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The International Exhaustion of
Trade Mark Rights after
Silhouette: the End of Parallel
Imports?

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Summary

The subject of this thesis is the exhaustion of trade mark rights in Europe. This paper falls a part in four interconnected parts, it starts by describing what exhaustion of intellectual property actually is, and gives as well an introduction to the practice of parallel importations, which should not be confused with the trade in counterfeited goods. I highlight some older case law, mostly German, and point out when parallel importation can and will occur and why trade mark holders are so strongly opposed to this. Then I go more into detail in the three main systems of exhaustion that exist today, namely, the well recognized national exhaustion, which means that the I.P. rights holder can not object against the resale of goods that have been marketed by him or with his consent on a national market. Opposed to that there is the international exhaustion, which is more or less the expression of a world wide market. An in between form of this is the theory developed by the ECJ in the *Centrafarm v. Winthrop* case is the system of European wide exhaustion, which limits the market to the EU, or more precisely the EEA. Next in the discussion is the outlining of the legal framework in Europe, with a special attention to the Trade Mark Directive. The situation prior to this Directive was that most of EU countries opted for international exhaustion, and in the original draft of the Directive this was as well so, however, due to heavy pressure of the industry Chinese whispers go, this was changed to a more trade marks owner friendly system of Community wide exhaustion regime. When pointing out the content of this Directive most attention will go to its Article 7, which is not very clear in its language and which has created a situation of legal uncertainty. Are Member States still able to introduce a system of international exhaustion or is the standard in the Directive the minimum and the maximum? This brings us to the *Silhouette* case, the core of this master thesis. The ECJ followed the Opinion of the Advocate General and ruled that the principle of international exhaustion has no application within the EEA where the goods were first placed on the market outside the EEA. However, this judgment received a lot of

publicity, good and bad and I will make an overall analysis of it, pointing out some critical points. But this case is not the end of this saga, the next important case for parallel importers is *Sebago*, which basically confirms the *Silhouette* case, and stated that European Union trade mark rights are only exhausted once products bearing the mark have been put on the market in the European Economic Area. Another example of

what so call the *fortress Europe* are the *Davidoff* and *Levi's* cases, which are in the same line as the previous cases and make look the future for parallel importers not so bright.

The next part of this work deals with the international agreements that exist in this important part of business law. Special attention will go to the European Economic Area Agreement dealing with the EFTA countries, and the *Mag Instruments* case, very similar to the *Silhouette* one, however, with a totally opposite outcome. Another agreement is the TRIPS, established in the framework of the WTO, which unfortunately deals only to a minor extent with the situation of exhaustion of I.P. rights. Article 6 is only an *agreement to disagree*.

I also looked at the situation in two of Europe's most important trading partners, the US and Japan, both apply the doctrine of international exhaustion.

In the last part I give an overview of the visions and standpoints of trade mark organisations and consumers groups, both, of course, defend reversed interests. In the end there is the conclusion in which I point out some possible strategies for parallel importers. I should also mention that I looked at some recent studies commissioned by the European Commission and found out that they don't have the intent to change the contemporary system of EU wide exhaustion.

Preface

Dear reader,

This should be the end product of my year as a Master in European law student at Lund University, the master thesis.

The topic I choice for this piece of work is situated in the field of European competition law, more precisely industrial property, trade mark law. I discuss the situation of parallel import in Europe after the Silhouette judgment of the European Court of Justice. It is my believe that this is one of the few judgments that really affects daily life in Europe, since almost everybody is concerned about the price and variety of products he or she can find in his or hers supermarket.

The writing process was sometimes hard and seemed never ending, but I also learned a lot about this field of law, and I am even thinking of studying it more into detail. However, I could not have done this without the strong support of my supervisor, Prof. *Hans Henrik Lidgard*. That is why I want thank him very much, he inspired me not only as an excellent motivated and passionate teacher, but also as a warm and kind person. This goes as well for the rest of the teaching and administrative staff of Lunds University, especially ms. *Johanna Stier*.

Of course none of this could have happened without the constant support of my family back home and my fellow students and friends here and in Belgium.

