industries especially in developing and least developed countries.[72] Parallel import increases the distribution and availability of goods with a beneficial effect on price. It is believed generally that parallel import might be a useful anti–dote against possible anti–competitive behaviour of the trademark owner.[73] In countries like Ethiopia which has a very weak production capacity and heavily relying on import trade, parallel import could be an engine of its economic and commercial growth.

72 Rai and Jagannathan, supra n 41, at 6

73 Maskus, supra n 67, at 11

CHAPTER THREE

THE PRACTICE OF PARALLEL IMPORT AND ITS IMPEDIMENTS

In the preceding chapter, it has been established that parallel imports are lawful in the Ethiopian legal system. Parallel import does not infringe the exclusive right of the trademark owner and offend trade related laws, such as, competition and trade registration and license laws.

In this chapter, an attempt will be made to explore whether parallel import exists in Ethiopia and the impediments of parallel import.

1. The Practice of Parallel Import

Despite, the adoption of international exhaustion doctrine by Trademark Registration and Protection Proclamation No 501/2006 in the year 2006, the practice of exclusive import or distribution agreement continued to exist. According to the interview I had conducted with acting Legal Director of Ministry of Trade Ato Ahmed Abdela on 29 May 2017, project coordinator Ato Nuredin Mohamed of same Ministry on 5June 2017, Ato Bekele H/temariam a senior legal advisor at the Trade Competition and Consumer Protection on 30May 2017 and Ato Tewdros Mekasha acting team leader at the Department of Trademark Investigation at the Intellectual Property Office on 5June,2017, parallel import was not allowed until the coming into force of Trade Registration and Trade License Proclamation No 980/2016. When asked why? The acting Director of the Legal Directorate of Ministry of Trade, said that it is attributable to the culture of government offices acting on the basis of the prevailing practice rather than on the basis of the law. He substantiated his argument with what he has witnessed during giving training to regional trade office officers.

Ato Ahmed further said that it is the Trade Registration and Business License Proclamation No 686/2010 and Trade Competition and Customer Protection Proclamation No 813/2013 which changes the trade regulation and administration practice in Ethiopia better than any other trade related laws. For him it is these Proclamations which are vigorously enforced and practiced both by the relevant government offices and traders.

2. The Practice of Parallel Import Prior to the Trademark Proclamation

It is the Trademark Registration and Protection Proclamation No 501/2006 which takes a clear position on parallel import. Pursuant Art 27 of the Proclamation the trademark owner exhausts his/her right on the trademarked product at the first sale anywhere in the globe. Once he/she puts his/her product on the market he/she cannot control the resale or circulation of the product. The trademark owner does not have the right to authorize the distribution of trademarked products. Hence, parallel import is lawful or does not infringe the trademark owner's exclusive right. Never the less, until the promulgation of Trade Registration and Business Licensing Proclamation No 980/2016, the sole importer and sole distributor ship contracts were enforceable according to my interviewee's.

Ato Nuredin Mohammed who currently works as a project office coordinator at the Ministry of Trade and who took part in the drafting of the successive Trade Registration and Business Licensing proclamations, said that exclusive importer agreements where enforceable. Where the foreign exporter appoints a sole importer of his product in to Ethiopia no other trader can import same trademarked products. According to him, parallel import is the subject of private contract for there was no law governing the matter.

The exclusive importer/sole distributor ship contract was invoked by the domestic importer or distributor to stop the unauthorized importation. He/she petition the custom Authorities to block the custom clearance until he/she obtain injunction from the court. The Custom Authorities give 10 days to the exclusive importer to obtain the injunctions. He/she brings a civil suit which seeks a relief to stop the custom clearance and the destruction of the parallel imports. The courts usually used to give injunction which suspends the custom clearance while the proceeding is going on. Based on the exclusive importer ship agreement and the evidence from the IP office which proves that the trademark is registered in the name of the manufacturer who appoints the exclusive importer, courts used to render a judgment which prevents the custom clearance and the destruction of the imported products without authorization.

