

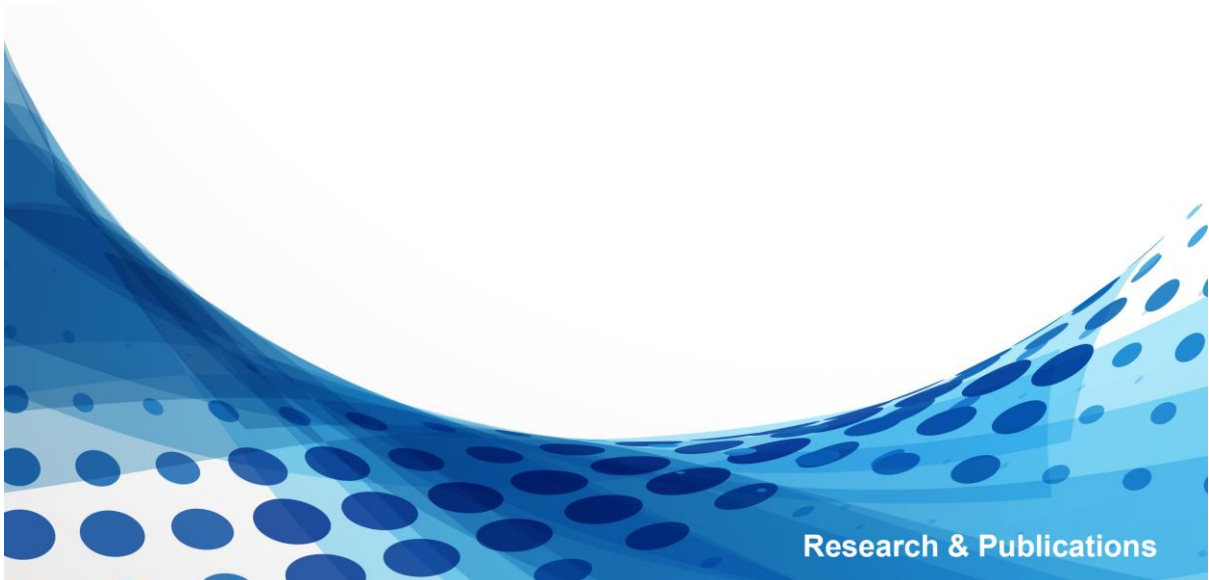


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Trademark Proprietor’s “Moral Right” as an Exception to the Doctrine of Exhaustion of Rights in Trademarks

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Trademark Proprietor’s “Moral Right” as an Exception to the Doctrine of Exhaustion of Rights in Trademarks

Sahana Simha[‡] & M P Ram Mohan^{*}

Abstract

Trademark law is primarily viewed as a consumer protection law. Proprietary and consumer interests are not always balanced. This is especially evident in the doctrine of exhaustion of rights in trademarks, where the trademark owner loses control over the further distribution of their trademarked product once sold. Existing statutory exceptions to this doctrine allow the proprietor to take action against resellers only when the product has been impaired or changed. The exceptions do not account for harm or damage to the reputation and goodwill associated with a trademark as a ground to override exhaustion. This paper analyses legislative and judicial decisions regarding exceptions to exhaustion under Indian trademark law, with a comparative examination of rulings from the US and EU jurisdictions. We then highlight the theoretical differences between trademark and copyright law, exploring moral rights in copyright law and the anti-dilution theory of trademarks. In doing so, we examine the feasibility of expanding exceptions to the doctrine of exhaustion to include proprietary concerns, in addition to consumer and market considerations.

Keywords: Trademarks, Doctrine of Exhaustion, Moral Rights, Copyright Law

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Introduction

When the owner of a trademark sells a good bearing their mark, they lose control over the further distribution of the product, and this is referred to as the doctrine of exhaustion of rights in trademarks. The contours of various intellectual property laws and in most cases, contract laws as well, influence the post-sale use and distribution of a product. Within trademark law itself, various interests are at stake upon the sale of a trademarked product. These interests include consumer protection, prevention of anti-competition¹ and proprietary concerns². Attempting to balance and address all these interests becomes a challenge when a trademarked product enters a market.

Conventionally, trademark law has been viewed as a consumer protection law.³ This is evident in the approach taken by courts while deciding trademark disputes. For example, in India, a popular test used by the courts in trademark disputes is to view similar trademarks from the perspective of individuals who have average intelligence with imperfect recollection⁴. This consumer perspective is used to determine whether confusion among the public can result in harm to a trademark's reputation or goodwill. Given this understanding, the reputation associated with a trademark is not protected in isolation. This can impact a trademark owner's ability to protect their mark for reasons other than consumer interest when their rights are exhausted on the first sale of the good. The protection of a trademark in the absence of consumer confusion is recognized by the anti-dilution theory of trademarks⁵ (explored in Part 3), which can aid in the protection of a trademark as-is during instances of exhaustion of rights in trademarks.⁶

¹ L Donald Prutzman & Eric Stenshoel, *IP Exhaustion around the World: Differing Approaches and Consequences to the Reach of IP Protection beyond the First Sale: The Exhaustion Doctrine in the United States*, *New York State Bar Association International Law And Practice Section Fall Meeting* 1, 15 (2013).

² See generally Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARVARD LAW REVIEW 813 (1927).

³ Mark P McKenna, *The Normative Foundations of Trademark Law*, 82 NOTRE DAME LAW REVIEW 1839, 1844 (2007). This view of trademarks is limited to the affects trademarks have on consumption by the public. Trademarks can be understood and justified through a number of philosophical theories including the utilitarian and economic theory, labour justification, personhood theory or the social-planning theory [see Mohammad Amin Naser, *The Philosophical Foundations of Trademarks*, in REVISITING THE PHILOSOPHICAL FOUNDATIONS OF TRADEMARKS IN THE US AND UK 15 - 60 (2010)]. For the purpose of this paper, we simply highlight the consumer-centric approach discussed in literature and contrast it with the contours of the anti-dilution theory of trademarks with the support of moral rights in copyright law.

⁴ See generally *Amritdhara Pharmacy vs Satyadeo Gupta*, 1963 AIR 449.; *Cadila Health Care Ltd. versus Cadila Pharmaceuticals Ltd.*, 2001 (2) PTC 541 SC.

⁵ Jeanne C Fromer, *The Role of Creativity in Trademark Law*, 86 NOTRE DAME LAW REVIEW 1885, 1917 (2011).

⁶ While it can be argued that anti-dilution is incorporated in Section 29 (8) of the TM Act, this provision is limited to instances involving advertising of the mark. It does not address post-sale concerns. This restricts the circumstances wherein a trademark proprietor can seek relief against damage or harm to the reputation and goodwill associated with the trademark after the exhaustion of rights post-sale.

Exhaustion of rights in trademark is subject to certain statutory exceptions. These exceptions permit trademark proprietors to take action against resellers when the product has been altered or modified.⁷ However, harm or damage to reputation and goodwill is not statutorily recognized as an exception to exhaustion, leaving proprietary interests in a precarious position. If such harm were recognized, trademark proprietors could use it to protect their marks. Examining the unique frameworks of other intellectual property laws can aid in accommodating the interests of trademark owners when their rights are exhausted upon the sale of the product.

Under copyright law for instance, these issues are addressed by the clear segregation of economic and moral rights of authors. Copyright law contains provisions that specifically protect the honor and reputation of the creator of the work beyond the economic interest in the work. These are the inalienable moral rights derived from the Berne Convention⁸ and codified in the Indian Copyright Act, 1957.⁹ The concept of inalienable rights is not recognized in trademark law but can become relevant in the context of exhaustion. The anti-dilution theory of trademarks recognizes the importance of protecting the goodwill and reputation of a mark on its own.¹⁰ It allows for the recognition of the proprietary interests in a trademark as separate from consumer interests.¹¹ This theory does not provide for segregation and demarcation of rights under trademark law to the extent that it exists under copyright law. Incorporating moral rights into the doctrine of exhaustion of trademarks can possibly help better define the rights-holding following the exhaustion of rights upon the sale of a product. This can serve as the theoretical backdrop to aid in the judicial interpretation of exceptions to exhaustion of trademarks when proprietary concerns are the primary subject matter.

To determine the applicability of moral rights to trademark law, comparing the basis for the grant of rights in trademark and copyright law is necessary. Trademark law confers exclusive rights to the owner of the trademark, whereas copyright law grants exclusive rights to the creator of the work. The creator of a trademark and the author of a copyrighted work are not comparable, as the former is not the rightsholder in trademark law. Since the relationship between the trademark owner and the trademark is different from that of an author and their creative work, the rights conferred in each of these intellectual properties naturally vary.

⁷ The Trade Marks Act, (1999) at Section 30 (4).

⁸ Berne Convention for the Protection of Literary and Artistic Works, (1886) at Article 6bis.

⁹ The Copyright Act, (1957) at Section 57.

¹⁰ See generally Schechter, *supra* note 2.

¹¹ Sarah Harding, *Perpetual Property*, 61 FLORIDA LAW REVIEW 285 (2009) at 306.

Therefore, treating moral rights as an exception to exhaustion can be challenging without examining the nuances of proprietary interest in trademark law and theory.