So again, thank you all very much and I hope you have as much pleasure reading it as I had making it!

Ramses Trogh

Abbreviations

B.I.E.	Bijlage Intellectuele Eigendom
C.A.	Consumers Association
C.M.L.R.	Common Market Law Review
E.C.	European Commission
E.C.J.	European Court of Justice
E.C.R.	European Court Report
E.C.T	European Community Treaty
E.C.T.A.	European Communities Trade Mark Association
E.E.A.	European Economic Area
E.F.T.A.	European Free Trade Association
E.I.P.R.	European Intellectual Property Report
E.L.Rev.	European Law Review
E.P.I.C.	European Parallel Importers Coalition
E.U.	European Union
GRUR Int.	Gewerblicher Rechtsschutz und Urheberrecht International
i.a.	inter alia
I.I.C.	International Review of Industrial Property and Copyright Law
I.P.	Intellectual Property
N.E.R.A.	National Economic Research Associates
O.J.	Official Journal
R.I.P.I.A.	Revue Internationale de la Propriété Intellectuelle et Artistique
S.E.W.	Sociaal-economische wetgeving: tijdschrift voor Europees en economisch recht
T.R.I.P.S.	Trade Related Aspects on Intellectual Property Rights
W.T.O.	World Trade Organisation

1 Introduction

Today's European consumers want to know why their supermarket should not be allowed to sell them cut-price *Levi's* jeans and other designer goods imported from outside Europe at discount prices. They find it hard to understand why they should not be free to buy their new Japanese motorbike at a price substantially less than that being charged by an authorised dealer¹.

This all comes down to the practice of parallel importation and the question of international exhaustion of trade marks, the topic of this master thesis.

The recent vivid debate on this subject is a result of the European trade mark legislation and the relatively young, but already extendedly commented *Silhouette* judgment of the European Court of Justice (ECJ).

This Master thesis deals with European law as it applies to parallel imports in the context of both the internal and the external trade of the European Union, and in particular in relation to the exhaustion theory. The first part deals with parallel imports in relation to the exhaustion doctrine, and the legal framework in the EU. For many years parallel imports were considered the main focus of attention in Europe's internal trade. Freeing parallel imports between Member States has been one of the constant goals of both the European Commission (EC) and the European Court of Justice. It has been perceived as being a key element in the establishment of a common market for goods. However, significant developments have taken place over recent years with respect to parallel imports in Europe's external trade².

This master thesis tries to clear some things out and put them in an objective legal and economic perspective.

¹ In the UK a *Mori* poll in August 1998 found that 83 per cent of the population supports the supermarkets' practice of selling designer goods from outside the E.U. www.mori.com 2002-05-24.

² DEMARET, P. & GOVAERE, I., *Parallel Imports, Free Movement and Competition Rules: The European Experience and Perspective*, Course Material, University Press, Ghent University, 2000.

Starting point of this thesis is an introduction to the doctrine of “exhaustion of trade mark rights in Europe³”, then I explore the Trade Mark Directive of 1989⁴ and, to a lesser extent, the Trade Mark Regulation⁵. I will also look at the very recent *NERA* study ordered by the Commission and try to answer the question whether there should be a turn in Europe’s exhaustion policy

In the second part I will scrutinize the relevant case law of the ECJ, especially the 1998 *Silhouette* judgment and its interpretation of Article 7 (1) of the Trade Mark Directive. I will also have a look at the following-up of *Silhouette*, namely its successors, the *Davidoff*, *Levi Strauss* and *Sebago* cases. Afterwards I will pay attention to the EEA Agreement and the *Mag Instruments* case of the EFTA Court, where a totally reversed judgment was handed down. In the third part I will look at the situation from a WTO perspective and particularly examine the TRIPS Agreement.

In the last part I will check the situation in Europe’s most important trading partners, namely the USA and Japan, and finally I will make critical remarks and draw up a conclusion.



³ GROSS, N., Trade Mark Exhaustion: The U.K. Perspective, *E.I.P.R.* 2001, 5, 224-225.