Ato Nuredin further stated that the sole importer also usually petitions the police for criminal investigation. He mentioned certain exemplary cases, though the researcher could not able to

trace those cases for they are not reported and could not get the file number and the name of the court they were tried at. The cases discussed by Ato Nuredin are:

(i) The first case involves Alsam General Trading in which Alsam objected the importation of Bic Inc. Alsam objected the unauthorized importation of Bic inc by alleging that, it is the exclusive importer of the Bic Inc manufacturer in Ethiopia and the exclusive importer ship agreement it has with the manufacturer excludes all other potential dealers. The second argument was that the Bic Inc put on the market was a substandard or a counterfeit which misleads or confuses its consumers. Alsam invoked its exclusive importer ship agreement for both civil and criminal remedy.

Initially it was decided that the parallel importers import should be confiscated by the government. And the court instead of abandoning the economic utility of the product ordered that it shall be handed to the Ethiopian whole sale organization and distributed to the public. But Alsam objected to the ruling of the court by stating that the said product is a substandard and should not be allowed to exist in the market at the expense of the reputation of its genuine Bic Inc. Finally, the objection of Alsam is sustained and the court ordered the destruction of the parallel imported product.

(ii) The second case he mentioned relates to the case of a Yemeni Company named Derihin which had a registered trademark in respect of Rani Juice in Ethiopia. According to Ato Nuredin, Rani Juice was imported to Ethiopia by a Dubai based company which did not have a trademark protection in Ethiopia. Derihin objected to the importation of the Rani Juice by the Dubai based company. Derihin's objection to the parallel import was accepted both by the police and the courts and the Dubai based company is prohibited from importing the product into Ethiopia.

However, after negotiation between the two companies Derihin agreed to the parallel import of the Rani Juice by the Dubai based company in consideration of a given amount of commission for a specific volume of import the later would make.

(iii) Glorious PLC had objected to the parallel import of Sony products by invoking the exclusive importer contract it had with the Sony Company to import its products into Ethiopia. The Custom Authorities cooperated with the Glorious PLC not to clear the parallel imports until a court injunction is sought and obtained from the court. Courts gave injunction and other remedies on the basis of the exclusive importer agreement. Glorious had obtained a court ruling prohibiting the parallel import, seizure of the parallel imported Sony products and damages for the loss of income due to the unfair competition. The police authorities also investigated the parallel importer which resulted in the parallel importers prosecution.

(iv) The fourth case Ato Nuredin mentioned in relation to parallel import is a case involving Moenco Ethiopia. Moenco objects to any import of Toyota products by invoking its exclusive importer agreement it had with Toyota to import Toyota products into Ethiopia.

Similar to the instances stated above, Moenco Ethiopia was successful in soliciting remedies from the Custom Authorities, Courts and Police to prevent the parallel import of Toyota cars.

However, after a while parallel importers of Toyota cars began to challenge Moenco, they use to argue that, Moenco did not have exclusive importer ship agreement from the Toyota trademark owner which is the Japanese Toyota Company. Rather Moenco imports Toyota cars from Gibraltar a British overseas which produces the cars under license itself. Thus, Toyota Gibraltar had no legal right to appoint Moenco Ethiopia as an exclusive importer for Toyota cars into the Ethiopian market without itself being the owner of the trademark.In response to this challenges from parallel importers of Toyota cars, Moenco abandoned its objection in respect of the parallel import of used Toyota cars.

Ato Eshetu Woldesemeat who was the chief prosecutor at the Custom and Revenue Authority, who took part as drafts man ship in both the intellectual property laws and trade laws of Ethiopia and now working as a practicing lawyer has also shared his experience with me in an interview I had with him on 6 June 2017. Ato Eshetu has a different perspective from that of Ato Nuredin in respect of the enforcement of exclusive import agreements. According to him, a sole

importeragreement cannot be invokedto stop goods acquired by the parallel importer in an open market. A sole importer can object to the parallel import provided that the trademark of the goods he/she is dealing with is registered in Ethiopia and the parallel importer imported a counterfeit or substandard or fake product under the protected trademark. This is because the Trademark Law does not entitle the trademarkowner to control the distribution of the products he/she put on the market. Allowing the trademark owner to control circulation of his trademarked product in the market gives raise to monopoly which is against competition.