Existing literature looks at various case laws wherein the exhaustion of trademarks and its exceptions have been applied by different courts.¹² This study provides an applied perspective by highlighting case-to-case variations of exceptions to the exhaustion of trademarks. Considering the consumer protection and anti-competition purposes of trademark law, the theoretical justifications for incorporating proprietor interest within the ambit of exceptions to the doctrine of exhaustion remain less explored. The justifications can play a key role in ascertaining the importance of the protection of goodwill and reputation in a manner similar to moral rights protection. The objective of the present paper is to broadly identify whether exceptions to the doctrine of exhaustion are limited to consumer benefit or can be expanded to encompass the protection of proprietor interest. As a caveat, this paper shall be limited to an analysis of the doctrine of exhaustion of trademarks in relation to corporeal property only. Further, the terms ‘owner’ and ‘proprietor’ are used interchangeably in relation to a trademark.

Part I of this paper examines the meaning of the doctrine of exhaustion, its justifications, and the exhaustion of trademarks in India. Part II looks into the exceptions to exhaustion as understood through judicial decisions in the US, EU and India. Part III explores the theoretical justification for moral rights under copyright law and whether it can be extended to trademark law in the context of exceptions to the doctrine of exhaustion.

1. Doctrine of Exhaustion of Trademarks and its Justifications

According to the doctrine of exhaustion of trademarks, when a good is sold under a trademark by its proprietor, the proprietor loses control over the further distribution and commercialization of the good.¹³ Thus, in law, the trademark proprietor’s exclusive rights to use the mark in relation to goods and services¹⁴ are exhausted once sold.

¹² See generally Sneha Jain, *Parallel Imports and Trademark Law*, 14 JOURNAL OF INTELLECTUAL PROPERTY RIGHTS 14 (2009); Irene Calboli, *International Intellectual Property Scholars Series: Reviewing the (Shrinking) Principle of Trademark Exhaustion in the European Union (Ten Years Later)*, 16 MARQUETTE INTELLECTUAL PROPERTY LAW REVIEW 257 (2012); Simon Geiregat, *Trading Repaired and Refurbished Goods How Sustainable Is EU Exhaustion of Trade Marks?*, GRUR INTERNATIONAL 1 (2023); Dr Apostolos Chronopoulos, *Exceptions to Trade Mark Exhaustion: Inalienability Rules for the Protection of Reputational Economic Value*, 43 EUROPEAN INTELLECTUAL PROPERTY REVIEW 352 (2021).

¹³ Ariel Katz, *The Economic Rationale for Exhaustion: Distribution and Post-Sale Restraints*, in RESEARCH HANDBOOK ON INTELLECTUAL PROPERTY EXHAUSTION AND PARALLEL IMPORTS 23 (Irene Calboli & Edward Lee eds., 2016), <https://china.elgaronline.com/view/edcoll/9781783478705/9781783478705.00009.xml> (last visited Feb 28, 2024).

¹⁴ The Trade Marks Act, *supra* note 7 at Section 28.

There are three types of exhaustion: regional, national and international exhaustion. In regional exhaustion, when a trademarked product is sold in a particular region, the proprietor's rights in that product are exhausted for that region only. Beyond such a region, the proprietor continues to have the exclusive right to distribute the good.¹⁵ The European Union follows regional exhaustion of trademarks: the 'region' being the European Union.¹⁶ In national exhaustion, when a trademarked product is sold in a country, the proprietor's rights are exhausted in the entire country. The purchaser, who acquires the product from the owner of the mark, is free to distribute that product anywhere in that country without any intervention from the trademark proprietor.¹⁷ However, if the purchaser places the product for sale outside the country, the trademark proprietor can interfere with the distribution of the product. The trademark owner retains exclusive control and rights over the product outside the country.¹⁸ Lastly, in international exhaustion, when a trademarked product is sold anywhere in the world, i.e., within or outside regional or national markets, the proprietor's rights are exhausted throughout the world. International exhaustion views the entire world as a single market and therefore confers onto the purchaser of a trademarked product, the right to distribute it anywhere in the world without intervention from the trademark proprietor.¹⁹

The loss/exhaustion of rights of a trademark owner is counter-balanced by exceptions to the doctrine of exhaustion. Based on the statutory provisions on exceptions to exhaustion, the need for the exception arises from modification or alteration of the goods in the secondary market, which could be detrimental to consumer interests. Therefore, trademark law grants the trademark owner the right to prevent further dealing when there is reason to believe that the goods have been changed or impaired.²⁰ Exceptions to the doctrine of exhaustion, its justification, scope and judicial interpretations are explored in detail later in this paper.

1.1. Justifications for Exhaustion of Trademarks

Article 6 of the Agreement On Trade-Related Aspects Of Intellectual Property Rights (“**TRIPS**”) states that the TRIPS Agreement will not address the issue of exhaustion of intellectual property rights.²¹ Effectively, the Members of TRIPS are permitted to establish and

¹⁵ Jain, *supra* note 12 at 15.

¹⁶ JEREMY PHILLIPS, TRADE MARK LAW A PRACTICAL ANATOMY 273-275 (Oxford University Press, 2003).

¹⁷ Jain, *supra* note 12 at 15.

¹⁸ Jain, *supra* note 12 at 15.

¹⁹ *Id.*

²⁰ See The Trade Marks Act, *supra* note 7 at Section 30 (4); Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to approximate the laws of the Member States relating to trade marks, (2008) at Article 7 (2).

²¹ Agreement on Trade-Related Aspects of Intellectual Property Rights, (1994) at Article 6.

follow their own rules relating to exhaustion of intellectual property rights by taking into consideration several factors, including market size, development, trade, and other economic factors.²² As a result, each country follows their own statutory provisions and judicial interpretations of exhaustion.

1.1.1. Possibility for Perpetual Ownership of Trademarks as a Reason for Exhaustion

Existing literature explores the doctrine of exhaustion as a legal concept founded on economic justifications²³, which largely examine its market and consumer relevance. This includes the possibility for perpetual ownership of a trademark²⁴ in comparison to other types of intellectual property. Perpetual ownership of a trademark occurs because a trademark owner can obtain registration for a period of 10 years from the date of filing in India²⁵ and can subsequently renew the registration²⁶ countless times, subject to continued usage of the trademark. The point of differentiation between trademarks and other types of intellectual property is the renewal of protection. Under copyright law, protection is conferred only for a limited duration.²⁷ In the case of artistic, dramatic, literary, and musical works, copyright protection lasts for the life of the author and 60 years after their death.²⁸ For sound recordings and cinematograph films, copyright protection is granted for a period of 60 years from the year in which the work is created.²⁹ In the case of trademarks, ownership is transferrable as it is not tied to the creator of the mark but rather to the individual or business who establishes a link between the mark and the business thereunder.³⁰ Such transferability and the ability to renew protection allows for perpetual ownership of a trademark.

In the realm of copyright, since protection is conferred for a limited period, downstream use of the work does not require permission from the author or owner beyond the period of protection. In comparison, perpetual ownership over a trademark, if unchecked, can swiftly lead to monopolistic and anti-competitive practices.³¹ For trademarks, in theory, at no stage will

²² Irene Calboli, *Intellectual Property Exhaustion and Parallel Imports of Pharmaceuticals: A Comparative and Critical Review*, in ACCESS TO MEDICINES AND VACCINES IMPLEMENTING FLEXIBILITIES UNDER INTELLECTUAL PROPERTY LAW 31, 35 (Carlos M. Correa & Reto M. Hilty eds., 2022).

²³ Katz, *supra* note 13 at 25.

²⁴ Carsten Fink, *Entering the Jungle The Exhaustion of Intellectual Property Rights and Parallel Imports*, in INTELLECTUAL PROPERTY AND DEVELOPMENT – LESSONS FROM RECENT ECONOMIC RESEARCH 173 (Carsten Fink & Keith E. Maskus eds., World Bank – Oxford University Press, 2005) 177.

²⁵ *Supra* note 7 at Section 25.

²⁶ *Id.*

²⁷ The Copyright Act, *supra* note 9 at Chapter V.

²⁸ *Id.* at Section 22.

²⁹ *Id.* at Sections 26, 27.

³⁰ Fromer, *supra* note 5.

³¹ See generally, Harding, *supra* note 11.

downstream usage of the trademark and sale thereunder be permissible without explicit permission from the proprietor. Secondary markets would thus be controlled by the trademark owner, thereby depriving the market of competition³² and the consumers of competitive prices.³³ This dissonance lays the foundation for the doctrine of exhaustion of trademarks. Exhaustion aims to counter-balance the economic effects of perpetual trademark ownership made possible by the renewal of protection and transferability of ownership.

