

8 PARALLEL IMPORTS, TRADEMARK LAW, AND AGENCY REGULATIONS: LEGAL UNCERTAINTY IN UAE JURISPRUDENCE

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ABSTRACT

Parallel importation is one of the most enigmatic issues in the laws of the United Arab Emirates (UAE). This article addresses the merits and demerits of parallel importation from the perspective of the UAE. It reviews the relevant provisions in its trademark and agency laws, as well as relevant case law. The article also examines the options available to the UAE legislature to reform its laws and then provides a set of conclusions and recommendations.

Keywords: trademarks law, agency law, parallel imports, exhaustion, trade

I. INTRODUCTION

Trademarks are among the most precious assets of enterprises. The value of a trademark amounts to billions of dollars. Each year the Best Global Brands Report generates increasing interest from companies and practitioners associated with brands and the Report lists the top 100 most valuable brands worldwide.¹ Emirates Airline, headquartered in the UAE, is the most valuable airline brand worldwide valued at US\$7.5 billion.²

The UAE encounters cases of parallel importation because it is a high-priced economy. Parallel imports can occur on account of the non-availability of a product in the market or of sourcing low-priced products from other countries, thus making it possible to make profits through price differences.³ Generally parallel import

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¹ See Best Global Brands Ranking, *Interband Ranking* (2014), available at <<http://www.bestglobalbrands.com/2014/ranking/>>

² Emirates finished 171 out of the 500 evaluated global brands. See *Emirates Soars as World's Most Valuable Airline*, Gulf News (2 February 2016).

³ See Triska Hamid, 'UAE Tech Fans Forced to Dig Deep for Microsoft Surface' *The National* (11 November 2012) (In September the iPhone 5 reached Dh6,000 before dropping almost Dh2,000 only a few weeks later). The main reason why parallel imports have emerged is price differentials between the same products sold in different markets. See also Christopher Stothers, *Parallel trade in Europe: Intellectual Property, Competition and Regulatory Law 2* (2008).

products are cheaper, depending on the nature of the product, owing to the absence of customer care and warranties.⁴ In exceptional circumstances however, prices can soar and fluctuate. Retailers are tempted to opt for parallel imports when manufacturers fail to launch a product. Low prices for parallel imported products may affect the domestic sales of the trademarked products, giving rise to the question as to whether parallel imports should be restricted or prohibited.

UAE is a party to several treaties and international organizations. For example, UAE is a member of the Gulf Cooperation Council (GCC).⁵ In addition, UAE is a Member of the World Trade Organization (WTO).⁶ Although UAE has made many efforts to bring its intellectual property laws into compliance with the international legal standards set forth in the WTO's Agreement on Trade-Related Intellectual Property Rights (TRIPS) and other international treaties, the UAE has not taken a clear stance on many intellectual property issues such as trade secrets, and trademark exhaustion and parallel imports of trademarked goods. Trademarks have been the form of intellectual property most familiar to the business community in the UAE. Yet, neither trademarks law nor agency law or practice addresses clearly parallel importation.⁷

Parallel imports or grey market goods are genuine goods and not counterfeits, whereby trademark is misappropriated. Parallel imports involve the importation of genuine goods outside the authorized distribution channels. In other words, parallel import is the importation of these goods from a foreign source by bypassing the authorized local distributor and trademark licensee, thereby allowing the sale of goods directly to

⁴ For example, grey market pharmaceutical products in the United States can be as much as 80 per cent cheaper. See Elin Dugan, 'United States of America, Home of the Cheap and the Grey: A Comparison of Recent Court Decisions Affecting the US and European Grey Markets' (2001) 33 *Geo. Wash. Int'l L. Rev.* 397,410.

⁵ The GCC is generally regarded as a success story for economic integration in Arab countries. The GCC was established in May 1981. The GCC consists of six member states: (1) United Arab Emirates; (2) Bahrain; (3) Saudi Arabia; (4) Oman; (5) Kuwait; and (6) Qatar. See the Cooperation Council Charter, List of Member States (1981) available at <<http://www.gccsg.org/eng/index.php?action=Sec-Show&ID=1>> (last visited 12 February 2016).