⁴ First Council Directive 89/104/EEC of December 21, 1988 to approximate the laws of the Member States relating to trade marks, (1989) *O.J.* L40/1, as amended by Art.65(2), in conjunction with Annex XVII, point 4, of the EEA Agreement, (1994) *O.J.* L1/3.

⁵ Regulation on a Community Trade Mark (40/94), 20 December 1993, *O.J.* 1994 L11/1)

2 The Doctrine of Exhaustion of I.P. rights

2.1. The Doctrine of Exhaustion of I.P. Rights and Parallel Importation: a General Introduction

The issue of national or international exhaustion of I.P. rights is highly complex and has been subject to extensive debate among economists, lawyers, lobbyists and policymakers. This thesis offers an introduction into this ‘jungle’ of intellectual property rights exhaustion, focusing on the legal as well as on the economic aspects of the debate.

The concept of exhaustion of intellectual property rights, also known as the *first sale* doctrine, originates from decisions of the German *Reichsgericht* in the first decade of the previous century⁶. The general idea behind exhaustion is, that the legal monopoly confers only the right to control the first sale; after the first sale the right is *exhausted* which means that the right cannot be used to control the subsequent dealings⁷.

The practical significance of this exhaustion is that the original manufacturer cannot use his intellectual property rights to tie the successive buyers of his product to his own conditions, for instance fixed prices, for retail sales.

As said it was the German *Reichsgericht* that developed this exhaustion rule. The dogmatic explanation has been provided by the so-called patriarch of intellectual property law: *Josef Kohler*⁸. Kohler regarded this rule of exhaustion of rights as a necessary demarcation line between two colliding properties; the intellectual property right of the producer and the common proprietary right of the owner of a copy of a product he has bought. The latter should remain free to enjoy the

⁶ For trademarks compare RG, February 28, 1902, *RGZ* 50, 229 (*Kölnisch Wasser*) and RG, May 2, 1902, 51, *RGZ* 263 (*Mariani*).

⁷ HARTMUT, J., Exhaustion of Patent Rights: Merck II Judgment, at www.akingump.com 2002-04-22

⁸ KOHLER, J., *Urheberrecht an Schriftwerken*, 1907.

specific privileges of traditional ownership: he should be free to resell or otherwise dispose of his property.

In the mean time this idea has conquered the world. The main problem is not to establish this principle of exhaustion of intellectual property law, the next question is whether this operates only on a national or regional scale, or whether, on the contrary, it has a worldwide effect, the so-called doctrine of international exhaustion.

In 1970 *Beier* analysed the case law on an international level and came to the following conclusion: “*Concerning the interest of trademark owners in preventing parallel imports the decisions make it clear that in all instances, (...) the main purpose of a trademark infringement action against a parallel importer is to protect the marketing system in the import country from disturbance through the presence of undesired imports*”⁹. The main issue is thus to protect the sole distributors and the protection of licensed domestic manufactures against parallel importers.

The practice of parallel importation relates to the fact that so-called, “*parallel traders*” or “*grey marketers*” buy genuine branded goods in a low-price country and import them to another country where those goods are normally sold at a higher price. This can, of course, only occur where the difference is sufficiently enough for the importer to make some profit after paying transportation costs and any border taxes. As a general economic rule the parallel importer will only be able to find a market if he offers the goods at a price that is cheaper than the one fixed by the trademark owner and manufacturer in the import country¹⁰. A number of reasons exist why price differentials with respect to the same goods in different countries occur. According to Professor *Cornish*¹¹ one of the most important one’s are, currency fluctuations, other factors he notes include differing costs of product promotion, the sale of goods in a country where lower standards

⁹ BEIER, F.K., Territoriality of Trademark Law and International Trade, *I.I.C.* 1970, 1.

¹⁰ JEHORAM, H. C., International exhaustion versus importation right: a murky area of intellectual property law at www.

¹¹ CORNISH, ‘Silhouette’-Through a Glass Darkly”, *Festkrift till Gunnar Karnell*, 1999, (99) at 102 and n. 3 above, at 173.

of living force the price of those goods down, the need to vary the qualities of the product to fit local needs and the absence of competition among distributors in a particular country¹².

