PARALLEL IMPORTS: THEORY AND PRACTICE

Dr Hazbo Skoko,
Charles Sturt University,
email: hskoko@csu.edu.au

Abstract
Parallel trade is known as “grey market” trade because it is not conducted with the consent of all parties. Since the mid-1980s there has been a growing interest in the international business literature in so-called parallel imports. Imported goods in parallel to an authorised dealer are products that entered a market in ways not intended by the original manufacturer. The purpose of this article is to explore process of parallel importing, what create this and the (dis)advantages it provides for both manufacturers and importers.

Key words: Parallel imports, grey markets, copyright, intellectual property.

1 Introduction
Few commercial events in recent years have generated as much controversy as parallel importation. Parallel trading has emerged as one of the major issues of ongoing discussion in the theory of international trade and practice. It contains a variety of pragmatic issues, including economic, legal, and marketing matters. On the one hand, it is desirable to shield the public from possible confusion or deception regarding the origin of a branded good. On the other hand, there are considered to be good reasons for preventing copyright and trademarks from being used to divide markets and to create artificial barriers to free trade. Therefore, there is no consensus about the current policy relating to parallel imports.

The debate over parallel trade, particularly in prescription drugs, in the United States is contentious and has some antecedents in the European experience, where the pendulum has at least temporarily moved toward allowing pharmaceutical companies to limit supplies to lower priced markets. Reimportation under current international law has been legally sanctioned until the recent ECJ ruling reversed a previous decision.

Governments must prevent manufacturers from negotiating vertical restraints with distributors, i.e. requiring distributors to limit their reselling, in order for parallel trade to function. The European Union restricts vertical restraints because they believe the resulting price discrepancies among EU nations will hurt social welfare. U.S. antitrust laws have also been used to guard against such restraining activity. In the European system, the countries set prices individually. Parallel traders then take advantage of arbitrage opportunities based upon the price discrepancies between nations.
Every year billions of dollars worth of products in the world market are imported outside (in parallel to) manufacturers’ (or copyright owners’) authorised distribution channels. The term parallel imports is used to emphasise the fact that unauthorised products are imported across country borders and a parallel channel is created to rival authorised ones.

Since the mid-1980s there has been a growing interest in the international business literature in so-called “grey market”, or what is referred to, in this study, as parallel imports. Imported parallel goods are products that entered a market in ways not intended by the original manufacturer. In fact, the term “parallel import” is a loosely used expression intended to explain any goods sold outside “normal”, authorised distribution channels. Taking about the topic Rothnie (1994) wrote: “Taking advantage of the lower price, some enterprising middleman buys stocks in the cheaper foreign country and imports them into the dearer, domestic country. Hence, the imports may be described as being imported in “parallel” to the authorised distribution network.” In addition, Rothnie (1994, 193) extended the legal meaning of parallel imports noting that under most current parallel import provisions the plaintiff is also required to prove that the defendant has:

- imported copyrighted goods into the domestic jurisdiction (for selling, letting for hire or by way of trade exhibiting, exposing or offering for sale or hire after such importation),
- imported without the license of the copyright owner: an article the making of which (a) infringed copyright or (b) would have infringed copyright if it had been made in the domestic jurisdiction, and
- with knowledge that the article so infringed, or would have infringed, the copyright subsisting in the domestic jurisdiction.

The crucial point made here by Rothnie (1994) is that parallel imports have, by definition, been made lawfully. Therefore, the actual making of the imported articles did not infringe copyright. The articles imported in parallel are not “pirate” copies. In effect, a parallel import channel exists alongside the authorised one set up by a manufacturer resulting in intrabrand competition.

2 The process of parallel imports

Goods imported in parallel, also known as gray goods, are genuine products that are imported without the authorisation of the trademark or copyright owner in a country. In other words, parallel importation takes place when a third party acquires branded goods from a source other than the producer of those goods, imports such goods into a country and sells them directly to the public, or sells them to retailers who then sell them directly to consumers.

Parallel imports affect a wide range of industries, spreading from traditional luxury and brand-name consumer products (wines, cameras, and watches) to industrial products. Industry sources estimate that parallel imports account for 10% of IBM’s PC sales, 20% of Sharp’s copier sales, and 20% to 30% of the world cosmetics and fragrances sales (Ahmadi
and Yang 1995). Belgium, for example, despite the fact that it has no automobile industry is a major car exporter in Europe—more than 25,000 cars some years. This export success story is because cars are cheaper in Belgium than in nearby countries, due to tax differences (Weigand 1991).