⁶ UAE has been a Member of the WTO since 10 April 1996. See World Trade Organization, *Members and Observers*, available at:

<https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm> (last visited 11 February 2016).

⁷ The paper is concerned mainly with parallel importation development in the UAE in the context of trademarks laws and agency regulation. However, trademarks law shall not be regarded as the only instrument of regulating parallel importation. Competition law, which is outside the scope of this paper, is an indirect instrument that can be used to address the issue of parallel importation. Parallel import restrictions can distort competition and thus may breach competition law.

retailers or consumers.⁸ In most cases, the manufacturer establishes an exclusive territory or conditions of resale through some contractual agreement or agreements, by which the manufacturer, distributor or trademark registrant generally agrees to sell only to particular entities and not to other entities that may compete with the authorized channel.⁹

The paper will examine these competing interests in further detail, analyse why the courts in UAE have been reluctant to adopt a clear position on parallel imports, and explain why a legislative amendment to the Trademarks Law and Agency regulation is likely to be necessary before UAE's position on parallel imports is made clear.

II. THE UAE COMMERCIAL AGENCIES LAW

The Commercial Agencies Law (Federal Law No. 18 of 1981, as amended by Federal Law No. 14 of 1988) defines a commercial agency as any arrangement, whereby a foreign company is represented by an agent to distribute, sell, offer, or provide goods or services within the UAE for a commission or profit.

Trading is at the core of the UAE's commercial heritage, and consequently the UAE has special laws and practices encouraging foreign suppliers to use local sales agents.¹⁰ The following conditions highlight this stance:

- Commercial agents must be UAE nationals or companies incorporated in the UAE and owned entirely by UAE nationals.¹¹
- Commercial agents must be registered with the UAE Ministry of Economy and Commerce to engage in commercial agency activities. However, if the agency is not registered, no action can be taken against parallel importation.
- The agency agreement must be registered in order for the agent to avail himself of the protections afforded under the law and to have the agency relationship recognized under UAE law.

⁸ See Keith E Maskus, 'Parallel Imports', (2000).23 World Econ. 1269.

⁹ See Robert J Staaf, 'The Law and Economics of the International Grey Market: Quality Assurance, Free-Riding and Passing Off' (1988) 4 Intell. Prop. J. 191, 192.

¹⁰ See Alisha Ansari, 'What is the Scope of Competition Law in the UAE? A Comparative Study with Developed and Developing Nations 131-137 (Master Thesis, University of Western Ontario 2013).

¹¹ See Federal Commercial Agencies Law No. 18 of 1981, Article 2.

- Commercial agents are entitled to an exclusive territory encompassing at least one emirate for the specified products. (Article 5.1 of the Commercial Agencies Law). However, an exclusivity agreement does not change the source of the product.
- Unless otherwise agreed, commercial agents are entitled to receive commissions on sales of the products in their designated territory, irrespective of whether such sales are made by or through the agent. (Article 7 of the Commercial Agencies Law)
- Commercial agents are entitled to prevent products subject to their agency from being imported into the UAE if the agent is not the consignee. A corollary dimension that arises in relation to the application of this article is the controversial subject of parallel importation. For example, the president of Samsung Gulf Electronics has called on the UAE Government to implement tougher restrictions on the parallel importation of branded consumer electronics goods. Retailers are selling Samsung products outside of regulated distribution channels.¹² The language of the commercial agency law effectively acts as a ban on parallel imports of that product. However, companies operating in free trade zones in the UAE can import such products and resell them within a free zone.
- Commercial agents are entitled to receive compensation from the principal if the agency is terminated without substantial justification or if the agency is not renewed by the foreign principal and the agent may be able to preclude the foreign party from appointing a replacement agent in such circumstance.

On the basis of these conditions, a sales agent is given the exclusive right to import the relevant product, to receive compensation for any parallel import of the product by others and even to block the foreign supplier's direct import of the product into the sales agent's territory. In other words, the local commercial agent is given a monopoly right and serves as the main instrumentality for protecting trademarks.