1.1.2. Impact of Competition and Consumer Protection on Exhaustion

The facilitation of competition and consumer protection also play a key role in defining the doctrine of exhaustion of rights in trademarks. Economically, the justification for this doctrine is that once the proprietor of the trademark receives appropriate financial benefit from the sale of their goods, the goods must then be subject to free movement in the market.³⁴ This fosters the creation of secondary markets, promotes competition and plays a crucial role in tackling predatory pricing practices.³⁵ Absolute sale under the doctrine of exhaustion allows businesses in the secondary market to offer a variety of products under different marks to consumers. The loss of control by the trademark proprietor over the distribution of the goods once sold helps preserve competition³⁶ by preventing the formation of monopolies that are detrimental to aftermarkets and consumers.³⁷

Consumers also significantly benefit from the exhaustion of trademark rights.³⁸ By taking control over the good away from the proprietor of the trademark, secondary markets are able to provide consumers with greater choice at lower and more competitive prices³⁹ and also improve accessibility and affordability for consumers.⁴⁰ Through exhaustion, secondary

³² Exhaustion mainly impacts intra-brand competition, such as competition between two retailers selling products under the same brand (ex: Apple), and not inter-brand competition (ex: competition between Apple and Samsung products). *See generally* Keith E. Maskus, *Parallel Imports*, 23 *THE WORLD ECONOMY* 1269, 1278 (2000).

³³ Katz, *supra* note 13 at 25.

³⁴ Geiregat, *supra* note 12 at 2.

³⁵ Jain, *supra* note 12 at 15. In the absence of the doctrine of exhaustion of rights in trademarks, consumers are limited to purchasing goods from the owner of the trademark. As a result, the owner of the trademark, having exclusive control over their trademark and the goods sold thereunder, can ascribe any value to their goods. The doctrine of exhaustion of rights in trademark plays a key role in countering the predatory pricing practices that a trademark owner can partake in at the point of first sale by allowing for the creation of a secondary market. This is because the secondary market offers consumers with the option to purchase the same goods at lower prices in comparison to the prices charged by the trademark owner.

³⁶ Sebastian International Inc. v. Longs Drug Store Corporation, 53 F.3d 1073 (9th Cir. 1995) at 1075.

³⁷ Jain, *supra* note 12.

³⁸ It is important to note that benefit to consumer may not always be absolute. In a scenario with high-price and low-price markets, international exhaustion might equalize prices, but not necessarily to the lower rate. Brand owners could raise prices in the low-price market to protect high-price market profits, known as third-degree price discrimination, disadvantaging low-price market consumers. *See* Maskus, *supra* note 32 at 1275-1276.

³⁹ Jain, *supra* note 12.

⁴⁰ Katz, *supra* note 13 at 25.

markets can ensure that goods discontinued by the trademark proprietor remain available to the consumers for a period of time.⁴¹ Overall, the benefits accorded to consumers by the doctrine of exhaustion of trademarks plays a crucial role in reducing consumer lock-in.

At the macro level, the exhaustion of trademarks can also facilitate innovation.⁴² Exhaustion can act as an economic deterrent to trademark proprietors. It facilitates competition and levels prices which deprives the proprietor of control and continued financial reward. To offset this lack of control, producers may be encouraged to enhance innovation and introduce better-quality products into the market to reap increasing benefits.⁴³ Periodic upgrades and innovations to the products allow the trademark proprietor to develop and maintain the brand's value.⁴⁴ This helps the proprietor secure a devoted consumer base and obtain a prominent position in the market. However, this comes with the challenge of mounting research and development and production costs, which could potentially make the increasing investments into innovation counterproductive for the producer.

The doctrine of exhaustion of trademarks seeks to protect consumers and market competition by revoking the trademark proprietor's control over their products once they are sold. The economic justifications for the doctrine fail to encompass proprietor interests upon exhaustion. Regional and national exhaustion allow trademark owners to retain exclusive control over the distribution of their products outside the region and the country, respectively. However, as international exhaustion treats the world as one market, the exclusive rights held by trademark owners are limited to the first sale of the product. The only relaxation to the relinquishment of rights are legislative exceptions carved out in statutes and interpreted by courts in judicial decisions.

Economic harm caused to the trademark proprietor when goods are sold pursuant to the exhaustion doctrine is often not recognized as a ground that provides the proprietor with a remedy under the law.⁴⁵ In extension, less importance is accorded to reputational risks associated with exhaustion of rights. With the presence of the original trademark serving as a guarantee of the identity, source and quality of the goods, the doctrine of exhaustion appears

⁴¹ *Id* at 27.

⁴² *Id* at 26.

⁴³ *Id*.

⁴⁴ Returning to the example technology companies, companies such as Apple, Samsung and OnePlus periodically release upgraded models of mobile phones, tablets, laptops and smart watches to draw the interest of its customers. These upgrades can include improved cameras, foldable screens, longer battery life, etc. Innovations add value to the products and the brand, thereby allowing the companies to maintain dominance in the market at the point of first sale.

⁴⁵ *Iberia Foods Corp v. Ronaldo Romeo, Jr*, 150 F.3d 298 (3rd Cir. 1998) at 303.

to be aimed at preserving a trademark's reputation and goodwill.⁴⁶ However, the loss of control has a direct impact on the trademark proprietor's ability to protect the mark's reputation and goodwill and prevent dilution. As a result, the doctrine of exhaustion and the resulting loss of control can be challenging for trademark owners, potentially disincentivizing them from expending efforts to protect the reputation and goodwill associated with the trademark.

In India, exhaustion of trademarks has not been explored extensively. Section 30 (3) of the Indian Trade Marks Act, 1999 (hereinafter referred to as the "**TM Act**") deals with exhaustion. There are only a very few judicial decisions that have interpreted this provision. The next section explores the statutory and judicial underpinnings of the doctrine of exhaustion of rights in Indian trademark law.

1.2. Exhaustion of Trademarks in India

The doctrine of exhaustion of trademarks is outlined in Section 30 (3) of the TM Act in India. Section 30(3) states:

*“(3) Where the goods bearing a registered trade mark are **lawfully acquired** by a person, the sale of the goods in **the market** or otherwise dealing in those goods by that person or by a person claiming under or through him is not infringement of a trade mark by reason only of—*

(a) the registered trade mark having been assigned by the registered proprietor to some other person, after the acquisition of those goods; or

(b) the goods having been put on the market under the registered trade mark by the proprietor or with his consent.”⁴⁷

Section 30 (4) of the TM Act only uses the term “market” while describing secondary dealings with trademarked goods. It does not signify whether the “market” is regional, national or international. This was clarified by the Delhi High Court in *Kapil Wadhwa & Ors. v. Samsung Electronics Co. Ltd. & Anr.*⁴⁸

In this case, the respondents, Samsung Electronics, claimed that Kapil Wadhwa was importing Samsung printers from foreign markets and selling them in the Indian market under the ‘Samsung’ trademark at lower prices than Samsung itself. For Samsung, Wadhwa's actions amounted to infringement of their trademark. Wadhwa argued that, as long as the goods are

⁴⁶ *Supra* note 36.

⁴⁷ The Trade Marks Act, *supra* note 7 at Section 30 (3).

⁴⁸ *Kapil Wadhwa & Ors. vs Samsung Electronics Co. Ltd. & Anr.*, (2013) 53 PTC 112 (DB).

sold “*as-is*”, the purchase and sale of the printers in India is authorized. The Delhi High Court had to determine whether the provisions of the TM Act embody national or international exhaustion of trademarks.⁴⁹ The Court referred to the Statement of Objects and Reasons of the Trade Marks Bill, 1999 which stated that the exhaustion of rights envisaged under Section 30 (3) and (4) prevents the owner of the trademark from prohibiting the marketing of goods in *any geographical area* on the ground of trademark rights.⁵⁰ According to the Court, the use of the term ‘any geographical area’ reflected the legislative intent to recognize international exhaustion.⁵¹ Therefore, the Court concluded that the term ‘the market’ stated in Section 30 (3) of the TM Act refers to the international market, and consequently, the doctrine of international exhaustion of rights is followed in India.⁵² This decision defined the territorial scope of the doctrine of exhaustion of rights in trademarks in India.

A trademark proprietor’s intent to territorially segregate the distribution of their goods can result in conflicting applications of the doctrine of exhaustion. This was evident in the case of *Patanjali Ayurved Limited v. Masala King Exports Trading Pvt. Ltd. and Ors.*⁵³ Patanjali argued that its products, which were meant for domestic sale only, were being illegally exported by Masala King Exports. The Delhi High Court recognized that Patanjali does not permit the export of its products as they were solely intended for domestic sale,⁵⁴ and consequently directed Masala King Exports to stop exporting Patanjali’s products internationally.⁵⁵ However, they were permitted to sell the products in the domestic market.⁵⁶ This case signifies that a proprietor’s right to exercise control over the sale of a trademark owner’s products can be separate for domestic and international markets. In contrast, the Delhi High Court’s interpretation of the term ‘market’ under Section 30 (3) in the *Kapil Wadhwa* case⁵⁷ to mean the international market connotes the absence of territorial segregation and viewing the world as a single market. The conflict arising from varied interpretations by the Delhi High Court makes it unclear whether proprietors must seek remedy for infringement of trademark based

⁴⁹ *Id* at 5.

⁵⁰ *Id* at 57.

⁵¹ *Id* at 58.

⁵² *Id* at 71.

⁵³ *Patanjali Ayurved Limited v. Masala King Exports Trading Pvt. Ltd. and Ors.*, MANU/DE/1391/2019 at 8, 9 and 11.

⁵⁴ *Id* at 18.

⁵⁵ *Id* at 20.

⁵⁶ *Id* at 21.