Another trend relating to parallel imports, is that this has evolved from basically a U.S. problem in the 1980's into a world-wide phenomenon in the 90's (Ahmadi and Yang 1995). When the U.S. dollar was strong, during the 1981-1986 period, the number of cars purchased in Europe by U.S. tourists grew 2,000%. In 1986 the total value of products distributed through unauthorised channels in the U.S. reached a peak of $10 billion (Palia and Keown 1991). This direction was reversed in subsequent years as other parts of the world, especially Asia and Europe, experienced rapid appreciation in their currencies and a corresponding surge of parallel imports (Ahmadi and Yang 1995). A 1991 survey of U.S. exporters to Asia showed that 41% of 141 respondents reported having problems with parallel imports in the past five years (Palia and Keown 1991). In 1990 pharmaceutical parallel imports in the European Community stood at $500 million (Lynn 1991 quoted in Ahmadi and Yang 1995, 3). In an increasingly integrated world, the annual growth rate of parallel imports has been estimated to be 22%, and this is expected to rise as new trade agreements, like NAFTA and GATT, further lower trade barriers across nations.

Since parallel importation yields a net profit to the parallel trader, such practices obviously, take place. There are essentially two reasons why parallel imports occur in international markets. The parallel import or “grey market” exists because foreign manufacturers practice price discrimination among countries and grey market sellers arbitrage these price differences. Second, parallel importers are more efficient than authorised sellers because parallel imports compete with the goods of authorised sellers, in turn leading to lower prices that are beneficial to consumers.

Those favouring parallel imports argue that international price discrimination or distribution inefficiencies in authorised distribution channels artificially restrict competition to the disadvantage of consumers in countries having higher prices. They say that parallel imports foster competition and efficiency, thus benefitting consumers in importing countries.

Some researchers argue that, while it is clear that active parallel imports cannot exist without price differentials between countries, the source of these differentials is not quite so apparent (Weigand 1991). Depending on the type of goods involved and the character of the market for the product, price differentials can be the result of a variety of factors, several of which are likely to exist in every case. These factors can range from honest enterprise, such as a diverter who takes advantage of favourable foreign currency exchange rates and engages in a sort of product arbitrage, to a manufacturer who attempts to discriminate by price in different (usually foreign) markets. Finally, the sale of quality, cancelled-license or distressed goods can also be considered an arguably honest endeavour that place goods into a parallel import category.
A more questionable strategy in regard to parallel imports, is free riding or the practice of selling goods identical to those sold by full-service dealers without incurring the expenses of promoting and servicing the product. Such free riding falls into two categories: advertising free riding and point-of-sale free riding. An advertising free rider takes advantage of the advertising and marketing efforts of authorised sellers, reaping consumer recognition and other benefits that flow from this advertising without incurring the attendant expense.

The second but distinct form of free riding, point-of-sale free riding refers to the failure of an importer to provide various ancillary services that consumers desire. Such services range from product instruction, to the maintenance of an inventory of spare and auxiliary parts, or the provision of warranty or repair services. Another type of free rider may also sell trademarked goods without taking sufficient safeguards to ensure product integrity. For example, by compromising on packing, transportation, storage, or inspection costs in order to keep the price of goods lower.

Therefore, in regard of the process of parallel imports, there is no end to the imaginative ways used to bring parallel imports to market. In another words there are a number of ways of doing importation in parallel but the following four methods, however, represent the bulk of market imports and are focus of much of the economic and legal attention. First, are those products made overseas by for example American firms (see Figure 1). These foreign units may be subsidiaries, joint venture companies, or some other entity which have a commonality of interests with the American company. This foreign affiliate may sell to nearby authorised distributors, for example, a French firm. Somewhere in the authorised channel, however, distribution control is lost and the product gets into an unauthorised channel and some of it is exported back to the United States. Here it competes with identical domestically produced products.

Figure 1. First case of the parallel imports process
A second method (Figure 2) of parallel importing is when a foreign manufacturer (e.g. German) licenses a company to be the exclusive importer of a product bearing a foreign name or trademark.

Figure 2. Second case of the parallel imports process

That company registers the foreigner’s name and becomes the legal trademark owner in their own market and agrees to pay royalties. Now, suppose that a third party trader purchases this same product which was intended for a third market. They then ship the product to the licensee’s market as parallel imports.