III. TRADEMARKS LAW: THE GENERAL FRAMEWORK

Trademarks identify the source from which the goods originate and guarantee the quality of the goods bearing

¹² See Ronan Shields, 'Samsung Warns UAE over Parallel Imports' Arabian Business (14 November 2006).

that trademark.¹³ The UAE Trademarks Law of 2002 emphasizes the function a trademark plays in distinguishing the goods and protecting the interests of consumers.¹⁴

The Trademarks Law of 2002 (Trademarks Law) describes a trademark in the broadest language as any visually perceptible sign. The Trademarks Law defines a trademark as any visually perceptible mark used or available to any person to distinguish his goods or services from the goods or services of others. This is in compliance with Article 15 of the TRIPs Agreement which states that a Member may require, as a condition of registration, that a sign be visually perceptible. For instance, a trademark could be a word, logo, numeral, letter, slogan, or a colour.¹⁵ As such, the Trademarks Law does not apply to non-traditional trademarks such as sound or smell. For example, a fragrance trademark can never be registered.¹⁶ In order to receive protection, a trademark does not need to be original, but it must be distinctive and be able to represent to consumers the source of goods or service identified. The UAE adopts a system of first-to-file. When there are two or more applications for registration of marks identical with or confusingly similar to each other, or for identical or similar goods or services, legal protection may only be granted to the valid application with the earliest priority or filing date amongst all applications.¹⁷ Article 19 of the Trademarks Law grants protection in renewable ten-year portions. Specifically, Article 19 states, in part, that:

The period of protection resulting from the registration of a trade mark shall be 10 years. The mark owner may secure the continuance of such protection for successive periods of 10 years each if he applies for renewal of such mark's registration within the last year of the

¹³ See William Cornish and David Llewelyn, *Intellectual Property: Patents, Copyrights, Trademarks and Allied Rights* 620 (6th ed., 2007).

¹⁴ See Trademarks Law No. 8 of 2002, Article 3. Presumably the law does not permit registration through the Madrid System Concerning the International Registration of Marks under the Madrid Protocol, since UAE is not a party. This is the trademark registration system used by the nearly 100 countries. Although it is not directly relevant to grey market goods it would facilitate trademark protection for global companies operating in the UAE and their agents. See World Intellectual Property Organization, *Madrid – The International Trademark System*, available at: <<http://www.wipo.int/madrid/en/>>.

¹⁵ See Article 2 of Trademarks Law No. 8 of 2002, In respect of colours, it is to be noted that limitation of a trademark to a colour(s) may be a basis for establishment of distinctiveness. As to whether colours themselves, such as the colour orange, can be treated as trademarks, the answer is not clear.

¹⁶ The registration of fragrances or sounds would present complex challenges for trademark examiners in the UAE. It is unclear how they would be categorized, catalogued, preserved during the registration period, or searched and tested for confusing similarity.

¹⁷ *ibid.* Article 17.

valid protection period according to the terms and conditions provided for in this Law and its Executive Regulations.

The Trademarks Law provides penalties against offenders who misrepresent goods or use counterfeit trademarks. These penalties include fines and/or imprisonment.¹⁸ Article 37 of the law states:

Shall be sentenced to imprisonment and a fine of at least Dh. 5000 (Five Thousand) or either:
1. Any person who forges a trade mark registered according to law or imitates same in a way misleading the public and any person who uses with bad faith a forged or imitated trade mark.
2. Any person who places with bad faith on his products a registered trade mark owned by a third party, or uses such mark without right.
3. Any person who deliberately sells, offers for sale or negotiation or acquires for sale products having a forged, imitated or illegally placed trade mark, the same applies to any person who deliberately provides or offers the provision of services under a forged, imitated or illegally placed trade mark.