⁵⁷ *Supra* note 48.

on their territorial right over the mark, or invoke the exception to exhaustion to seek relief against downstream usage of their marks in the market.

The Delhi High Court's decision in the case of *Philip Morris Products SA & Anr. Vs. Sameer & Ors.*⁵⁸ harmonizes the territorial ambiguity between international exhaustion, a trademark proprietor's territorial sale intent and trademark infringement. The Court highlighted a crucial component of exhaustion under Section 30 (3) of the TM Act, i.e., "lawfully acquired". Since India follows international exhaustion, the Court stated that if genuine goods are lawfully acquired outside India and sold in the Indian market, it would not be considered infringement under Section 30 (3).⁵⁹ In the event the seller is unable to prove that the goods were lawfully acquired, their actions could amount to infringement of trademark (which is actionable under Section 29 of the TM Act)⁶⁰. The reseller would not be afforded protection under Section 30 (3), i.e., the reseller would not be entitled to freely engage in further dealings or distribution of the goods, if the goods are not lawfully acquired.⁶¹ The Court's observations are crucial for harmonizing the inconsistency between seeking relief under Section 29 or 30 (4). If the conditions of Section 30 (3) are not satisfied by the reseller, the trademark owner's rights are not exhausted and the owner is entitled to seek remedy for infringement of trademark under Section 29 of the TM Act. If Section 30 (3) is complied with, then the trademark owner's rights are exhausted and the owner may seek relief under Section 30 (4)⁶² depending on the facts of the case.

The *Kapil Wadhwa case* established that international exhaustion is recognized in India. Since Section 30 (3) of the TM Act embodies international exhaustion, the secondary market does not have any geographical boundaries, thereby exposing Indian trademark owners to further dealings and impairment of their goods across the world. Therefore, the boundless nature of international exhaustion gives rise to the need for exceptions to exhaustion. Much like

⁵⁸ Philip Morris Products S.A & Anr. Vs. Sameer & Ors., (2014) 58 (PTC) 317.

⁵⁹ Philip Morris Products S.A & Anr. Vs. Sameer & Ors., (2014) 58 (PTC) 317 at 40.

⁶⁰ For quick reference, Section 29 of the Trade Marks, Act, 1999 reads as: "29. *Infringement of registered trade marks.—(1) A registered trade mark is infringed by a person who, not being a registered proprietor or a person using by way of permitted use, uses in the course of trade, a mark which is identical with, or deceptively similar to, the trade mark in relation to goods or services in respect of which the trade mark is registered and in such manner as to render the use of the mark likely to be taken as being used as a trade mark.*" For the sake of brevity, only sub-section (1) has been quoted. Refer to the Trade Marks, Act, 1999 for the full text of Section 29.

⁶¹ *Id* at 41.

⁶² For quick reference, Section 30 (4) of the Trade Marks, Act, 1999 reads as: "(4) *Sub-section (3) shall not apply where there exists legitimate reasons for the proprietor to oppose further dealings in the goods in particular, where the condition of the goods, has been changed or impaired after they have been put on the market.*"

exhaustion itself, each country is free to determine the statutory and judicial bounds of exceptions to exhaustion.

2. Exceptions to the Doctrine of Exhaustion of Trademarks

The doctrine of exhaustion of trademarks is subject to certain exceptions. Determining the applicability of the exceptions remains controversial and varies on a case-to-case basis across jurisdictions.⁶³ Broadly, the exceptions to the doctrine of exhaustion of trademarks encompass circumstances where sellers in the secondary market alter or modify the good⁶⁴ or the trademark itself. The exceptions override the lack of control imposed by the exhaustion doctrine and allow the trademark proprietor to interfere with the secondary seller's distribution or further commercialization of the product.⁶⁵

The challenge arises while attempting to balance the interests of consumers, trademark proprietors and, in the context of exhaustion, the resellers.⁶⁶ It is pertinent to note that variations in the approach taken by Courts are not only influenced by the facts of the case but also the treatment of trademarks as an intellectual property in different jurisdictions, which are discussed below.

2.1. Judicial Perspectives on Exceptions to Trademark Exhaustion

The TRIPS Agreement does not establish a standard on exhaustion of rights in a trademark,⁶⁷ and thus variations arise in the application and interpretation of the exceptions. In the statutory provisions on exceptions to exhaustion, only the term 'legitimate reason' is used to describe a trademark proprietor's right to oppose further dealing involving the goods.⁶⁸ The statutory language does not elaborate on the ambit of 'legitimate reason'. Instead, in various cases, Courts across jurisdictions have interpreted and expanded its meaning based on the facts and circumstances. The manner in which Courts address the issue of exception to the doctrine of exhaustion of trademarks also differs among jurisdictions due to the lack of an international standard.

⁶³ Geiregat, *supra* note 12; Anna Tischner & Katarzyna Stasiuk, *Spare Parts, Repairs, Trade Marks and Consumer Understanding*, 54 INTERNATIONAL REVIEW OF INTELLECTUAL PROPERTY AND COMPETITION LAW 26 (2023); Jain, *supra* note 12.

⁶⁴ The Trade Marks Act, *supra* note 7 at Section 30 (4); Directive 2008/95/EC *supra* note 20 at Article 7(2).

⁶⁵ *Id.*

⁶⁶ Samuel Dobrin & Archil Chochia, *The Concepts of Trademark Exhaustion and Parallel Imports: A Comparative Analysis between the EU and the USA*, 6 BALTIC JOURNAL OF EUROPEAN STUDIES 28 (2016) at 46.

⁶⁷ Calboli, *supra* note 22.

⁶⁸ See The Trade Marks Act, *supra* note 7 at Section 30 (4); Directive 2008/95/EC *supra* note 20 at Article 7 (2).

Largely, the jurisdictional variations embody either an approach towards consumer protection, prevention of confusion, and / or protection of the proprietary interests of a trademark. This depends on the treatment of trademarks in particular jurisdictions, which also shapes the outcomes of these cases. The following sections will examine the decisions of the US and European courts on exceptions to exhaustion.

2.1.1 United States of America

In the US, the Commerce Clause of the Constitution⁶⁹ recognizes the power of Congress to regulate copyright and patents to promote the progress of science and art. The Commerce Clause does not contain any reference to trademarks. In *Dawn Donut Co. v. Hart's Food Stores, Inc.*, the United States Court of Appeals (Second Circuit) held that Congress is conferred with the authority to regulate federal trademark laws under the Commerce Clause.⁷⁰ The language used in the Lanham Act⁷¹ specifically mentions the requirement for a trademark to be used in commerce for it to obtain protection under the law. This highlights how market and consumer considerations play a key role in defining trademarks, which is also evident in judicial decisions on exceptions to exhaustion. The EU follows a different approach to the protection of trademarks, which is explored later in the paper.⁷²

While deciding cases on exceptions to the doctrine of exhaustion of rights in trademarks, Courts in the US look at the *materiality of differences* and *quality control* issues in secondary markets.⁷³ According to the test of 'materiality of difference', while determining whether any changes made by a secondary seller have overridden the doctrine of exhaustion, it is relevant to look at the materiality of the differences in the goods. The boundaries of this test vary on a case-to-case basis. This was highlighted in *Societe Des Produits Nestle, S.A. v. Casa Helvetia*, the Court noted, "*There is no mechanical way to determine the point at which a difference*

⁶⁹ U.S. Const. art. 1, § 8, cl. 8 which states: "*To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;*".

⁷⁰ *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 365 (2d Cir. 1959). The Court noted that "*Clearly Congress has the power under the commerce clause to afford protection to marks used in interstate commerce.*"

⁷¹ 15 U.S.C. § 1051(a)(1) which states: "*(1)The owner of a trademark used in commerce may request registration of its trademark on the principal register hereby established by paying the prescribed fee and filing in the Patent and Trademark Office an application and a verified statement, in such form as may be prescribed by the Director, and such number of specimens or facsimiles of the mark as used as may be required by the Director.*"

⁷² See Annette Kur, *Convergence After All? A Comparative View on the U.S. and EU Trademark System in the Light of the "Trade Mark Study,"* 19 JOURNAL OF INTELLECTUAL PROPERTY JOURNAL OF INTELLECTUAL PROPERTY LAW LAW 305 (2012). At 310, Kur says, "*Most remarkable in comparison with U.S. trademark law is the fact that protection under the CTMR as well as the TMD is acquired by registration alone. There is no requirement that the mark be used in commerce at the time of application or registration, and it is also not necessary for the applicant to file a statement of intent to use at any time during the process.*"

⁷³ Junajoy Vinoya Frianeza, *The Angel Wears Prada, the Devil Buys It on The RealReal: Expanding Trademark Rights Beyond the First Sale Doctrine*, 51 PEPPERDINE LAW REVIEW 179, 193 (2024).

becomes “material”. Separating wheat from chaff must be done on a case-by-case basis.”⁷⁴ In *Softman Prod. Co., LLC v. Adobe Ststems Inc.*, it was held that when the goods sold by the reseller are materially different from the goods sold by the proprietor of the trademark, the doctrine of first sale fails to apply.⁷⁵ The test for material difference aims to ensure that a trademarked good is of the appropriate nature and quality that consumers are familiar with in order to avoid any confusion.⁷⁶

On the question of what constitutes the threshold of material differences, in *Davidoff & CIE, SA v. PLD International Corp.*,⁷⁷ the court reiterated that the threshold for material differences is low as even minor changes can be considered material. The term ‘material difference’ was interpreted by the Court to mean changes that a consumer regards as relevant when deciding to purchase a product. The Court also stated the threshold for materiality of difference must be low to accommodate even the slightest confusion caused to consumers as several factors impact consumer decision-making. In *Iberia Foods Corp v. Ronaldo Romeo, Jr*, the Court elaborated that the test of material difference takes into consideration any differences that can harm or damage the goodwill associated with the trademark. According to the Court, a difference is material when it causes confusion among consumers about the quality of the product, whereas a minor difference does not affect consumer perception. The Court highlighted the difficulty in listing the types of differences which may be perceived as material due to varied consumer preferences. As a result, the Court noted that material differences are those which damage goodwill associated with a mark.⁷⁸ Accordingly, to determine such damage to goodwill, consumer perception must be taken into consideration.