Ato Eshetu explained how his old office (theCustom Authority) had handled the case of Alsam Trading narrated by Ato Nuredin.By then he was the head of the ProsecutionOffice to which Alsam had petitioned. According to him, Alsam was a sole importer of a French company which manufactures a Bic Inc and registered its trade mark in Ethiopia. Alsam in its petition alleged that an Ethiopian company is importing a Bic Inc in violation of its exclusive importer agreement right. It also alleged that the parallel import is not the product of the trademark owner and is a substandard. In consultation with the then Director of the Custom and Revenue Authority I have instructed the custom officers not to clear the Bic Inc imported from Kenya against which an objection is filed. The company against which stoppage of custom clearance is ordered objected to our move by stating that our Authority does not have the power to do so on goods it acquired from an open market. It also argued that the sole importer does not have any legal right under Ethiopian law to object the importation of similar goods. Such an act constitute a violation of the free market economic policy Ethiopia has adopted.

The pressure to lift the order was coming from many directions. The officials of the Federal Police and other high ranking government officials were pressuring us to release the objected Bic Inc in to the market. The core of the pressure is that, they were strongly telling us that our office does not have the power to refuse clearing a good bought in a global open market and therefore we should clear the goods. It was really a very challenging time for our authority and us leaders personally. We were constantly telling them that clearance was denied only in relation to the quality of the product imported to protect the customer and the trademark owner and not on the basis of the exclusive contract invoked by the exclusive importer. We sent the products to an

impartial laboratory inBrussels where the global custom union is found. The laboratory had provided the result of the test. Its finding was that the Bic Inc which was imported from Kenya was not the product of the French company which had registered its trademark in Ethiopia and also it is a substandard product not recommended for use. Based on *the advise we received from the internationally acclaimed laboratory I instructed the custom officers to send back the Bic Inc imported from Kenya back to where it came from*. However, after the fake product reached Djibouti, the Djibouti government had destroyed it. We also ordered the collection of the previous imports that entered the market and their destruction. Accordingly, the products were collected from the market and destroyed.

Ato Eshetu has also stated that there were similar complaints with respect to metal sheets, tyres and other products. Most of the fake products were imported from Kenya.Some of the complainants were complaining only on the basis of exclusive import agreement and registered trademarks, at times it was made only on the basis of exclusive import agreements in respect of unregistered trademarks. Our office only used to entertain objections relating to fake products in relation to registered trademarks. We do not act on the basis of exclusive import agreement. The exclusive agreement can only be enforced between the contracting parties. It cannot affect the free movement of goods and competition. The exclusive import agreement may also help the manufacturer to detect fake or counterfeit products and take legal measures accordingly.

3. Parallel Import under Proclamation No 980/2016

The promulgation of Proclamation No. 980/2016 marks the time when sole importer/sole distributor ship agreement is explicitly out lawed by giving way to parallel import. In other words, it marks the shift in policy from contractually governing parallel import to legal regulation at least from the stand point of the prevailing practice which did not put the trademark law in to practice. This is to say that the legal regulation of parallel import is first introduced by the Trademark Registration and Protection Proclamation though it did not practically matter.

What motivates the policy change under the Trade Registration and Business License Proclamation No980/2016, in legalizing parallel import through the prohibition of sole importer

ship is worth asking. Ato Ahmed Abdela acting Director of the legal Directorate at the Ministry of Trade, in response to the above question said that prohibition of parallel import distorts competition and free flow of goods. In order to promote competition, combat monopoly and promote consumer welfare, the Ethiopian government took a clear policy stance in prohibiting sole importer or sole distributor ship agreements. His veteran colleague Ato Nuredin Mohammed has alluded to what the acting legal director had to say.