A third possibility of parallel importing arises when a manufacturer exports from its producing plant, only later to have the exports diverted back to the home market. This parallel importing strategy is known in official import statistics as re-importing. Re-importing is particularly attractive when:

- the manufacturer’s strategy is to sell into the foreign market at a substantially lower price than in the home market, due either to the market being poorer or there being dramatic exchange rate differences, and
- the foreign market is geographically close to the home market, thus minimising return transport costs.
This way of importing in parallel may also be developed on premises that an active parallel import cannot exist without price differentials between international markets. Figure 3 illustrates this. It shows a two-country representation of product flows along a manufacturer-distributor-retailer-consumer channel. When parallel importing occurs, products are leaked from every possible level of the supply chain, and an unplanned distribution flow is formed. Sales revenue and profits may therefore be re-allocated across supply chains in different countries, creating tension between the manufacturer and different distributors, which affects the manufacturer’s overall profitability.

Figure 3. Third case of the parallel imports process

Adapted from Ahmadi, R. (1995) 3.
Note for Fig. 1-3: Authorized trade ————
Authorized trade ————

The ability to exploit price differentials appears likely to result in the creation of parallel imports. However, price differentials inevitably invite arbitrage behaviour, if transportation costs, duties and tariffs between the countries are modest or negligible, as is the case in the software industry. Because of a favourable price differential, a parallel importer can enter the market and compete with authorised products. In contrast, if parallel imports are not allowed, buyers have no other choice than to purchase products priced well above the marginal cost in non-segmented markets.

A fourth way of parallel imports is the use of mail orders. This type of unauthorised channel is emerging with Internet development and is a very important source of parallel
trade. Retailers and consumers can currently purchase products either from catalogues from large, local retailers or going directly to mail order houses in different market. Anyone with a credit card and access to an internet-linked computer can order CDs, software, books and whatever from overseas suppliers.

After identifying the variety of parallel importing strategies, the next section discusses the effects of these unauthorised channels.

3 The effects of parallel channels

There are a number of effects of all of this parallel importing activity. Here, the predicaments and opportunities created by these parallel distribution channels are discussed in more detail.

First, consumers may be prejudiced against buying products which have been parallel imported because sometimes they cannot be properly serviced or maintained. They also may be worried that the so-called technical requirements for certain products may not met by grey importers.

It needs to be made clear that parallel imports are not counterfeits but genuine products that are often sold at a lower price to consumers than these distributed by regular channels (Ahmadi and Yang, 1995). However, these may not necessarily have a lower profit margin because they can free ride on the promotional efforts of authorised dealers. Consequently parallel imports may undermine authorised dealers’ selling efforts. For example, by discouraging their investment in a sales-force or shelf-space.

In other words, parallel imports may have financial consequences for licensed distributors, if they do not derive sufficient revenue from the sale of these branded goods. In such instances they may not be able to continue with their advertising and promotional efforts.

Parallel importing of trademarked goods may also create confusion for consumers (e.g. recently a bulk store chain “The Warehouse” imported in parallel in New Zealand Philips TV sets, Calvin Klein’s cosmetics and jeans, etc). However, some authors argue that because parallel importers sell genuine trademarked goods there is no possibility of confusion about the origin or source of the goods. Although, modern trademark law does not support this view, involving an unauthorised channel or outlet increases the likelihood of consumer confusion about product source and quality.

The “source function” of a trademark encompasses more than the geographic origin of goods. As a result of modern marketing and distribution techniques, consumers perceive a “genuine” article to be those from the wholesaler, retailer or servicing company they have been able to rely on in the past. The authorised distributor is in effect the “sponsor” of the trademarked good, providing many ancillary services. Consumer confusion is possible if the parallel importer does not disclose that they are not the authorised distributors or they
do not offer the same warranty protection or services, which the consumer has come to expect.

The "quality function" of the trademark does not replace the "source function" but stands alongside it as a "guarantee" of consistent quality. In the grey market, genuine trademarked goods possess identical product quality when shipped from the factory. Product quality, however, is not simply measured at the factory, it is also determined at the time of retail sale. Many trademark owners thus invest in their product by careful shipping, storage, inventory control, and quality management. This investment is a natural adjunct of their desire to build and protect the reputation of their product. In contrast, grey marketers may unknowingly or unknowingly sell inferior products because they provide less quality control and have less incentive to make these expenditures. Inferior products however, confuse and deceive consumers and may negatively impact genuine products and their image.

