

Supreme Court issues landmark decision on parallel imports Israel - Gilat, Baret & Co, Reinhold Cohn Group

Internet issues
Dilution
Parallel imports

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In *Swissa v Tommy Hilfiger Licensing LLC* (CA 7629/12 and 8846/12, November 16 2014), the Israeli Supreme Court, within the context of an appeal from a [district court decision](#) prohibiting the intensive use of the mark TOMMY HILFIGER by a parallel importer, has defined the scope of permissible use of registered trademarks by parallel importers.

In the judgment, delivered by Justice Daphna Barak-Erez (with Deputy President of the Court Miriam Naor and Justice Dr Yoram Danziger concurring), the Supreme Court also addressed other important trademark concepts, such as use of third-party trademarks (including use in domain names and as keywords or AdWords), dilution, unjust enrichment, the judicial standing of parallel importers and statutory damages for infringement.

The judgment, which partially upheld the appeal of the parallel importer, adopted a relatively liberal approach to parallel importation and the freedom to use another's trademark in this respect, but nonetheless imposed restrictions on the activities of the parallel importer.

The Supreme Court first stated that the recognition of the legitimacy of parallel importation under Israeli law is based on the so-called doctrine of 'exhaustion' in IP laws. The judgment includes a thorough comparative law analysis with emphasis on the laws of the European Union, the United States, Canada and Australia, pursuant to which it was concluded that each jurisdiction finds a different point of balance between the considerations of free competition on the one hand, and protecting trademark owners on the other. The Supreme Court said that the right balance should be struck so as to accommodate "the circumstances of the country and its inhabitants" (this quote originates from the Palestine Order in Council 1922, which invoked the British Mandate for Palestine), and that there was a need to continue developing "made in Israel" parallel importation laws.

According to Israeli law, the legitimacy of use of another's trademark is determined according to a three-prong test (set out in *Golden Toto Subscribers Club Ltd v The Council for Arrangement of Gambling in Sport* (PD 59(1) 873 (2004) CA 3559/02), namely:

1. the 'identification' test (ie, whether it is possible to identify the goods without referring to the trademark);
2. the 'necessity of use' test (ie, the extent to which use of the trademark is necessary); and
3. the 'sponsorship' test (ie, whether use of the trademark creates confusion as to sponsorship of the trademark owner).

The Supreme Court noted that, although this three-prong test is generally applicable to parallel importation cases, it should be applied in a manner adapted to the institution of parallel importation. It held that, in the context of parallel importation, the third test is the most important one, and calls for checking whether consumers may be confused into assuming that there is a connection between the seller and the manufacturer.

Contrary to the district court, the Supreme Court held that it was not necessary for the parallel importer to market its products by referring specifically to "parallel importation"; the importer could convey this message in some other ways. The need to convey to customers that the goods are parallel imports depends on, among other things, the nature of the imported goods. For example, if a product warranty is not provided by the manufacturer, this should be explicitly mentioned.

Interestingly, the court held that the fact that the parallel importer had adopted the same palette of colours at that used in Tommy Hilfiger's logo (red, blue and white) to decorate its store was legitimate; however, if the parallel importer also copied the set up of the Tommy Hilfiger official store, then a likelihood of confusion would be established. Similarly, it held that using the domain name 'www.tommyhilfiger.co.il' would be deemed confusing and would not pass the 'necessity' test of the 'genuine use' defence of trademark law. It was further noted that the use of another's trademark as a keyword or metatag in search engines would also not be deemed to constitute infringement, but the issue did not directly arise in this case.

The Supreme Court further addressed the concept of trademark dilution, and held that it was irrelevant to cases of parallel importation; the fact that the products were sold in less exclusive stores for a lower price could not, by itself, "weaken" the trademark. It noted that the ruling of the European Court of Justice in *Parfums Christian Dior SA v Evora* (Case C-337/95) was based on Article 7(2) of the [Trademarks Directive](#)

(2008/95/EC), and not on the dilution doctrine, and that, in order to succeed in a trademark dilution action, one must show that, pursuant to the alleged dilution, the economic behaviour of the average consumer was changed, or at least that there is a strong likelihood that such a change would ensue. Finally, the Supreme Court concluded that the dilution doctrine could not form a "bypass conduit" allowing the trademark owner to prevent the parallel importation of its goods or to control the manner in which they are marketed.

Further, the court noted that, although the Law of Unjust Enrichment could apply in some circumstances to cases of parallel importation, it held that one should not ignore the fact that a trademark owner seeking to limit the exposure of the mark to intra-brand competition may achieve this by limiting its availability (eg, by eliminating price gaps between products sold in Israel and products sold abroad).

Finally, the Supreme Court issued an injunction against the parallel importer restraining it from using the name 'The Importer's Warehouse-Tommy Hilfiger'. The court further ordered the importer to:

- convey to its customers that it was not acting under the sponsorship of Tommy Hilfiger; and
- actively indicate this fact in its advertising materials, continuously and in reasonable frequency, whether by a declaration that it acts within the framework of parallel importation or through other ways.

The parallel importer was also ordered to indicate that it was not sponsored by the trademark owner on a conspicuous sign at the entrance of its business, and to highlight this fact in a reasonable manner on the home page of its website and on the 'About Us' page of the website.

As to damages, the Supreme court noted that there was an inherent difficulty in quantifying damages when dealing with IP claims. However, this does not exempt the plaintiff from its initial obligation to demonstrate the damage it has suffered, even by presenting evidence that may form only the basis for an estimate of the damage. It was further noted that the remedy of statutory damages without proof is not available under the [Trademarks Ordinance](#), but is available for the tort of passing off according to the Commercial Torts Law. Eventually, in the absence of sufficient proof as to the exact damage, the Supreme Court decided to make an order for damages in the amount of IS100,000 as nominal damages by way of estimate.

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