Moreover, Article 39 states:

Any person who repeats one of the offenses stated in Articles 37 and 38 hereof, shall be punished with the same penalty in addition to closing the commercial premises or the exploitation project for a period of no less than 15 days and no more than 6 months and publishing the judgment at the cost of the party adjudged pursuant to the procedures indicated in the Executive Regulations.

The Law does not state if the owner of an infringed trademark may obtain an accounting of profits. Moreover, Article 41 of the Law provides for a cease and desist order. It also provides for an interlocutory seizure of goods. The seizure is to take place at the request of the owner of a trademark. The Law provides for the destruction or disposal of materials or tools used in infringement of trademarks. Article 43 states that:

The competent court may rule the confiscation of the object attached or to be attached later and the deduction of its price from the fines or compensations or disposition thereof in any other way deemed expedient by the court. The court may also order to destroy the illegal marks or, when necessary, to destroy the products, envelopes, packing, tools and any such other objects bearing such marks or illegal data, as well as, the machines and tools

¹⁸ *ibid.* Article 37.

used specifically in the forging operation. It may likewise order all the foregoing even in case of acquittal. The court may further order that the judgment be published in the bulletin or in an Arabic daily at the cost of the judgement debtor.

An owner of a trademark will have to register the trademark for using it.¹⁹ This is in line with the doctrine that trademark rights are territorial.²⁰ Registration of a trademark gives certain rights which include the exclusive right to use the mark, licensing, and enforceability.²¹ For example, Article 10 of the Trademarks Law provides that:

Subject to the provisions of Article 26 hereof, no trade mark identical or similar to an already registered mark may be registered for the same categories of products or services, or different goods or services, if the use of the requested trademark would generate an impression that such goods or services are linked to the goods or services of the owner of the registered mark or prejudicing his interests. Should one or more persons apply simultaneously for the registration of the same mark or close or similar marks for one category of products or services, the Ministry shall suspend the registration of all applications until an attested waiver is submitted by the opponents in favour of one of them or a final judgment is awarded in favour of one of them.

In addition, Article 17 states:

Any person who registers a mark shall be deemed its sole owner. The ownership of such mark may not be disputed if the person who registers it, uses it uninterruptedly for at least 5 years from the date of registration without an action being lodged against him ruling for its validity. The owner of a registered trademark may prevent others from using a similar or identical trademark, to distinguish products or services that are identical, similar

¹⁹ *ibid.* Article 7.

²⁰ Registered trademark rights extend nationwide within a country. For instance, for the purpose of trademarks law, only registration -and in some cases use - in UAE is relevant. If a company desires to extend its trademark rights outside the national borders of a particular country, then that company must register its trademark in every country. See Edouard Treppoz, 'International Choice of Law in Trademark Disputes From a Territorial Approach to a Global Approach' (2014). 37 *Colum. J.L. and Arts* 557, 559

²¹ See Trademarks Law No. 8 of 2002, Articles 10, 17, 30, 31, and 37.

or correlated for which the mark has been registered, in such a way that confuses the consumers.

Article 30 provides that:

The owner of a trade mark may, by a written and attested contract, licence one or more persons to use such mark for all or part of the products or services for which the mark is registered. The mark owner may use it himself unless otherwise agreed. The period for licensing the use of a mark may not exceed that prescribed for its protection.

Also, Article 31 of the law states:

A contract licensing the use of a trade mark shall be recorded in the Trade Marks Register of marks. Such licensing shall have no effect vis-à-vis third parties except after being recorded in the register and announced in the manner determined in the Executive Regulations.

Article 37 provides that:

Shall be sentenced to imprisonment and a fine of at least Dh. 5000 (Five Thousand) or either:

1. Any person who forges a trade mark registered according to law or imitates same in a way misleading the public and any person who uses with bad faith a forged or imitated trade mark;
2. Any person who places with bad faith on his products a registered trade mark owned by a third party, or uses such mark without right;
3. Any person who deliberately sells, offers for sale or negotiation or acquires for sale products having a forged, imitated or illegally placed trade mark, the same applies to any person who deliberately provides or offers the provision of services under a forged, imitated or illegally placed trade mark.