Manufacturer-distributor relations can also be strained by the appearance of parallel imports. Distributors feel frustrated by having them in their markets and look to the manufacturer to reduce or eliminate this unforeseen competition. Manufacturers' profits also may decrease because of parallel imports. Sometimes they may be forced to buy back old stock from authorised distributors because parallel importers create an over-supply in the market.

Despite the problems caused by parallel imports, there are also opportunities for consumers and for manufacturers as well.

- "There is some evidence to indicate that parallel import channels from the United States have been used to penetrate foreign markets."
- Some United States' manufacturers recognised that parallel channels could be used to increase overall foreign sales and market share" (Michael, 1998).
- Furthermore, when a final decision on an exclusive distributorship was pending, a parallel channel gives the manufacturer an opportunity to evaluate one distributor against another.
- Parallel channels may help overcome a weak distributor's performance at no additional costs to the manufacturer.
- Sales that go through parallel channels may expand a manufacturer's market coverage if the authorised distributor lacks the capacity for covering the whole market. This situation may be very common in developing markets where distributors often lack the financial and marketing resources to effectively push and pull products through the distribution chain.
- "Parallel channels may also help to identify consumers in foreign markets whom the manufacturer may not be aware of" (Ibid, p. 30).
- However, by far the most interesting opportunity created by parallel imports is when manufacturers use it to circumvent trade restrictions. In other words "non-tariff trade barriers exist in the form of quotas or
import licences, the authorised importer has limited sales opportunities. The parallel exporter, who sells to a different importer under separate quota or license, provides the manufacturer with additional sales (Ibid, p. 30).

The next section now examines the available strategies for combating parallel imports.

4 Combating parallel imports

The problems posed by parallel or “grey” imports have become a hot topic in international intellectual property law and business planning.

The issue of parallel imports is a contentious one throughout the Western world. Intellectual property law is usually the instrument through which these activities are curtailed. This is achieved via the Copyright Act. Trademark law also has a role in preventing the unauthorised marking and selling of a product with a trademark. Frequently, however, this does not remedy the situation as the products bought by parallel importers are marked by the manufacturers for export to other countries and therefore infringement does not occur.

As it has been noted earlier, parallel imports, however can have a devastating impact on the orderly marketing of new products by allowing unauthorised vendors to undercut the sales prices of authorised goods, or hurting a brand’s reputation through non-compliance with local market requirements or disruption warranty support. Because parallel imports may be cheaper, the exclusive licensee feels that their agreement has been violated, their business threatened, and that these unwelcome competitors have taken advantage of “free rider” benefits from the licensee’s investments in brand and market developments. On the other hand, it has been argued that excessive protection against grey market products restrains competition thereby harm consumers and unduly rewarding IP rights owners who fail to exercise reasonable care in policing their licensed operations.

What can the licensee do to protect their territory from unwanted, grey market imports, which were legally sold in the exporting country? The legal obstacle a licensee faces with these imports is suggested by the term itself - they fall into a “grey” area of intellectual property and trade law. That is, they arise because of the existence of differing, and at times inconsistent, national intellectual property rights and trade remedies rather than uniform international rights.

National laws governing parallel imports are often unclear. In the past, many courts have adopted a lenient attitude towards these goods based on the belief that the consumer is not hurt and there is no readily apparent wrong. After all, if the goods are sold and were at one time lawfully manufactured, what’s the problem? This type of reasoning by the courts has limited and made less clear the legal remedies available to licensees with regard to trademarks. In contrast, there seems to be a greater willingness by courts to protect copyright or patent licensees that are threatened by parallel imports. The result of all of this
is a confusing patchwork of national laws. This area really needs to be examined in great
detail but it is well beyond the scope of this economic analysis.
Despite the obvious opportunities created by parallel imports, manufacturers mainly prefer
to have fewer or no parallel imports in order to gain more control of their marketing efforts.
However, manufacturers rarely take reactive measures to prevent the emergence of parallel
imports. In fact, they mainly rely on authorised distributors to detect parallel imports.

In effect, parallel importing goes beyond issues of product distribution through controlled
or uncontrolled channels. Rather, it raises two broader questions. First, whether channel
control will increasingly rest with powerful retailers who earn the allegiance of customers,
thus allowing them to dictate the terms under which merchandise is presented to consumer
markets. Second, whether manufacturers can find the financial, legal, and marketing power
to persuade institutional middlemen to remain part of a loyal channel team.

