

## **Grey goods: What are they? and can they be imported legally?**

News items on legal topics in the areas of intellectual property and trade frequently refer to the importation of “grey goods”. Three questions arise in this regard:

- What is meant by the term “grey goods”?
- Why would anyone wish to import “grey goods”?
- Can the importation of “grey goods” into South Africa take place legally?

### 1. What is meant by “grey goods”

The term “grey goods” is used to denote goods/products which are subject to an intellectual property right (IPR), which are genuine goods/products (ie made by or legally bearing the trade mark of the owner of the IPR), but which are imported into South Africa without the authority of the owner of the IPR.

The IP right to which the goods/products may be subject could for example be a patent right, an industrial design right, copyright, or a registered trade mark right. The specific type of IPR which is applicable in a particular case will determine how the legality of the importation is assessed, and whether or not the importation can take place legally.

Apart from the applicability of one (or more) IPRs, the goods/products may also be subject to contractual rights, eg rights arising from a manufacturing and/or distribution licence. Such contractual rights may also have a bearing on the legality or otherwise of the importation.

### 2. Why would anyone wish to import grey goods?

A compelling reason for a trader to set up an importation business for grey goods relates to the existence of price differentials between different

countries. For whatever reason (such as cheaper labour or raw materials, more benign tax structures, etc) it is possible in practice to manufacture/produce certain commodities more cheaply in some countries than in others.

Furthermore, economically stronger countries may be able to carry higher selling prices than poorer countries. All of these factors give rise to price differentials which could be exploited by a trader by purchasing genuine goods/products in a country with a lower price structure and importing these into a country with a higher price structure, in the process generating a profit. Often this takes place without the authority of the IPR owner in the country of importation, to avoid payment of royalties.

3. Can such imports take place legally?

IP rights are territorial in nature, so that the IPR owner holds separate and independent IP rights in different countries. The effect of the IP rights in the case of patents, designs and copyright is to afford the IPR owner the right to control importation. Importation of goods, although legally obtained from an IPR owner (or his licensee/agent) in one country may not take place into another country where IP rights are held in respect of those goods, without the permission of the IP right owner in the country of importation. Such importation without the required authority is generally referred to as parallel importation, and the goods/products concerned as grey goods.

In the case of patent rights, design rights and copyright (the latter subject to certain qualifications) parallel importation would amount to infringement. In the case of trade marks, the importation of goods to which the trade mark has been applied with the consent of the proprietor would not constitute an infringement of trade mark rights. However, contractual rights may also be relevant, and the unauthorised importation could entail a breach of contract.