Another approach adopted by US courts to determine exhaustion of rights is to ascertain whether a reseller has complied with quality control measures set by the trademark owner. If a secondary seller fails to observe the quality control measures of the trademark proprietor, the goods are considered non-genuine, and such failure can constitute an exception to the doctrine of exhaustion.⁷⁹ In *Zino Davidoff SA v. CVS Corp.*, the reseller removed the unique production code from the product which interfered with the quality control measures of the trademark

⁷⁴ *Societe Des Produits Nestle, S.A. v. Casa Helvetia*, 982 F.2d 633, 641 (1st Cir. 1992).

⁷⁵ *Softman Prod. Co., LLC v. Adobe Ststems Inc.*, 171 F. Supp. 2d 1075 (C.D. Cal. 2001) at 1092.

⁷⁶ Fa-Chang Cheng, *Gaining Experience from a Case Analysis of the Parallel Importation of Trademark Goods in the United States*, 1 NTUT JOURNAL OF INTELLECTUAL PROPERTY LAW AND MANAGEMENT 183-188 (2012).

⁷⁷ *Davidoff & CIE, S.A. v. PLD International Corp.*, 263 F.3d 1297 (11th Cir. 2001) 1302.

⁷⁸ *Supra* note 45 at 303.

⁷⁹ *El Greco Leather Prod. Co. v. Shoe World, Inc.*, 806 F.2d 392, 395 (2d Cir. 1986), cert. denied, 484 U.S. 817 (1987)

proprietor.⁸⁰ The Court recognized the possibility of reputational damage that would arise if quality control by the proprietor is impeded, as the reputation of a mark signals the quality of the goods in the minds of consumers.⁸¹ This decision highlights how compliance with quality control measures is essential to protect the consumers and consequently the reputation of the trademark.

The approach taken by Courts in the United States with the test of material differences indicates that consumer perspective and confusion help to determine whether a trademark owner can seek relief against exhaustion of rights. Similarly, on the issue of non-compliance with quality control measures, the impact on consumer safety and consumption takes priority. These approaches underscore the consumer and market objectives of trademark law.

2.1.2. Europe

Professor Annette Kur emphasizes that a key factor distinguishing trademark protection in the US and the EU is the impact of ‘actual use’ of the trademarks on the protection of the mark in these jurisdictions.⁸² Unlike in the US, where the use of a mark is a prerequisite for seeking protection for the trademark⁸³, Kur highlights that trademarks are “*normal IP rights which can be acquired by registration*”⁸⁴. Professor Milton Conover, while studying comparative trademark law in common and civil law systems, states that in civil law jurisdictions, a trademark, used or not, can be held as a property right for several years.⁸⁵

Trademarks in Europe are viewed as similar to tangible property. Such an equation indicates that trademark ownership is treated as sacrosanct as physical property ownership. Kur also says, “*it is safe to hold that in comparison with its American counterpart, European law places more emphasis on the proprietary aspects of trademark protection.*”⁸⁶ The existence and protection of a trademark are therefore independent of the purpose it seeks to achieve. These differences in the protection of trademarks in the EU and the US are reflected in the approach taken by the Court of Justice of the European Union (“CJEU”) when deciding cases on exceptions to the exhaustion of trademarks. The CJEU has accorded greater importance to

⁸⁰ Zino Davidoff SA v. CVS Corp., 571 F.3d 238, 244 (2d Cir. 2009).

⁸¹ *Id.*

⁸² Kur, *supra* note 72 at 307.

⁸³ *Supra* note 71.

⁸⁴ Kur, *supra* note 72 at 322.

⁸⁵ Milton Conover, *Comparative Trade-Mark Rights in Common Law and Civil Law*, 29 NORTH DAKOTA LAW REVIEW 33 (1953) at 36.

⁸⁶ Kur, *supra* note 72 at 306.

protecting the proprietary interests of a trademark compared to the approach of courts in the US, which includes the test of material differences and issues with quality control.

The protection of the goodwill and reputation of a trademark has often been the focus of decisions of European courts. In *Copad SA v. Christian Dior Couture SA*,⁸⁷ Société Industrielle Lingerie (“SIL”) and Dior had entered into a contract permitting SIL to sell luxury goods bearing Dior’s trademarks. Following the conclusion of the contract by Dior, SIL continued to sell the goods bearing the trademark to Copad, a discount store which was outside Dior’s distribution network. Aggrieved by SIL’s actions, Dior filed a suit against SIL for infringement of the trademark. The case was eventually referred to the CJEU. The Court held that a breach of contract by the reseller resulting in damage to the reputation and prestige of the trademark could be construed as a ‘legitimate reason’ and, therefore, an exception to exhaustion under Article 7 (2) of the Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to approximate the laws of the Member States relating to trade marks.⁸⁸ It was also held that trademark rights are not considered exhausted if the reseller uses the mark in a manner that could harm the reputation of the trademark.⁸⁹

Another instance of the Court recognizing that reputational damage constitutes a ‘legitimate reason’ to override exhaustion arose in *Portakabin Ltd. v. Primakabin BV*. In this case, the ad-words ‘portakabin’, ‘portacabin’, ‘portokabin’ and ‘portocabin’ were purchased and used by Primakabin, a second-hand dealer in the sale and lease of mobile buildings. Portakabin claimed that these ad-words were similar to their trademark and brought an action against Primakabin. The CJEU held that using identical or similar advertisement keywords in and of itself does not give rise to the applicability of the exceptions to exhaustion. Only when the usage of similar or identical keywords has the potential to harm or damage the image or reputation of the impugned trademark, it is considered as a ‘legitimate reason’ against exhaustion.⁹⁰

Consistent with the cases outlined above, the term ‘legitimate reason’ under Article 7 (2) of the Directive 2008/95/EC was further interpreted in *L’Oreal v. eBay*. The online marketplace eBay was offering L’Oreal products for sale on its platform. These products were not authorized for

⁸⁷ Case C-59/08, *Copad SA v. Christian Dior Couture SA*, 2009 E.C.R. I-03421 at 30.

⁸⁸ For context, Article 7 of the *Directive 2008/95/EC supra note 20* reads as: “Exhaustion of the rights conferred by a trade mark. 1. The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent. 2. Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.”

⁸⁹ *Supra* note 87.

⁹⁰ Case C-558/08, *Portakabin Ltd. v. Primakabin BV*, 2010 E.C.R. I-06959 at 78.

sale in the European Economic Area. By virtue of being offered for sale on eBay, these products entered into the EEA without the consent of L’Oreal which prompted them to bring an action against eBay for trademark infringement. The CJEU noted that determining “legitimate reason” under Article 7 (2) of the Directive 2008/95/EC depends on the facts of each case. The CJEU also expanded the scope of Article 7 (2) by holding that a trademark proprietor can invoke this article when the packaging of a product has been removed, it harms the image of the product and, consequently, the reputation of the trademark.⁹¹ This decision contains a crucial elaboration on the ambit of exceptions to exhaustion, which are statutorily limited to alteration of the conditions of the goods. In *Boehringer Ingelheim KG and Others v Swingward Ltd and Dowelhurst Ltd.*, the dispute was in relation to alterations made by Swingward and Dowelhurst to the packaging of medicinal products under the trademark of Boehringer Ingelheim. The ECJ noted that a trademark owner could invoke the exceptions to exhaustion if the trademarked product is presented inappropriately in the secondary market, which can damage the reputation of the trademark.⁹² A trademark proprietor has the right to interfere with the further commercialization of their products to protect the image and reputation of their trademark.⁹³ Such damage to reputation is considered a ‘legitimate reason’ to override the exhaustion of rights.⁹⁴

The decisions of the CJEU indicate that damage to the reputation of a trademark is considered a key reason for a trademark owner to prevent the resale and distribution of their goods in the secondary market.⁹⁵ The original intent of the doctrine of exhaustion was to protect consumers from confusion and prevent unfair competition. However, judicial interpretations of the exceptions to exhaustion by the CJEU have allowed for trademark proprietor’s interests to be recognized and protected.⁹⁶ The decisions highlight that the purpose of trademark law is mainly the protection of business goodwill and reputation, which deviates from the traditional understanding of the consumer and competition function of trademark law.⁹⁷ We now turn to the statutory and judicial treatment of exceptions to the doctrine of exhaustion of rights in trademarks in India.