The Trademarks Law provides for a registry of trademarks.²² The registry helps inform applicants what marks have been registered, and provides a description of their goods, products and services, changes, and licence of the mark.

²² *ibid.* Article 5.

IV. UAE LAW AND EXHAUSTION OF RIGHTS

The theory of trademark exhaustion is used to justify the importation of grey market products. Under this theory, once the first sale of a marked product takes place after the product has entered the stream of commerce in the trademark owner's territory, the trademark owner's rights are exhausted, that is to say, the trademark owner can no longer control sales of the trademarked products.²³ It has also been argued that the trademark owner loses the right to control subsequent sales of trademarked products even once these products have been sold abroad.²⁴

There is no international agreement that addresses national, regional, or international exhaustion. The Paris Convention does not regulate this issue and the TRIPS Agreement takes a neutral position in dealing with this concept.²⁵ As negotiators of TRIPS could not agree on how to deal with grey market goods, the issue of exhaustion and parallel importation is left to national legislations and court decisions.

Whether or not the owner or licensee of the registered trademark can block the importation of the grey market goods depends on what position the UAE adopts on trademark exhaustion and parallel imports. The Trademarks Law fails to address clearly whether parallel imports infringe trademark rights and whether it adopts a national or international exhaustion of rights. Additionally, UAE customs authorities, even in developed countries such as the United States and the European Union, in general can be somewhat lax when it comes to checking whether the products are authorized for sale by the manufacturer or rights holder at the point of entry, unless the lawful trademark holder advises customs regarding the likelihood of shipments of grey market goods.²⁶ It just is not a high priority for most customs services.

The most pertinent legislative provisions provide in relevant parts:

- The trademark owner who registered his mark in UAE has the exclusive right to use such trademark for the product that it has been registered.²⁷ However, the Trademarks Law

does not provide examples of 'use' of the holder of a trademark right such as subsequent sale, displaying or distributing trademarked products.

- It shall not be permissible to cause prejudice to the exclusive right of another person to use a registered trademark. This language can provide protection against parallel imports on the basis that such imports can cause prejudice to the exclusive right to a trademark.
- Registration of any trademark which is identical or similar to a trademark previously registered for the same classes of products or services, or non-similar class of goods and services, is not permitted if using the trademark may generate the impression of a connection between the goods and services to be registered and those of the owner of the registered mark, or if using the trademark to be registered may damage his interests.²⁸ This Article can be used to block import goods that bear any marks confusingly similar to registered trademarks.
- The trademark owner may, by a written notarized contract, grant to any person a licence to use the trademark in accordance with the agreed agreement and quality guidelines. The trademark licence agreement may specify the range of the geographical area for marketing products or services bearing the trademark; and to prevent all actions, which may lead to lower the value of or cause harm to the products or services bearing the trademark.²⁹ Thus, a trademark owner can use the licence to restrict the sale or distribution of products bearing his mark when these products are manufactured abroad. The licensee could argue that the imported products are manufactured in breach of the licence agreement lacking the quality of the genuine products.
- It is an infringement of the exclusive right to use a registered trademark to sell goods that the owner knows bear a counterfeited registered trademark.³⁰

V. UAE CASE LAW

The influx of grey market goods has generated a few court cases that have seen trademark holders and their authorized distributors pitted against retail dealers who

²³ See Ryan L Vinelli, 'Bringing Down the Walls: How Technology is being Used to Thwart Parallel Importers Amid the International Confusion Concerning Exhaustion of Rights' (2009) 17 *Cardozo J. Int'l and Comp. L.* 135, 149.

²⁴ Lazaros G Grigoriadis, *Trade Marks and Free Trade: A Global Analysis* 59-60 (2014).

²⁵ Article 6 of the TRIPS Agreement provides that nothing in the agreement shall be used to address the issue of the exhaustion of intellectual property rights.

²⁶ See James Whymark, *Policing Parallel Imports around the World, in Anti-Counterfeiting – A Global Guide* (2014) 32

²⁷ See Trademarks Law No. 8 of 2002, Article 17.