On top of this, Ato Nuredin has explained the major objectives identified by the preliminary study leading to the policy change. The study has shown that the government procurements specially the purchase of cars were found to be unreasonably inflated, some sole importers such as Rise Engineering which used to sell earth moving machineries for 200,000 (two hindered thousand) to 300,000 (three hundred thousand) birr had pushed its price to 14,000,000 (fourteen million birr), still another sole importer of powder milk who imports a 400 gm powder just for birr 68.70 (sixty eight birr and seventy cents) on the basis of a data collected from Custom Authority puts it on the market for 200 (two hundred) birr. This importer hands the powder to his sister and his sister passes it to a whole seller who sells the powder for birr 200 without adding any value. The research had also revealed that, at times sole importers deliberately decline to import in order to create artificial shortage in the market. According to, Ato Nuredine the most note able example is the importation of industrially applicable chemicals. The shortage of such chemicals affects the price of money products there by giving rise to inflation. He said that,it is believed that such acute problems can be possibly addressed through prohibition of sole importer/sole distributorship agreements which may tend to create monopoly.

Ato Eshetu has the following to say on the need to come up with Proclamation No 980/2016. According to him, the preliminary research conducted by the Council of Ministers has revealed that among other things, there was a strong vertical integration in certain key areas which resulted in price manipulation, certain importers where able to effectively exclude new comers in their trade area and saturation was shown in certain sectors in respect of which foreign investors were not even willing to embark up on. He further stated that such problem is very much entrenched and cannot be addressed by such minor measures such as prohibiting sole importer or sole distributor agreements only.

Ato Tewdros Mekasha acting team leader at the Department of Trademark Investigation at the Intellectual Property Office, buys the arguments raised by Ato Eshetu,Ato Ahmed and Ato Nuredin and also added a property right argument to it. According to him, a person who buys a product from a manufacturer or his licensee fully owns the products he/she has bought under the law of property. By virtue of property law the owner of a property has among other rights, the right to abuses of the property he/she owns let alone reselling it. Allowing a person who sells his trademarked product to control the sold product in the hands of the lawful owner offends the principle of property law and property right. Hence, parallel import should be allowed for it is an extension of the property right of the parallel importer who acquires the trademarked product legitimately.

The expert draftsman Ato Nuredin also reflected on the reaction of traders during the legislation process and after. In addressing this question Ato Nuredin Mohammed said that, the manufacturers or exporters where telling us that we cannot force them to hand their products to other importers. They were threatening us with the practical implementation of the proclamation by refusing to hand their products to other dealers. However, we did not pay attention to their threat and focus on governing our domestic matter. The sole importers where arguing that the position taken by the government is not in agreement with the international practices. He said that our response to that was, it perfectly goes in line with the international practice.

After the promulgation of the law there are some symptoms that traders are resorting to horizontal and vertical integration schemes in order to go around the law. They are trying to import same product with different family members.

After the removal of the legal prohibition, does parallel import currently exist in Ethiopia? It is hardly possible to get a systematically organized data either from the government authorities or other entities. The above discussion made in relation to the practice of parallel import sheds sufficient light on the existence of parallel import in Ethiopia. On top of this, the personal observation of the researcher revealed that there exists parallel import in Ethiopia.

One can only talk about parallel import in the true sense of the term where there exists authorized import/distribution channel side by side with the unauthorized channel. Marathon

Motors advertises itself as a sole importer of Hyundai Motors. It is also common these days to see brand new Hyundai cars being imported by other usually used car dealers. The same applies for Toyota brand new cars which were only imported by Moenco Ethiopia. The Sony products which were solely imported by Glorious are being imported by other market actors.