⁹¹ Case C-324/09, *L’Oreal SA v. eBay*, 2011 E.C.R. I-6011 at 83.

⁹² C-348/04, *Boehringer Ingelheim KG and Others v Swingward Ltd and Dowelhurst Ltd.*, EU:C:2007:249 at 43.

⁹³ Case C-337/95, *Parfums Christian Dior SA and Parfums Christian Dior BV v Evora BV*, (1997) E.T.M.R. 323 at 42–43.

⁹⁴ *Supra* note 87 at 59.

⁹⁵ Chronopoulos, *supra* note 12 at 360.

⁹⁶ Calboli, *supra* note 12 at 278.

⁹⁷ *Id* at 279.

2.2. Exceptions to the doctrine of exhaustion of trademarks in India

In India, the Trade And Merchandise Marks Act, 1958 did not contain a provision on exceptions to the exhaustion of trademarks. The exception was brought in when the law was comprehensively overhauled and enacted as the Trade Mark Act, 1999 following Article 6 of the TRIPS Agreement which permitted Members of TRIPS to establish and follow their own rules with respect to exhaustion of intellectual property rights. Section 30 (4) of the TM Act contains the exception to the doctrine of exhaustion of trademarks. Section 30(4) states:

“(4) Sub-section (3) shall not apply where there exists legitimate reasons for the proprietor to oppose further dealings in the goods in particular, where the condition of the goods, has been changed or impaired after they have been put on the market.”⁹⁸

The language used in the above provision indicates the lack of protection conferred on the trademark proprietor’s reputation and goodwill. The strict legal interpretation of the term “legitimate reasons” contained in the provision seems to encompass only change or impairment of the condition of the goods. It does not signify whether the legitimate reason is a function of harm to the trademark proprietor’s reputation or goodwill.

2.2.1. First Encounters with Exceptions to Exhaustion: Judicial Interpretation and Limitations

In India, while there are few judicial decisions on the applicability and scope of Section 30(4) of the TM Act, courts have been expanding its boundaries in cases relating to trademark exhaustion. The Delhi High Court, in the *Kapil Wadhwa* case, observed that a trademark owner has the right to oppose further dealings in a product if its condition has been impaired or changed, irrespective of whether the product has been put in the domestic or international market. This is because any change or impairment of the goods can reduce the trademark’s value and consequently harm the trademark proprietor. In this regard, the Court noted:

“Now, where the goods bearing a registered trade mark are put in the market, whether it be the domestic market or the international market, by the registered

⁹⁸ The Trade Marks Act, *supra* note 7 at Section 30(4). For quick reference, Section 30 (3) of the Trade Marks Act, 1999 reads as: “(3) Where the goods bearing a registered trade mark are lawfully acquired by a person, the sale of the goods in the market or otherwise dealing in those goods by that person or by a person claiming under or through him is not infringement of a trade mark by reason only of—
(a) the registered trade mark having been assigned by the registered proprietor to some other person, after the acquisition of those goods; or
(b) the goods having been put on the market under the registered trade mark by the proprietor or with his consent.”

*proprietor of the trade mark, the right to oppose further sale for the reason of the goods being impaired or conditions changed would be equally relevant and no distinction can be made with reference to the right in relation to the nature of the market. The reason is that if the condition of the goods is changed or the goods are impaired, they may diminish the value of the trade mark, causing injury to the registered proprietor of the trade mark.”*⁹⁹

The Court also observed that instances to evoke Section 30 (4) of the TM Act are not limited only to any change or impairment of the condition of the goods after they have been put on the market. The Court noted that the term “legitimate reasons” under Section 30 (4) can include differences in services and warranties,¹⁰⁰ advertising and promotional efforts,¹⁰¹ packaging,¹⁰² quality control, pricing and presentation,¹⁰³ as well as the language of the information regarding the product.¹⁰⁴ In its decision, the Delhi High Court went beyond the statutory terminology in Section 30 (4). The Court invoked the exception to the doctrine of exhaustion (i.e., Section 30 (4) of the TM Act) in relation to after-sale services only and not the distribution of the goods themselves. Distribution is permitted by virtue of the doctrine of exhaustion, whereas change or impairment of the goods may occur during after-sale services. Therefore, in the interest of consumer satisfaction and the reputation of Samsung, Kapil Wadhwa was required to indicate to customers that the products are imported and after-sale services are provided by Kapil Wadhwa without any association with Samsung.¹⁰⁵

The aim of this decision was to ensure that Kapil Wadhwa did not misrepresent any association with Samsung’s brand while they were importing and independently dealing in the distribution and servicing of Samsung’s products. Such misrepresentation could result in damage to Samsung’s reputation if consumers are not satisfied with the services provided by Kapil Wadhwa without any knowledge of their operations being independent of Samsung. The Court did not explain what may *diminish the value of the trademark* or how goodwill and reputational damage to the trademark proprietor can be brought within the ambit of Section 30 (4) of the TM Act. Nevertheless, the decision illustrates that exceptions to the doctrine of exhaustion can

⁹⁹ *Supra* note 48 at 50.

¹⁰⁰ SKF USA v International Trade Commission & Ors. 423 F.3d 1037 (2005); Fender Musical Instruments Corp. v. Unlimited Music Center Inc., 35 USPQ2d 1053(1995); Osawa & Co. v. B&H Photo, 589 F. Supp. 1163 (1984).

¹⁰¹ PepsiCo Inc v Reyes, 70 F.Supp 2d 1057; Osawa, *Id.*

¹⁰² Ferrero USA v. Ozak Trading, 753 F. Supp. 1240 (1991).

¹⁰³ *Supra* note 74.

¹⁰⁴ SKF USA, *supra* note 100; PepsiCo Inc *supra* note 101; Original Appalachian Artworks Inc. v. Granada Electronics Inc., 816 F.2d 68,76 (2nd Cir. 1987).

¹⁰⁵ *Supra* note 48 at 73 and 75.

be invoked to protect the reputation and goodwill associated with the trademark and, by extension, the proprietor as well.

The issue of exhaustion of rights with respect to products meant for sale in domestic markets or international markets was dealt with by the Delhi High Court in *Patanjali Ayurved Limited v. Masala King Exports Trading Pvt. Ltd. and Ors.* In this case, Patanjali claimed that Masala King Exports were illegally exporting Patanjali's goods outside the intended domestic market. The Court found that by affixing stickers and changing the list of ingredients and nutritional facts on the product, Patanjali's products had been materially changed by Masala King Exports.¹⁰⁶ Considering that the actions of Masala King Exports would damage the image of Patanjali, the Court passed an injunction restraining Masala King Exports from exporting Patanjali's products into the international market.¹⁰⁷ The Court recognized that the doctrine of exhaustion is overridden in this instance due to a risk of damage to the reputation of Patanjali. However, the Court did not provide justification for considering damage to reputation as an exception to exhaustion, despite it not being recognized in Section 30 (4) of the TM Act.¹⁰⁸ In contrast to its decision with respect to the international market, the Court permitted Masala King Exports to sell the products in the domestic market¹⁰⁹ without imposing any conditions on such sale. The Court did not examine whether alterations made to the product by Masala King Exports could affect Patanjali's goodwill in the domestic market. This introduces ambiguity in the interpretation and application of the exception to exhaustion.

2.2.2. Judicial Exploration of Exceptions to Exhaustion from a Proprietary Perspective

In the above cases, the Courts recognize that damage to reputation can be treated as an exception to exhaustion. However, the decisions do not elucidate the reason for such consideration in contrast with the statutory provision on the exceptions. A more nuanced explanation of proprietary concerns as an exception to exhaustion can be discerned from the decision of the Delhi District Court in the case of *TTK Registered Ltd. v. Hiveloop Technology*

¹⁰⁶ *Supra* note 53 at 18.

¹⁰⁷ *Id* at 20. The Court held that: "20. In view of the material placed on record, it appears that the Plaintiffs have made a strong prima facie case for grant of ex-parte ad-interim injunction against the Defendants. Balance of convenience is in favour of the Plaintiff and irreparable harm will be caused if, the Defendants are not restrained from continuing the illegal export of the Plaintiff's product in international market."

¹⁰⁸ A strict interpretation of Section 30 (4) of the Trade Marks Act, 1999 would indicate that a trademark proprietor's right to interfere with further dealings with respect to their products post-sale is limited to instances where the condition of goods is changed or impaired. Damage or harm to reputation and goodwill of a trademark is not considered as an exception to exhaustion under Section 30 (4) of the Trade Marks, Act, 1999.

¹⁰⁹ *Id* at 21.

*Private Ltd. and Another.*¹¹⁰ The Court recognized that the doctrine of exhaustion seeks to balance the interests of trademark and resellers. The Court stated that exhaustion of rights relates to the physical product in which the distribution right exists and is passed on to the reseller upon sale by the trademark owner. According to the Court, “*the owner does not lose all extensions of the trademark right.*”¹¹¹ A trademark owner’s right to use their trademark can be impeded when the product, although lawfully acquired, harms or damages the “*trademark’s intrinsic values, including distinctiveness and goodwill, during reprocessing and reselling*”. The District Court also noted that “*The bond between the trademark and the product cannot be severed.*”¹¹² This clarifies that a trademark owner continues to retain the right and interest in the trademark, post-sale of the product, to prevent harm or damage to the goodwill and reputation associated with the mark.