²⁸ *ibid.* Article 10.

²⁹ *ibid.* Article 34.

³⁰ *ibid.* Article 37.

have profited from their sales of grey market products. The legal theories under which a plaintiff can file a trademark infringement suit include the Trademarks Law, unfair competition, unjust enrichment, and breach of contractual relations in agency agreements.³¹ This is explained in the following typical cases.

A case concerning parallel imports was decided in 2009.³² It is generally considered the most significant case because for the first time in the UAE it resulted in imprisonment of the defendants.³³ However, closer examination of the case reveals that the court treated the case as one involving counterfeit goods and thus imposed the jail sentences.³⁴ By definition grey market goods are genuine, not counterfeit. If the imported products are counterfeit, the exclusive importer can prevent the sale of these products by filing a trademark infringement claim in the court. Moreover, the court ruled – in part – that the importation of goods must go through approval procedures by government entities before importation is allowed. One wonders whether the defendant in that case had obtained the necessary governmental approval would the products still have been permitted to enter the country. The court did not provide clear guidance under what circumstances parallel imports may be permitted, and what if appropriate government permits were obtained. Therefore, the jurisprudential value of that case can be limited.

The case concerns a UAE company, UAE Mechanical, acting as an agent and distributor of 'Maggi' chicken stock cubes which is a product of Nestle.³⁵ It came to the knowledge of UAE Mechanical that some traders

imported boxes of Maggi cubes (product of Egypt). As stated by the plaintiff, these products did not conform to the required specifications. The High Federal Court found that UAE Mechanical was entitled to preserve its rights as the authorized agent of the manufacturing company for marketing certain goods.³⁶ Also, the court accepted UAE Mechanical's arguments that it was entitled to protect its rights in the trademark that is registered for Maggi cubes and that unauthorized importation and sale of these goods was an infringement of the exclusive rights.

As the facts of the case show, some parallel importers imported genuine goods that are subject to an agency agreement with the purpose of circumventing the agent. The effect of the Court's decision is that while Nestle could not enjoin sales of grey market goods in the UAE, its agent/distributor succeeded in obtaining remedies by having the goods of the parallel importers impounded, destroyed, or re-exported, or by requesting compensation. Apparently, the quality of Maggi (product of Egypt) differs from Maggi cubes designed for the UAE market. Maggi of Egypt cubes may not be designed to comply with consumer specifications in UAE. By bringing the case, the agent/distributor sought to protect regular trade channels. In this context, it raised possible violations of the agency law. Trademark infringement cases focus on the protection of the rights of the commercial agent and the elimination of the threat to monopoly rather than the recognition and protection of trademark rights.³⁷ Unfortunately, the court in that case did not address the issue of parallel importation in greater detail.

In another case, the trademark owner entered into a licensing agreement with a UAE distributor.³⁸ Then a third party in the UAE attempted to import the goods. That case presented an opportunity for the courts to rule directly on the legality of importing parallel imports without the prior authorization of the trademarks owner or its licensee. In that case, however, the trademark was not registered in the UAE, so the plaintiff could not proceed under the Trademarks Law which is applicable only to national registered trademarks (unless the mark is well known), and had to proceed under unfair

³¹ Courts in other countries considered various theories in their analyses of parallel importations. For example, some courts focussed on the function of the trademark which serves to identify the source of the goods, while in some cases the focus was upon deception or consumer confusion. Other courts focussed on material differences between the goods. See Christine Haight Farley, 'Territorial Exclusivity in US Copyright and Trademark Law' (2014) Washington College of Law Research Paper No. 2014-30, 51-52.

³² See Praveen Menon, 'Shopkeeper jailed over illegal DVDs' *The National* (13 October 2009).

