

A Set of Standardized Exceptions for International Exhaustion of Trademark Rights with Respect to Parallel Imported Goods

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Sponsoring Committee: Parallel Imports Committee

RESOLUTION

WHEREAS, trademark owners often design their products, packaging and sales and distribution networks to meet specific cultural, environmental and other conditions in specific countries;

WHEREAS, consumers expect that products will be appropriately formulated for their geographic regions;

WHEREAS, the value of a trademark depends in large part on the goodwill generated by providing the consumer with a consistent level of quality and service and a product with features that meet the consumer's expectations based on the consumer's past experience with the product bearing the trademark; and

WHEREAS, the value of a trademark can therefore be undermined and consumers' expectations can be frustrated if a standard of international exhaustion of trademark rights and free parallel importation is strictly followed;

WHEREAS INTA resolved in its 2015 [Board Resolution](#) that national exhaustion of trademark rights in relation to the parallel importation of goods should be applied and in those countries that currently follow international exhaustion, and in which political or other conditions make it highly improbable that national exhaustion would be implemented, a material differences standard should be adopted in order to exclude parallel imports that are materially different from those products authorized for sale by the trademark owner in the domestic market;

WHEREAS while many jurisdictions allow for exceptions to the exhaustion of trademark rights in certain cases of violations of laws, local standards or legitimate interests of the trademark owner (including the trade mark owner's right to determine which products are placed on which market), there is a need to define which facts and circumstances should qualify as grounds for such exceptions on the basis of "material differences";

BE IT RESOLVED, that it is the position of the International Trademark Association that:

The following standard set of exceptions to the rule of exhaustion should be used as a guideline to define products that are "materially different" from those products authorized for sale by the trademark owner in the domestic market:

- Where there are differences in the ingredients, product quality and/or appearance (including the product packaging and/or labelling) between products that the trademark owner places on the market in the import country and those imported by the importer,

which are relevant to consumers in their purchase decision or may lead to disappointment of consumer expectations and risk damaging the reputation of the brand;

- Where the imported product does not comply with safety standards in the country of importation;
- Where the imported product does not comply with regulatory requirements in the country of importation, especially where there is a risk to consumer health (for example for medicinal products, medical devices, food, cosmetics, electrical products);
- Where mandatory or customary warranties and/or product or consumer support are not provided in the country of importation;
- Where the mandatory description on the packaging, the labelling or in accompanying materials, such as instructions for use, is not in the national language of the import country¹;
- Where information that is mandatory in the country of importation is absent from the packaging and/or labelling (e.g., manufacturer, ingredients, quantity, weight);
- Where the necessary tracking information (e.g. batch code and/or tracking barcode) have been removed, manipulated or damaged;
- Where the importer has de-branded or co-branded the goods in a way that could lead to consumer confusion regarding the origin of the products or the existence of a commercial relationship between the trademark owner and the importer;
- Where the product packaging and/or labelling has been modified but where the changes to the packaging and/or labelling (i) are not legally necessary in order to import and market the product, and/or (ii) affect the original condition of the product inside the packaging, and/or (iii) is such as to be liable to damage the reputation of the trade mark and of its owner.

BACKGROUND

The debate over parallel importation focuses on the extent to which a trademark owner should be allowed to maintain control over its own brands by using its trademark rights in a country (or group of countries defined as “national”²) to restrict the importation of goods into that country after the goods have been put on the market somewhere else by the trademark owner or with its consent.

¹ In some countries/regions, exceptions are applied in the interest of free trade, such as putting a sticker to the packaging with the legally necessary information or adding instructions for use in the local language. Such exceptions should take into account the legitimate interests of trademark owners and only be allowed under defined and strict requirements. In particular, any changes to the packaging should only be allowed where they are necessary in order to market the product in the country of importation, the presentation of the repackaged product should not be such as to be liable to damage the reputation of the trademark and of its proprietor, and the trademark owner should be enabled to review any changes to the packaging.

² “National” in this Resolution refers to an independent country or group of countries which have adopted a single, common market with an overriding governmental authority, which operates rules and regulations in the field of intellectual property for the common market, and which operates a court system which has the ultimate authority on the interpretation and enforcement of those rules and regulations. The European Community (or by special treaty the European Economic Area) is an example of a single market. Treaties ruling free trade in a given area may not fall under this definition.

Despite the clear advantages of national exhaustion in protecting IP owners and consumers, political or economic interests may favor international over national exhaustion. In these circumstances, it is critical for those countries to provide for the exclusion of parallel imports which put the safety and legitimate interests of consumers, as well as the rights of trademark owners, at risk because the products are materially different from those products authorized for sale by the trademark owner in the domestic market. Such cases should be viewed as exceptions to exhaustion.