The approach adopted by the Courts in India with respect to exceptions to exhaustion is similar to the approach used in European decisions. Damage to reputation is recognized, but the determination of harm and damage is left to be decided on a case-to-case basis.¹¹³ In the European cases discussed above, although the facts differ, the Courts specifically expanded the scope of ‘legitimate reason’ under Article 7 (2) of the Directive 2008/95/EC to include damage to image or reputation of the trademark.¹¹⁴ In comparison, in the *Kapil Wadhwa* case, consumer satisfaction was combined with harm to the reputation of the trademark owner while deciding the issue of exception to the doctrine of exhaustion. In the *Patanjali* case, the Court noted that exhaustion was overridden as there was a risk of harm to the reputation of the trademark owner. However, the Court did not explicitly expand the scope of Section 30 (4) of the TM Act as it did not explore how reputational concerns can fall within the ambit of this statutory provision. The Delhi District Court’s detailed explanation of the effects of retention of trademark ownership post-sale of a product in the *TTK Registered Ltd* case aligns with the European decisions.

In contrast, the position taken in US cases involves a consumer-centric approach, which is not directly comparable to the outcome of cases in India. The tests of material difference and quality control have been developed through case law and are followed in most cases in the US, as discussed earlier in this paper. In India, such strict tests have not been developed or

¹¹⁰ *TTK Registered Ltd. v. Hiveloop Technology Private Ltd. and Another*, 2021 SCC Online Dis Crt (Del) 12 at 121.

¹¹¹ *Id.*

¹¹² *Id.*

¹¹³ *Supra* note 87 at 31.

¹¹⁴ *See generally* L’Oreal, *supra* note 91; Copad, *supra* note 87.

applied by the courts. Indian judgments include aspects of consumer confusion as exceptions to exhaustion, and they sometimes, without much statutory justification, recognize reputational damage in favour of trademark proprietors.

Judicial decisions on exceptions to the doctrine of exhaustion are influenced by statutory provisions as well as existing theories of trademark law. Therefore, establishing a theoretical foundation by comparing theories of trademark with copyright can allow for the recognition of damage to the reputation and goodwill of a trademark as an exception to exhaustion. Specifically, equating the anti-dilution theory of trademarks to moral rights under copyright law can justify the extension of the scope of statutory provisions on exceptions to exhaustion. This comparison and theoretical justifications are explored in detail in Part 3 of this paper.

3. Justifying Proprietary Interest in Trademarks: Comparing Copyright and Trademark Theory

Trademark law is largely considered as a consumer protection law. This is a result of theoretical underpinnings that highlight the consumer function of trademarks.¹¹⁵ A consequence of interpreting trademark law from the perspective of consumer welfare only is the lack of mechanisms within trademark law for the protection of the trademark itself. This is accentuated by the doctrine of exhaustion of trademarks where the trademark owner loses the right to exercise control over the good after the first sale. In copyright law, the element of author control over the integrity of the work post assignment of economic rights is explicitly set out as moral rights. This section will look at the theoretical foundation for moral rights under copyright law and compare it with theories of trademark law to outline the extent of control a trademark owner should hold with respect to the trademark post-sale.

3.1. Inalienable Moral Rights under Copyright Law

The justification for moral rights under copyright law is contained in the personhood theory of copyright. According to this theory, a creative work, when made by an individual, is viewed as an extension of their personality.¹¹⁶ This school of thought propounds that the creator's

¹¹⁵ McKenna, *supra* note 3 at 1844. This view of trademarks is limited to the affects trademarks have on consumption by the public. Trademarks can be understood and justified through a number of philosophical theories including the utilitarian and economic theory, labour justification, personhood theory or the social-planning theory [see Mohammad Amin Naser, *The Philosophical Foundations of Trademarks*, in REVISITING THE PHILOSOPHICAL FOUNDATIONS OF TRADEMARKS IN THE US AND UK 15 - 60 (2010)]. For the purpose of this paper, we simply highlight the consumer-centric approach discussed in literature and contrast it with the contours of the anti-dilution theory of trademarks with the support of moral rights in copyright law.

¹¹⁶ Jeanne C Fromer, *Expressive Incentives in Intellectual Property*, 98 VIRGINIA LAW REVIEW 1745 (2012) at 1753.

individualism is expressed in the work created.¹¹⁷ The personhood understanding of copyright law has given rise to the concept of inalienable rights in creative works.¹¹⁸ The manifestation of an individual's personality into a creative work results in an artist's entitlement to control their work as well as their identity, which has been infused into it. These inalienable rights are also known as moral rights.¹¹⁹ The justification for moral rights in copyright law stems from the assumption under the personhood theory that "*to mistreat the work of art is to mistreat the artist...to impair his personality*"¹²⁰.

Contrasting perceptions of intellectual property across jurisdictions have resulted in differing views on the inalienable rights under copyright law. In the US, intellectual property is generally viewed as a tool for propelling growth, innovation, and development.¹²¹ The existence and protection of intellectual property are determined based on the usage and purpose it serves.¹²² On the other hand, intellectual property is viewed as similar to tangible property in jurisdictions such as France and Germany.¹²³ Ownership of intellectual property is treated as akin to physical property ownership. As discussed earlier, the existence and protection of intellectual property are considered independent of the purpose it seeks to achieve.¹²⁴ A combination of the treatment of intellectual property in civil law countries along with the personhood theory justifies the recognition of the inalienable right to integrity in copyright law. The statutory recognition of inalienable moral rights arises from the Article 6bis Berne Convention¹²⁵ which grants authors the rights of attribution and integrity.

The concept of moral rights in India is derived from Article 6bis of the Berne Convention. Section 57 of the Copyright Act, 1957 provides for the protection of an author's special rights, which are labelled as "The Authors Moral Rights" by the Delhi High Court.¹²⁶ Section 57 states:

¹¹⁷ *Id* at 1754.

¹¹⁸ Cyrill P. Rigamonti, *Deconstructing Moral Rights*, 47 HARVARD INTERNATIONAL LAW JOURNAL 353 (2006) at 355-356.

¹¹⁹ See generally *Id*.

¹²⁰ JOHN HENRY MERRYMAN & ALBERT EDWARD ELSSEN, LAW, ETHICS, AND THE VISUAL ARTS (4 ed. 2002) 309.

¹²¹ See U.S. Const. art. 1, § 8, cl. 8., *supra* note 69; *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 365 (2d Cir. 1959), *supra* note 70.

¹²² Milton Conover, *Comparative Trade-Mark Rights in Common Law and Civil Law*, 29 NORTH DAKOTA LAW REVIEW 33 (1953) at 36.

¹²³ *Id*. Conover says, "*In the civil law of France and Germany, the trade-mark itself is considered as a property right. ... In civil law Germany, the trade-mark may be held in reserve as a "defensive mark" or a "contingent mark" for many years as a property right whether used or not.*"

¹²⁴ *Id*.

¹²⁵ Berne Convention for the Protection of Literary and Artistic Works, *supra* note 8 at Article 6bis.

¹²⁶ *Amar Nath Sehgal v. Union of India & Anr.*, (2005) 30 PTC 253 at 25.

“(1) Independently of the author’s copyright and even after the assignment either wholly or partially of the said copyright, the author of a work shall have the right—

(a) to claim authorship of the work; and

(b) to restrain or claim damages in respect of any distortion, mutilation, modification or other act in relation to the said work if such distortion, mutilation, modification or other act would be prejudicial to his honour or reputation... ”¹²⁷

Moral rights include the right of integrity, attribution or paternity, disclosure, and retraction or withdrawal.¹²⁸ In India, Section 57 (1) (a) of the Copyright Act, 1957 outlines the right of attribution and Section 57 (1) (b) confers the right of integrity. According to the Delhi High Court, *“Moral rights of the author are the soul of his works. The author has a right to preserve, protect and nurture his creations through his moral rights.”*¹²⁹ Such treatment of moral rights in India has laid a solid foundation for inalienable rights in copyright law. The recognition of the author’s persona manifesting in the work allows for the segregation of economic and moral rights under copyright law. As a result, the inalienable nature of moral rights can be understood through copyright licensing and assignment. When an author assigns or licenses their copyright in their work, the moral rights in the work, as set out in Section 57, are retained by the author.¹³⁰ Therefore, even after a transfer of rights, in the event any act in relation to the work results in mutilation, modification or distortion of the work, the author has the right to restrain such acts to protect their honour and reputation.

To understand the right to integrity in the context of trademarks, the relationship between the trademark owner and the mark must be compared to a copyright author and a creative work. This comparison can help discern the applicability of copyright theory to exceptions to exhaustion. The next part will explore the possible influence of copyright theory on enhancing the proprietary interests of trademarks.

¹²⁷ The Copyright Act, *supra* note 9.

¹²⁸ See generally, Henry Hansmann & Marina Santilli, *Auhors’ and Artists’ Moral Rights: A Comparative Legal and Economic Analysis*, 26 THE JOURNAL OF LEGAL STUDIES 95 (1997).