³³ *ibid.*

³⁴ Trademark laws afford various types of relief to owners of registered marks. These include seizure, confiscation or destruction of infringing goods. Damages may also be awarded. In addition, infringement constitutes a criminal offence punishable by imprisonment or fines. Therefore, a criminal case may be filed simultaneously with a civil action for damages. See Amir H Houry, 'The Development of Modern Trademark Legislation and Protection in Arab Countries of the Middle East' (2003) 16 *Transnat'l Law* 249, 263, 275. See also Bradley J Olson, 'The 10 Things Every Practitioner should Know about Anti-Counterfeiting and Anti-Piracy Protection' (2007) 7 *J. High Tech. L.* 106, 125

³⁵ See *Journal of Bar Association*, Decision No. 10/1418, p 957 (2010).

³⁶ In the UAE, cases decided by courts do not have precedential value, as they provide an indication of how courts approach issues and are of some value in predicting how future cases might be decided. The sole exceptions are decisions by the High Federal Court, the highest court in UAE, which is highly influential and asserts wide powers.

³⁷ For example the *Brylcreem* case in the UAE was lodged under the commercial transaction law, but not under the trademarks law. See David Price, *The Development of Intellectual Property Regimes in the Arabian Gulf States: Infidels at the Gates* (2009) 36.

³⁸ See *Journal of Bar Association*, Decision No. 13/786, (2013).page 147.

competition provisions of the Commercial Code.³⁹ Therefore, the court did not address whether the licensee or trademark owner's rights were exhausted. The court considered the claim based upon the need to prevent consumer confusion as to the source of goods.

The approach taken by courts in the UAE demonstrates that the judiciary is not the proper vehicle for a final determination of the parallel importation issue. Courts were presented with specific facts that differed on a case-by-case basis. Those court decisions do not settle the matter in a satisfactory matter. Sometimes conflicting court cases have definitely muddied the waters. Customs authorities may not be able to seize grey market goods at the borders as a result of practical administrative difficulties. An authorized agent or distributor should bring a private action in court against the importer of grey market goods, a task that could prove difficult as the distributor must identify the parallel importer and engage in a time-consuming process.⁴⁰ Modification in legislations and holistic policy changes are needed.

VI. THE DEBATE OVER PARALLEL IMPORTS IN THE UAE

The debate over whether to permit parallel imports of trademarked goods in the UAE raises important and sensitive political, economic and legal issues. The broader policy question concerns a conflict between the importance of permitting free competition and the need for protecting the rights of the trademark holder.

Some in the UAE may argue that agents/distributors would abuse the market because of the exclusive agency.⁴¹ Parallel imports would not be sold in competition with goods subject to an exclusive agency agreement. Those agents/distributors are strong merchants.⁴² They may desire to protect themselves from the interference of small competitors or merchants since they do not have to lower their prices to compete with parallel imports.⁴³ Small merchants may not be able to benefit from price discrimination among

different markets. Closed distribution channels would impede free trade, competition, and consumer choice in terms of product and price.

Those with opposing views may counter that local agents/distributors/wholesalers have built the goodwill of imported products through their time consuming and expensive marketing plans, promotional efforts, and by providing a product warranty through after-sale servicing.⁴⁴ The purpose of all these programmes is to maintain clients and increase the sale of goods. Agents provide services and incur costs that parallel importers do not provide or incur.⁴⁵ Thus, parallel importers enjoy a free ride at the expense of authorized distributors. In addition, parallel imports may damage product quality control.⁴⁶ The quality of product frequently varies from region to region.⁴⁷ Poor quality in parallel imports could cause consumer confusion and diminish the reputation of the manufacturer and agent. In analysing the language of the Commercial Agency Law, one can find a protectionist flavour in protecting domestic interests. This is obvious when reading the language in the Commercial Agency law which states that commercial agents are entitled to prevent products subject to their agency from being imported into the UAE if the agent is not the consignee.

VII. CONCLUSION

Parallel importation represents a thorny issue as it is intertwined with the economic, political, and legal conditions in a particular country. Many intellectual property scholars and experts have studied merits and demerits of parallel importation. The UAE faces the difficult path of choosing the appropriate path in addressing parallel importation.

There is no definitive solution for the issue of parallel importation in the UAE. Nevertheless, the UAE cannot maintain the *status quo*. The Trademarks Law does not address clearly whether parallel imports infringe trademark rights and whether it adopts a national or

³⁹ See The Federal Commercial Transactions Law No. 18 of 1993, Articles 64-66.