No International Consensus on Exhaustion of Rights

There is currently no international treaty in the field of trademarks dictating a standard of national or international exhaustion. The Paris Convention does not address the issue. The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) is deliberately neutral on the subject. Article 6 of TRIPS states “For the purposes of dispute settlement under this Agreement ... nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.”

In 2014, INTA’s Parallel Imports Committee conducted a survey of the countries located in North America, Europe, Latin America, the Caribbean, Central Asia, and the Asia-Pacific region and determined that the majority appear to impose international exhaustion (e.g., China, Japan, India, Australia, Korea, Paraguay, Switzerland, and Uruguay). Some countries follow national exhaustion (e.g., Brazil, Russia). The European Union and European Economic Area applies a system of regional exhaustion unless legitimate reasons amount to an exception to such exhaustion. The UK applies the same regional exhaustion but asymmetrically in that UK rights are exhausted once products are sold with the right holder’s consent in the EEA, but rights in the EU (and EEA) are not exhausted with a first sale in the UK. Finally, some countries follow an approach that focuses on material differences. For example, in the United States, parallel imports are generally prohibited if they are materially different from their authorized U.S. counterparts in ways that may matter to consumers (e.g. product formulation, compatibility, warranty coverage).

In 2015, INTA adopted a Board Resolution supporting the case for national exhaustion. The present resolution aims to further develop that case and – based on the survey conducted – propose a standardized set of exceptions to be applied in jurisdictions which apply international exhaustion.

The Need for a Standard set of Exceptions to Exhaustion

Exceptions to exhaustion are well developed in the EU, UK and in the United States under the concepts of “legitimate reasons” (EU, UK) and “material differences” (US).

In the leading US case of *Societe des Produits Nestle*³, chocolates manufactured for the Venezuelan market were excluded from the US due to differences in ingredients, in the configuration and variety of shapes included in the collections, in the color and gloss of the packaging, in the language on the packaging, and in the quality control procedures governing the temperature at which the chocolates were transported. Other material differences recognized by US courts include scratched off serial numbers, dosage information in an unfamiliar unit of measurement, lack of a valid warranty, and failure to comply with food labeling regulations.

³ *Societe des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633 (1st Cir. 1992).

Materiality should not be determined solely by objective criteria (i.e. non-compliance with product safety laws, labeling regulations), but includes anything that could affect consumer purchase decisions, or that could create consumer dissatisfaction after the purchase.

Material differences do not need to be physical in nature, as many non-physical differences (such as the absence of product support, warranty, or instructions in the consumer's native language) may be material to the consumer. Nor do the differences in question have to be so extreme as to threaten the health or safety of the consumer, as the consumer's legitimate expectations may be defeated regardless of the risk of physical harm.

The European Union⁴ recognizes the equivalent concept by clearly stating that exhaustion "shall not apply where there exist legitimate reasons for the trademark owner to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market". The same exception applies in the UK⁵. European case law (presently applicable in the UK) has compiled examples of cases in which these legitimate reasons apply, for example:

(a) Serious Damage to Reputation

Concerning the repackaging of trademarked goods, trademark owners have a legitimate interest to oppose parallel importation of repackaged goods if the presentation of the repackaging is liable to damage the function or reputation of the trademark. In *Dior v. Evora*⁶ the Court held that in the case of prestigious, luxury goods, the reseller must not act unfairly in relation to the legitimate interests of the trademark owner, namely by endeavoring to prevent advertising from detracting from the allure and prestigious image of the goods.

(b) (False) Impression of Commercial Connection

In *BMW v. Deenik*⁷, the CJEU held that a reseller's advertising using the original trademark in a way that could create the impression that there is a commercial connection between the reseller and the trademark owner may constitute a legitimate reason for an exception to exhaustion^{8,9}.

(c) De-branding

In *Portakabin*¹⁰, the CJEU held that, where resellers, remove the original trademark from the goods ('de-branding') and replace it with a label bearing the reseller's

⁴ Article 15 (2) EUTMR

⁵ Section 12(2)(a) of the UK Trade Mark Act 1994

⁶ *Dior v. Evora*, CJEU C-337/95

⁷ *BMW v. Deenik*, CJEU decision No. C-63/97

⁸ within the meaning of Article 7(2) of the Directive.

⁹ Such advertising is not essential to the further commercialization of goods put on the EEA market under the trademark by its owner or with their consent. Moreover, it is contrary to the obligation to act fairly in relation to the legitimate interests of the trademark owner and it affects the value of the trademark by taking unfair advantage of its distinctive character or repute. It is also incompatible with the specific object of a trademark which is, according to the case law of the Court, to protect the owner against competitors wishing to take advantage of the status and reputation of the trademark.