4. Impediments of Parallel Import

The trademark owner is not happy to give up his monopoly on the trademarked product. As it has been discussed in chapter two parallel import is lawful under Ethiopian Legal regime. The trademark owner cannot legally prevent parallel importation of his/her trademarked products into Ethiopia. However, this does not in any way mean that, there are no legal and practical impediments to parallel import. There are different types of impediments to parallel import but due to space limitation only the most common and pertinent to Ethiopia are discussed here.

The legal impediments may relate to government regulations governing import tariff, investment restriction. Practical impediments involve measures which may be taken by the trademark owner to arrest the negative effects of parallel import. These includes pricing control and non-price controls, such as, monitoring, product differentiation and service differentiation.

5. Government Regulation

a. Tariff Impediments

Ethiopia is not a member of world trade Organization. It is not bound by the non–discrimination principle of the organization. It can apply discriminatory tariff against products of different countries unless it worries of retaliation from the other end. On top of this, Ethiopia is one of the countries with a very high tariff rate. The Ethiopian custom duty and tariff regime imposes on import products among other things value added tax or turn over tax, excise tax on certain products, surtax, tariffs. The cumulative effect of all these different impositions pushes up the price of the parallel import and thereby discourage the parallel importer.

b. Investment Restriction

Pursuant to Investment Proclamation No769/2012 as a mended by Proclamation No 849/2014 and Investment Regulation No. 270/2012 as a mended by Regulation No 312/2014 import trade is restricted to Ethiopian investors. The proclamation has defined domestic investor under

Art2(5) as an Ethiopian national or a foreign national treated as a demotic investor as per the relevant law, and includes the government, public enterprise as cooperative societies established as per the relevant Law. Under Art 7(2) of Regulation No 270/2014 a business organization is an Ethiopian national where all its shares are owned by Ethiopian nationals. A business organization does not acquire Ethiopian nationality merely because it is incorporated in Ethiopia. It is the ownership compositions of the shareholders that defines its nationality.

Foreigners and business organizations in which a foreigner own a share cannot engage in import trade. The investment regime has effectively excluded foreigners and companies which have a foreigner share holder from engaging in parallel import trade. Thus, the competition which comes from parallel import against the trademark owner is limited to Ethiopian citizens and Ethiopian business organizations which is fully owned by Ethiopians. The investment regime is an effective impediment to foreign nationals and companies in which foreigners own share to engage in parallel import. This is an absolute impediment imposed on foreigners.

6. Controls that can be put in place by the Trademark Owner

a. PricingControl

Price discrimination is what motivates parallel import. A trademark owner who compartmentalizes the global market and fix different prices according to the willingness of the consumers to pay risks parallel import. The parallel importer before indulging in parallel import takes in to account various factors. These includes the price difference fixed by the trademark owner in at least two different markets. The difference between the price fixed in the country in which the parallel importer legitimately acquires the goods and price fixed in the country in which the goods are intended to be imported must be significant in such a way that the difference covers the custom duties, tariff imposed in the country of importations, the transport and insurance costs, other administrative costs and a reasonable margin of profit. Parallel import is profitable where the price gap between the country of export and import is wide enough.

Due to its flexibility and immediate effectiveness, pricing is usually the first marketing instrument to be deployed. The trademark owner's pricing decision can be improved if the two markets are considered together and the potential of parallel import is anticipated.[74] By so doing.

[74] Ahmadi and Yang, supra n 30, at 289; Chard and Mellor, supra n 13, at 80

The trademark owner may all together prevent parallel import or contain it with in a tolerable limit.

A. Non–pricing Control

Manufacturers often deploy different non–pricing mechanisms to mitigate the effect of parallel importation. The non–pricing mechanisms can be summarized in to three main categories. These are monitoring, differentiating product and differentiating service.

(i) Monitoring

Industries such as automobiles, electronics, and computers, manufacturers usually monitor their dealers, sales through product registration. The original destination and dealer can be traced through a serial number put on each unit of product.[75] An authorized dealer who diverted a product to unauthorized market could be easily traced and severely penalized or even terminated by the manufacturer (trademark owner).