⁴⁰ To avoid any administrative difficulty, some large companies in the UAE, who act as agent or distributor for foreign corporations, appoint a parallel import coordinator.

⁴¹ There are six commercial agents who control more than 40 per cent of the UAE commodity market. See 'Inflation and Price Hike in the UAE; Effects and Solutions' available at <<http://www.albayan.ae/across-the-uae/1186581628317-2007-08-12-1.781298>> (12 August 2002).

⁴² See Bernard M Hoekman and Jamel Zarrouk, *Catching Up with the Competition: Trade Opportunities and Challenges for Arab Countries* 239 (2000).

⁴³ See 'MEA Consumables Market Continues to Grow but Faces Mounting Pressure from Parallel Imports' available at <<http://idc-cema.com/eng/about-idc/press-center/58276-mea-consumables-market-continues-to-grow-but-faces-mounting-pressure-from-parallel-imports>> (27 April 2014).

⁴⁴ See Sarmad Hasan Manto, 'The Perils of Grey Market Trade' (October 2014), available at <<http://www.theoath-me.com/s/the-perils-of-grey-market-trade>> (last visited 14 February 2016).

⁴⁵ The agent/distributor is required to provide spare parts and other items which are necessary and sufficient for maintenance of the imported goods. See Commercial Agency Law, Article 11.

⁴⁶ See Manoj Nair, 'UAE's Auto Market Sees Flare up in Grey Imports' Gulf News (24 March 2014).

⁴⁷ See International Trademark Association, 'Position Paper on Parallel Import' (July 2007) 10 (Goods may have been formulated or packaged for a particular jurisdiction, and then are imported into a different jurisdiction from that intended by the brand owner. Motor lubrication oils are radically different for the Middle East and Scandinavia. This is to the detriment of the consumer and erodes the brand owner's value in the brand).

international exhaustion of rights. Further, UAE case law does not provide clear guidance under what circumstances parallel imports may be permitted, and what if appropriate government permits are obtained. Trademark owners and their agents use the UAE agency law to prevent parallel importation. The UAE agency law should not be used as a backdoor – through exclusive agreements – to ban parallel importation and replace the role of trademarks law. Trademarks law should play a central stage in addressing the issue of parallel importation in the UAE.

Although placing a total ban on parallel imports in the UAE seems the easiest way, it is unrealistic. This will even exacerbate the current situation where the authorized agent enjoys monopolistic position. As long as there are differences in market conditions among countries, parallel imports will exist. A total ban on parallel imports will lead to further legal uncertainty and may even encourage counterfeit trade. Therefore, the question that needs to be answered is how to balance the interests of stakeholders i.e. trademark owner and commercial agent, and those of the consumers.

As a first step, the UAE should consider the costs and benefits of allowing parallel imports. Parallel importation promotes free and healthy competition in both price and service. The source of supplying and distributing products for UAE's market would be diversified. Then, the UAE needs to modify its trademarks law and other regulations in a way to address parallel importation in an orderly fashion. For example, parallel importation could be allowed where there is no evidence consumer confusion. The burden of proof for consumer confusion – which could be a very substantial – falls upon the importer/agent for the genuine goods. In most parallel importation cases, there are no guarantees and after-sales services. Therefore, the UAE may want to require a labelling system to inform consumers that parallel products are not subject to guarantees and other services. The UAE, through the Ministry of Economy, could even require retailers to market their products as parallel importation. In addition, the UAE should keep the door open for trademark owners and their licensees to challenge parallel importers. This allows the courts to be proactive in addressing the issues not covered by the law and create guidelines under which the various parties involved can bring an action to protect their interests.

Now UAE has a good opportunity more than at any previous time to learn from the experience of other countries that have decided to regulate and not totally ban parallel importation, instead of following our own restrictive model. It is important for any future trademarks law in the UAE to be flexible no matter which approach the country decides to adopt.

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