¹⁰ *Portakabin*, CJEU decision No. C-558/08

name, with the result that the trademark of the manufacturer of the goods in question is entirely concealed, the trademark owner is entitled to rely on its trademark rights to oppose commercialization as proposed.¹¹

(d) Repackaging

Repackaging comprises cases where the reseller changes the package of the goods without altering the goods themselves. In *BMS v. Paranova*¹² the CJEU established five conditions¹³ which exclude the trademark owner from objecting to the further commercialization of the goods. If any of these conditions is not met, the trademark owner's trademark rights are not exhausted and they may be used to oppose the further commercialization of re-packaged goods.

(e) Refilling

Refilling occurs where trademarked containers are refilled by a supplier who is not an authorized dealer of the owner after the first sale. In these situations, the CJEU established (*Viking Gas*¹⁴) that the initial sale of a product exhausts the trademark rights and transfers to the purchaser the right to use the product freely, including a refilling of the product, unless the impression of a connection between the two undertakings is created.

A recent survey of jurisdictions applying international exhaustion, demonstrates that rules have been established – by legislation or jurisprudence - that allow for an exception to exhaustion based on differences between domestic and imported products. Such rules are included in laws relating to packaging, labelling, advertising law, product integrity laws (ingredients/ content), consumer protection (warranties/ compatibility), quality control/health & safety or other regulations outside the field of intellectual property.

For example:

Many countries that apply international exhaustion already allow an exception to the rule of exhaustion, including in the following situations:

- if the mandatory language on the packaging or in accompanying materials, such as instructions for use, is not in the national language of the import country¹⁵;

¹¹ In such a case, damage is caused to the essential function of the trademark to indicate and guarantee the origin of the goods, and the consumer is prevented from distinguishing the goods originating from the owner and those originating from the reseller or other third parties.

¹² *BMS v. Paranova* CJEU decision Nos. C-427/93, C-429/93 and C-436/93

¹³ Namely, where: a. opposing would contribute to the artificial partitioning of the markets between the Member States, b. repackaging does not affect the original condition of the product inside, c. the new packaging clearly states who repackaged the goods, d. the presentation of the repackaged products is not detrimental to the reputation of the trademark and the owner, e. the importer gives prior notice to the owner before putting the product on sale.

¹⁴ *Viking Gas*, CJEU decision No. C-46/10

¹⁵ For example: Bosnia, Malaysia, New Zealand, Serbia, Switzerland, UAE, India, US.

- if information that is mandatory in the country of importation (e.g., manufacturer, ingredients, quantity, weight) is absent from the packaging¹⁶;
- if the imported product does not comply with regulatory requirements in the country of importation, especially where there is a risk to consumer health (for example for medicinal products, medical devices, food, cosmetics, electrical products)¹⁷;
- if the mandatory warranties and/or product support are not provided for the country of importation¹⁸
- if the necessary tracking information for example the batch code and/or tracking barcode have been removed by the importer¹⁹
- if the importer has de-branded or co-branded the goods before import in a way that could lead to consumer confusion regarding the origin of the products or the existence of a commercial relationship between the trademark owner and the importer²⁰
- if there are differences in the ingredients, product quality and/or outer appearance between products that the right holder places on the market in the import country and those imported by the importer, in a way that leads to disappointment of consumer expectations and risks damaging the reputation of the brand²¹

Conclusion

The research confirms that many jurisdictions allow for exceptions to trademark exhaustion based on various “material differences” arising from violations of laws, local standards or the legitimate interests of the trademark owner (including the trademark owner’s right to determine which products are placed on which market). However, laws, regulations and practices are different and untransparent making it challenging for right holders to claim these exceptions and ensure adequate protection of trademark rights. The Parallel Imports Committee therefore recommends that INTA adopt this Resolution to assist in the definition of facts and circumstances that should give rise to an exception to trademark exhaustion for products that are “materially different” and promote harmonization in favor of advancing the policy interests supported by legitimate exceptions to exhaustion.

¹⁶ For example: Argentina, Bosnia, Ecuador, Malaysia, Mexico, New Zealand, Qatar, Serbia, India, Peru, Ukraine, UAE, US.

¹⁷ For example, Bosnia, Ecuador, Malaysia, Mexico, New Zealand, Singapore, Ukraine, Argentina, Peru, South Africa, The United States.

¹⁸ For example: Argentina, Malaysia, Canada, India

¹⁹ For example: China, Hongkong, India, New Zealand, US

²⁰ For example: Malaysia, New Zealand

²¹ For example: Bolivia, Bosnia, China; Hongkong, India, Malaysia, New Zealand, Serbia, South Africa, Switzerland, Taiwan, The United States