This is a control mechanism which can be imposed on authorized dealer in a given market. It cannot be employed against those who acquire the trademarked product without a dealer ship agreement either from the manufacturer or his licensee.

(ii) Differentiating Product

The trademark owner may offer distinct product version to different markets. The difference may be minor such as packaging (e.g. size, language of instruction) or major which relates to product feature (e.g. power supply, gear shifting system, power system, driving side). The major differentiation will force consumers to incur high conversion costs and make parallel import less attractive or even impossible.[76] Product differentiation through an in compatible design makes parallel import to be easily spotted and less desirable to consumers.

In our country product differentiation is noticeable in the automobile market. Toyota cars designed for most European markets are left drive. Some cars designed for Arab countries are right drive. Due to government regulation that prohibits importation of right drive cars, importers change the drive side before importing the cars into Ethiopia. The conversion of the drive side

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[75] Ibid.

[76] *Id*.

makes the cars in attractive these days owing to the traffic accident in which those cars most often involve.

Though there are no Toyota cars specifically designed for Ethiopia, the writer has witnessed by talking to the car deals in Addis Ababa that, cars designed for European market are more expensive and have more demand in the market.

(iii) Differentiating Services

The trademark owner may discourage the consumption of products availed by the parallel importer by bundling value–added service only to authorized goods. He/she may provide services such as express warranty, technical support and maintenance to authorized goods and refuse to service unauthorized goods.[77]

The service associated with the sale of authorized product keeps those customers who wants to have the warranty and the support services. Such customers are price inelastic and are not deferred by the price charged by the authorized channel above and beyond the price charged by the parallel importer. Nevertheless, there could be customers who may prefer to consume the goods less the service and those who may not consume the goods offered by either the authorized or unauthorized channel.

In sum, there is a tradeoff between the pricing control and non–pricing control. As the non–pricing control involves cost to implement it, pricing itself has a cost as profits are sacrificed to narrow the price gap. The trademark owner is advised not to administer pricing control where the non–pricing control proves effective. At times, it may be necessary to administer both control methods where either of them does not bring about the desired result.[78]

[77] *Id.*

[78] Id

CONCLUSION

Parallel import (unauthorized import) is the subject of two legal regimes. Its legal status is determined by the examination of the interplay of trade laws (which are called the law of the market) and intellectual property laws. In Ethiopia, the market laws include the Commercial Code of 1960, the Trade Competition and Consumer Protection Proclamation No 813/2006, and Trade Registration and Business Licensing Proclamation No 980/2016. Of course, the law of the market is in principle the law that facilitate the invisible hands of the market to operate freely. In such markets, the government enacts rules which promote the free flow of goods with in and out of the national boundary.

It is a common knowledge that there is no absolute free market per se. Governments regulate the market with varying degree of intervention depending on the specific economic reality of each country. One of the areas where governments regulate the market is parallel import (unauthorized import). In this particular era of globalization states are increasingly moving towards international trade by removing both tariff and non- tariff trade barriers. Prohibition of parallel import is challenged by most scholars as a non-tariff barrier which is against the fundamental rule and principle of World Trade Organization. Congruent with the free trade promoting World Trade Organization rules and principles, Ethiopia has taken a clear position in legalizing parallel import both in its trade and trademark laws.

The Trade Registration and Business Licensing Proclamation No 980/2016 outlaws Sole importer/ Sole distributorship agreement. Prior to the coming in to force of this proclamation exclusive importer or distributor agreements had been invoked to stop parallel import. By then the belief was that the trademark owner enjoys control over the distribution of the trademarked goods. One can only deal with the import or distribution of the trademarked product provided that he secured authorization from the trademark owner. It is such exclusive agreements that are prevented by the Proclamation.