However, the main means of combating parallel imports still reside with in manufacturers.
.Pricing has been a common mechanism for doing this. Frequently manufacturers frequently
use the following pricing schemes:

- Uniform pricing (one-price-for-all policy)—setting prices in all countries
  exactly the same;

There are many ways to halt or hinder parallel importation, however, the single most
effective is to modify international price structures so those parallel traders cannot
arbitrage. For example, one can hardly find any parallel imported Coca-Cola products in
Taiwan because authorised dealers reduced retail prices significantly (Chang, 1993).
Similarly, Weigand (1991) reported that the share of parallel imported BMW automobiles
decreased from 33 per cent to about 16 per cent in Japan after the retail prices in authorised
channels were reduced (almost seven times of the set up selling price) to nearly the same
level as in Germany.

This one-price-for-all policy can eliminate an important source of arbitrage and allow the
manufacturer to reassert a measure of channel control. Nevertheless, this policy often
means the sale of most of the output at lower prices to all customers, whether they are big
or small, and regardless of transaction costs. This strategy though often forecloses valid
price discrimination opportunities among classes of customers who are buying very
different benefits from the same product (Weigand, 1991). While price may be the main
criterion for some customers, for others continuity of supply and aid in application
development may be more important. This strategy is a Darwinian "survival of the fittest
approach". While it may be the answer in the short term, in the longer term it can limit the
manufacturer’s access to new and growing market segments and discourage distributors
from supporting a manufacturer that refuses to recognise differences in distributors’ market
power. This strategy also, may not eliminate arbitrage opportunities. Since cost differentials
and different reseller strategies also give rise to grey markets, and may make it harder for
the manufacturer to alter its distribution strategy as changing market conditions require.
• A fixed price gap equal to the transhipment cost between countries. Reducing the price differential between the authorised and grey market product (as a variant of a one-price-for-all policy) is a powerful tool for reducing the attractiveness of the parallel import. The issue quickly becomes a standard exercise in pricing—determining whether the manufacturer takes the brunt of the price reduction or if it is shared with authorised intermediaries.

• Price in strong currency
Another effective measure is strong currency price in foreign markets. The most common reason for this practice is to hedge against a currency’s deterioration. However, a second and much less common reason for quotes in strong currencies is to reduce opportunistic parallel import sales.

In addition, there are several non-pricing strategies that may be used to prevent or lessen parallel imports. The following section addresses this matter in relation to environments without parallel import ban, as in New Zealand.

• Product differentiation
Manufacturers often differentiate their products among markets, usually to meet different local tastes, national health or safety rules, packaging requirements, technical standards, income levels, and so on. Products that are likely parallel import candidates are sometimes accompanied by limited warranties that can be used only in the markets for which the product was intended. These may be particularly important to customers where an item is expensive, the manufacturer’s reputation for quality is not well known, the retailers are untrustworthy or unknown and the customer knows there are hidden or complex features of the product that are not readily observable. Proper labels and warnings may also be used to assure public of product’s health and safety, but clearly can also be used to thwart unauthorised parallel importing (Knoll, 1986).

• Packaging changes
A simple strategy in response to parallel imports is to create slightly different packaging for authorised products. This option is relevant, whether the packaging is similar in both countries, the marking that appears on the product and the message given to consumers (Knoll, 1986).

• “Work out laws”
Here are some examples of how imaginative business strategists have helped preserve their marketing channels by “work out laws”. Weigand (1991, p. 59) cites this example: “the pharmaceutical company that was shipping its product to a central American country only to learn that it was coming back to the United States, solved the problem rather easily. On products destined for export, it omitted the tiny crimp numbers from the bottom of plastic tubes containing its medicines. The Food and Drug Administration requires such numbers that indicate FDA approval. The company simply told Customs what to look for.”
Another example cited by Weigand (1991) is the case where the National Highway Traffic Safety Administration mandated that cars subjected to high theft rates must have identifying numbers indelibly marked on as many as fourteen parts. Thus, if a junkyard has in its inventory a left front fender, decklid, or transmission from a Ford Mustang or Dodge Lancer, the potential customer can know whether the part came from a legitimately junked car or from one reported stolen.

- **Dealer dismissal**
  Perhaps the most powerful reactive strategy available to manufacturers who prefer to sell directly is to stop an opportunistic intermediary. However, because to achieve this can be very costly manufacturers must exercise caution in some countries than others.