¹²⁹ Amar Nath Sehgal v. Union of India & Anr., (2005) 30 PTC 253 at 24.

¹³⁰ *Id* at 29.

3.2. Conferring the Trademark Owner with the Right to Integrity

The nexus between the rightsholder and the intellectual property in copyright law is different from that under trademark law. The creator of a work under copyright law is the individual conferred with exclusive rights to use and dispose of their work.¹³¹ Although a few exceptions exist to this understanding,¹³² the larger premise is the grant of rights to the person who has developed the creative work. In contrast, the creator of a trademark is not the individual who is granted exclusive rights under trademark law. The creator of the trademark may be entitled to rights under copyright law depending on the mark created.¹³³ Trademark law confers exclusive rights onto the individual or business that creates a link between the trademark and the business in respect of which it is used.¹³⁴ The creator of this link is rewarded for using creative means to connect a distinctive mark with unrelated goods and services.¹³⁵

Trademark law has broadly been considered as a means for the protection of consumers and market competition. Signs, symbols and marks perform the function of signaling the origin and distinguishing one's goods and services from that of another¹³⁶ with the aim of preventing confusion among consumers. Frank Schechter explored the expansion of the function of trademarks. According to him, a trademark determines the selling power of goods or services. The uniqueness of a mark depends on the efforts and ingenuity of its owner. Schechter says using a trademark with other goods or services can dilute the uniqueness and singularity of the trademark.¹³⁷ This indicates that a trademark can be recognized in relation to the business for which it is used and independent from the consumer/competition purposes related to the

¹³¹ See generally The Copyright Act, *supra* note 9 at Sections 2 (d), 13 and 14.

¹³² See Section 17 of Copyright Act, 1957 which states that in case of works created under a contract of service, the individual at whose instance the work is being created is conferred with the exclusive rights in the work and not the actual creator.

¹³³ SECRETARIAT WORLD INTELLECTUAL PROPERTY ORGANIZATION, *Standing Committee On The Law Of Trademarks, Industrial Designs And Geographical Indications: Trademarks And Their Relation With Literary And Artistic Works*, (2006), https://www.wipo.int/edocs/mdocs/sct/en/sct_16/sct_16_5.pdf (last visited Mar 18, 2024).

¹³⁴ Fromer, *supra* note 5 at 1900-1901. Fromer says, "...trademark rights did not directly protect the word or symbol used as a mark; rather, "[p]roperty rights arose out of particular uses of words or symbols in connection with a business, which was the ultimate object of protection." This creation of a link between a word or symbol and a business would later oftentimes be referred to as goodwill. It is just this type of goodwill that trademark law protects by giving rights in a trademark, that is, this linkage between signifier and business. This creator, then, is not the conventional one found in patent and copyright law. Rather, this creator is the one who first makes a link between a mark and a set of goods and services in a distinctive way. Trademark law rewards the creator of that link with exclusive rights.". See also McKenna, *supra* note 3 at 1885-1886.

¹³⁵ *Id* at 1906 and 1909.

¹³⁶ Keith Aoki, *Authors, Inventors and Trademark Owners: Private Intellectual Property and the Public Domain*, 18 COLUMBIA-VLA JOURNAL OF LAW & THE ARTS 191, 237 (1993).

¹³⁷ Schechter, *supra* note 2 at 830.

mark.¹³⁸ The advent of advertising allowed for a trademark to be viewed as a property deserving of protection to safeguard the goodwill associated with the mark. The need for such protection did not arise from conventional issues in trademark law such as consumer confusion.¹³⁹ Even in case of consumer confusion, some scholars argue that action for confusion caused by deceptively similar or identical trademarks is a function of a manufacturer's ownership of the trademark.¹⁴⁰ For example, in US jurisprudence, which is heavily influenced by the constitutional ideals of free speech, a trademark is a manufacturer's right of expression.¹⁴¹ This deviates from the conventional consumer-oriented justifications for trademark law¹⁴². A trademark is not necessarily considered as a consumer's right to obtain information.¹⁴³

Fromer describes that the effort expended by the owner of the business in creating a link between the trademark and the business affords the owner the exclusive right to use the mark.¹⁴⁴ Superimposing a trademark owner's right to protect their mark against dilution on Fromer's description of the relationship between a trademark and its owner allows for the recognition that a trademark owner also has a right to integrity. Keith Aoki says, "*the expansion of anti-dilution theory allows corporate trademark owners to manage closely their public personas, serving as a distant analog of an individual artist's "moral rights" of attribution and integrity, which protect an artist's work against downstream modification, distortion or mutilation, or a celebrity's right of publicity.*"¹⁴⁵ Aoki and Fromer borrow from the anti-dilution theory of trademarks to ascribe 'authorship' to trademark owners and enable their exercise of the exclusive right to protect the goodwill and reputation associated with the mark.¹⁴⁶

Moving away from the consumer protection perspective of trademark law, the anti-dilution theory of trademarks proposes that a trademark's value lies in its selling power, which is determined by the uniqueness and singularity of the mark.¹⁴⁷ The trademark proprietor's ingenuity and efforts have a direct bearing on the uniqueness of a mark.¹⁴⁸ One of the purposes

¹³⁸ Ram Mohan M. P. & Aditya Gupta, *Mutation of the Trademark Doctrine: Analysing Actionable Use to Reconcile Brand Identities with Constitutional Safeguards*, NATIONAL LAW SCHOOL BUSINESS LAW REVIEW 28 (2022).

¹³⁹ Aoki, *supra* note 136 at 238.

¹⁴⁰ William W. Fisher, *The Growth of Intellectual Property: A History of the Ownership of Ideas in the United States*, in 1 *Intellectual Property Rights: Critical Concepts in Law* 72 (David Vaver ed., 2006) 8.

¹⁴¹ Justin Hughes, *The Philosophy of Intellectual Property*, 77 *GEORGETOWN LAW JOURNAL* 287 (1988) at 330.

¹⁴² McKenna, *supra* note 3.

¹⁴³ Hughes, *supra* note 141.

¹⁴⁴ Fromer, *supra* note 5.

¹⁴⁵ Aoki, *supra* note 136 at 246.

¹⁴⁶ *Id.* at 242-243; Fromer, *supra* note 5 at 1916.

¹⁴⁷ Schechter, *supra* note 2 at 831.

¹⁴⁸ *Id.*

of trademark law is to confer the trademark owner with the right to protect against any misappropriation in recognition of the investment into the trademark and making the good available to the public under that trademark.¹⁴⁹ This further justifies the grant of protection to the individual who expends efforts to link the trademark to the business thereunder, which in turn influences the uniqueness of the mark.

The anti-dilution theory of trademarks allows businesses to protect their commercial persona, and creates a focus on the proprietary interests of a trademark.¹⁵⁰ This can be equated to an author's moral right in their work under copyright law.¹⁵¹ Moral rights under copyright law are intended to be inalienable. While exhaustion also applies in copyright law, the subject of exhaustion is the economic rights in the work and not moral rights.¹⁵² Extending this to trademark law provides trademark proprietors with the opportunity to interfere with further commercialization even if their rights are exhausted upon first sale to prevent acts that damage the goodwill and reputation of the mark. The statutory exceptions to the exhaustion of trademarks need not be strictly interpreted to exclude the protection of the reputation and goodwill of a trademark. Focusing on the interests of the trademark owner can positively impact the power, life and reach of a trademark.¹⁵³

Conclusion

The main purpose of intellectual property law is incentivization. Creators, innovators and owners continue to build on their intellectual property when their rights and interests are protected. When trademark law is viewed from the perspective of consumer protection and preservation of competition, proprietor interest assumes the least importance. To uphold the incentivizing function of intellectual property law, the copyright principle of inalienable moral rights can exemplify providing a trademark owner with control over their products and marks. The anti-dilution theory, in its explanation of the purpose of trademarks, can also support the adoption of a proprietor-friendly approach. Several European cases contain this approach where statutory provisions on exceptions to exhaustion have been explicitly interpreted to include protection of the reputation of a trademark.

¹⁴⁹ S. Rep. No. 1333, 79th Cong., 2nd Sess., 3 (1946).

¹⁵⁰ Harding, *supra* note 11.

¹⁵¹ Aoki, *supra* note 136 at 246.

¹⁵² See generally Musik-Vertrieb Membran GmbH and K-tel International v. GEMA, cases 55 and 57/80, 1981 E.C.R. 174, [1981] 2 C.M.L.R. 44 (1981) at 12.

¹⁵³ Harding, *supra* note 11.

Copyright law clearly segregates the economic and moral rights of an author. The right to integrity under copyright law is independent of the economic rights and allows authors to take action against any distortion, mutilation or modification of their works. Recognizing such segregation for trademarks, particularly in relation to its anti-dilution function, can confer a right to integrity upon trademark owners. This would enable them to protect the reputation and goodwill associated with their trademarks. Following the example of European decisions and theoretical comparisons with copyright law, Courts can play a key role in expanding the scope of the exceptions to exhaustion in India. This right to integrity for trademark owners should allow for enforcement that is independent of consumer considerations, thereby incentivizing the proprietor and strengthening the mark itself.