A parallel importer deals with genuine products he legitimately acquired from the trademark owner or with his consent. He/she does not deal with either inferior or counterfeit products. The competition the trademark owner faces from the parallel import comes from the goods he

willfully alienated. The goods offered by both the authorized and unauthorized channel are identical in every regard. Therefore, pursuant to the Trade Competition and Consumer Protection Proclamation No 813/2006, parallel import does not offend the law of competition.

The question whether parallel import infringes the exclusive right of the trademark owner is addressed in light of the scope of the exhaustion doctrine Ethiopia has adopted in respect of trademark. This is why it is often said parallel import is the consequence or the function of the exhaustion doctrine. Pursuant to Art 27 of the Trademark Registration and Protection Proclamation No 501/2006, Ethiopia has adopted international exhaustion doctrine. According to, this doctrine first sell anywhere in the world exhausts the right of the trademark owner. Once the trademark owner sells his/her product in whatever manner including an online sale he cannot control the resale of the product. Sell of the product kills the right of the trademark owner. Hence, he/she does not have the right to control the circulation of the product after the first sale. This is equivalent to say that the "right" to control the distribution of the trademarked product does not make part of an exclusive right of the trademark owner.

Ethiopia is a civil law country due to its codified laws. Unlike the common law countries the trademark owner cannot reserve his right contractually to control the distribution of the products. The first sale of the product absolutely exhausts the right of the trademark owner. Thus, sole importer or sole distributer agreements are incompatible with the doctrine of international exhaustion. This completely makes the control of the distribution of the product after the first sale outside the reach of the trademark owner. Therefore, parallel import which deals with the product after the first sale does not infringe the exclusive right of the trademark owner and the authorized distribution channels as well.

However, the parallel importer is faced with both legal and practical impediments. The legal impediments come from the various regulations of the government. The most common ones include the custom duties and tariffs imposed by Ethiopia presents a challenge by pushing the price of the parallel import. The Investment Proclamation and Incentives Regulation of Ethiopia has made parallel importation beyond the reach of a foreigner. Other regulatory measures of the government could also be taken as legal impediments to parallel importation.

On the other hand, the practical limitations to parallel importation results from the acts of the trademark owner. Generally speaking the trademark owner has at his disposal Pricing Control and Non-Pricing controls. Parallel import is essentially the result of price discrimination resorted to by the trademark owner. By the same token, the trademark owner can effectively limit or all together prevent parallel import by fixing price in anticipation of parallel import and keeping the price gap between different markets narrow. With respect to the Non-Pricing Control, the trademark owner may employ Monitoring of the products and the authorized distribution channel not to divert the product from its intended market through various techniques (e.g. serial no). He/she also may discourage parallel import through product or service differentiation.

RECOMMENDATION

Based on the basic findings of the research the following recommendations are made:

- Intellectual Property Rights is part of the World Trade Organization trade negotiations through the adoption of TRIPS Agreement. IPR makes an important part of trade and hence trade laws and IP laws govern matters such as parallel import. It is imperative to understand the inter play of the two laws for the proper governance of trade and running of the economy.

  However, the discussion the researcher had with the officials and officers of the regulatory bodies such as Ministry of Trade, Intellectual Property Office and Trade Competition and Consumer Protection Authority depicts otherwise. Each of them are fond of their organizations enabling law and know little or nothing about the other. This had and will continue to have a negative ramification on the countries trade administration in general and trademark in particular. Thus, each organization should know that it is independently organized to take advantage of specialization and view law as an institution which operates as a system and they should work for an integrated system in cooperation and coordination.

- Art27 of the Trademark Registration and Protection Proclamation No 501/2006 talks in terms of limitation of the trademark owner’s right. Nevertheless, the globally accepted jurisprudence of IP teaches us that IPR is not limited rather exhausted at the first sale. In

other words, the exclusive right of intellectual property owner is not limited at the first sale rather exhausts or extinguishes. Consequently, in the future amendments Article 27(1) should be re coined is accordance with doctrine of exhaustion in order to bring conceptual clarity to the law.

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