- **Product buy-backs**
  A few manufacturers have bought back parallel imports items, as a way of combating unwanted distribution competitors. Under certain circumstances, this may be an effective strategy. The most important rules for achieving this are to establish a channel monitoring system to provide information about how the goods move between producer and retailer, and to monitor these searching costs which can be large.

- **Disenfranchisement**
  Disenfranchisement of offenders is a stock response. For example, in an effort to identify suppliers of unauthorised dealers, Lotus Development Corporation recorded the bar-code numbers of its popular 1-2-3-software packages as they were shipped out. Meanwhile, Lotus employees checked advertisements to locate unauthorised dealers and occasionally had shoppers buy the company’s products from mail-order houses and other grey outlets. Eventually Lotus eliminated from its list those distributors doing business with grey marketers and put a temporary freeze on agreements with new distributors. Such moves send signals of commitment to distributors who abide by the terms of their franchise agreement. These signals often are in response to complaints from them. Tracking down offenders, however, costs money. Lotus spent more than $100,000 on the system it developed to label their products and to monitor sales. Moreover, the manufacturers that selectively disenfranchise dealers run the risk of being sued (Cespedes et all, 1988).

- **Adding distributors**
  Adding distributors (former parallel import distributors) to the network can be a solution to this problem. By limiting circulation of a popular item to a few dealers, a supplier may inadvertently create demand that can be satisfied only through transhipment to “grey” outlets. Alternatively, a supplier’s dealer service criteria may be unnecessarily high, discouraging dealers from servicing price-sensitive markets and from joining the suppliers’ network. Franchising more distributors may give a supplier better control over the flow of their product to market.

- **Local goodwill and brand loyalty**
Marketing has suggested that pricing strategies are an ineffective way to compete with non-pricing strategies such as brand loyalty and local goodwill. In regard of parallel imports, it is important to know whether the local seller of products has established brand loyalty and goodwill from local manufacturers, exclusive local distributors, or local warranty or sales force. Another way of looking at local goodwill is question whether consumers would be misled or deceived by outside importation. This may be because a product does not come with a local warranty; the products are not the same and therefore cannot be serviced in the same way. Also, the labelling or instructions may not meet local codes, regulations or packaging standards.

- Licensing and registered user arrangements
  It is important to determine the basis of the license if the trademarks are commonly held and used under license in a country. It is particularly important to have the licensee registered as a user, which appears to grant to an exclusive registered user the right to prevent importation of goods in violation of its exclusive arrangement.

- "No-export clause"
  This refers to the inclusion of a no-export clause for a manufactured product under a compulsory license, so that the subsequent distribution of the product in another market can be legally prohibited.

In sum, a marketing manager must employ or develop co-ordinated strategy, linking regulated pricing, the legal framework governing a marketing environment, and anti-grey importing efforts to facilitate managerial control of unauthorised channels.

Marketing success has what initially bred parallel imports. Export marketers, and distributors need to assess the possibility of parallel channels being formed for their products and the potential impact these may have on their business, before considering an appropriate strategic response to combat parallel importing.

This section has identified the different types of price discrepancies that can encourage parallel importing. It also noted the benefits that can accrue to distributors and manufacturer from such parallel imports. Finally, recommendations were made to counter the adverse effects of parallel channels. In the following section the future of parallel imports is discussed.

5 Conclusion
This study analysed the process of parallel importing to aid understanding of the wider parallel import issue. Since the mid-1980s there has been a growing interest in the international business literature in so-called "grey market", or what is referred to, in this study, as parallel imports. Imported parallel goods are products that entered a market in ways not intended by the original manufacturer.
This essay can also be extended to an empirical research by introducing hypotheses testing about the existence of sine qua non conditions for the third degree price discrimination for which three conditions are generally required:

- The existence of a certain level of market power,
- The existence of barriers to international price arbitrage, and
- Differences in demand and/or supply conditions between markets.

The first condition is usually provided by the existence of copyright protection for the products in question, that is ‘being first in the market’. Imposing for example a parallel import restriction satisfies the second condition, and the third condition is likely to be satisfied by international differences in both supply (such as transport costs) and demand conditions (the level of competition). Using the Seemingly Unrelated Regression (SUR) method, the third degree price discrimination model of price functions can be estimated by utilising data for at least 10 years. (SUR is another form of the general error covariance model, involving a special form of heteroskedasticity and autocorrelation that appear jointly).

However, the purpose of this article was to explore process of parallel importing only, what create this and the opportunities it provides for both manufacturers and importers, therefore the extended research is left for some other time.

6 References