In most cases it has been a general rule that the objective of a trademark infringement action against parallel importers was to prevent breakdowns in the domestic price structure, especially when this was secured through a system of vertical price maintenance and marketing restrictions. Genuine trademark interest as the reputation of the marked goods are very rare the case. Taking this into account, the problem of parallel imports can be reduced to its true proportions, namely, whether trademark law with its territorial implications may be used to divide markets in order to enforce distribution and price policies¹³. It is my belief that these economic facts and motivations cannot be overlooked if a satisfactory legal solution for parallel imports is to be found.

The exhaustion doctrine related to the protection of intellectual property rights is one of the most complicated regulations of international business. There are three main systems today, namely a *national* exhaustion system, where a right holder can prevent parallel importation of his product from a foreign country, where it is sold either by the IP rights holder himself or with his consent. In contrast, if rights exhaust *internationally*, the rights holder loses his exclusive privilege after the first distribution of his product, thus allowing parallel imports from abroad. A hybrid between national and international exhaustion is *regional* exhaustion, whereby parallel trading is allowed within a particular group of countries, but banned from countries outside. In other words, the choice between national exhaustion and some sort of international exhaustion does play a very important role in international trade!

I will now go more into detail in those three forms of exhaustion, starting with national or domestic exhaustion

¹² ROTHNIE, W., *Parallel Imports*, London, 1993, 525.

¹³ GROSS, N., *o.c.*, *E.I.P.R.* 2001, 5, 220.

2.2. Domestic exhaustion: the national market

It has been worldwide accepted that there is at least some kind of national exhaustion, meaning that the rights holder of an I.P. right can not object against the resale of goods that have been marketed by him or with his consent on a national market. The reason for this is threefold, first of all: there has been made a payment for the product, and the material owner must have the right to resell, interchange or donate that product to someone else. Second, I.P. rights are already a limitation of previous existing rights, and an additional distribution right would be too much. Finally, there is the competition issue, a refusal to accept the theory of exhaustion would mean that the I.P. right holder has control over his product in terms of distribution and price settings¹⁴.

2.3. Regional - European exhaustion

The fundamental objective of the European Union and IP rights do conflict by nature. The basic idea of the six countries which set up the European Economic Community in 1957 was to create a single market by the elimination of economic barriers between the Member States. As a consequence of the establishment of this single market, goods and services can be freely provided across national borders. Article 28 of the E.C. Treaty stipulates that restrictions on imports and all measures having equivalent effect shall be prohibited between Member States. I.P. rights, such as trade marks, are limited monopolistic rights which generally exist at national level. I.P. rights can be used or misused in a way that it threatens the free movement of goods. If a trade mark owner can prevent imports of his product from another Member State he will be able to partition the European market into national markets of Member States. The trade mark owner's motivation for isolating each Member State is to charge varying prices for the same goods in different Member States. Or as *Jeremy Phillips* expressed

¹⁴ VERKADE, D.W.F., *Extra-Communautaire parallelimport en Rechten van Intellectuele Eigendom*, S.E.W. 1997, 9, p. 304-305.

it elegantly, “*in their absolute forms, competition law demands competition while intellectual property prevents it. The two are bound together in conflict, whether in the courtroom or on the supermarket shelf*”¹⁵.

Notwithstanding the fact that I.P. rights potentially undermine the E.U. free trade objective, their social value and importance in free enterprise markets is recognised in Article 30 of the Treaty of Rome. A justification for the prohibitions on restrictions on imports can be found, *i.a.*, on the grounds of the protection of industrial or commercial property. Such prohibitions or restrictions do not constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.

The ECJ, in its role as interpreter of the Treaty and in reliance on Article 30, limited the ability of owners of national trade mark rights to use those rights to interfere with inter-Community trade¹⁶.

In the 1970s the ECJ, in a series of cases involving the movement of pharmaceutical products between Member States, has drawn a distinction between the “*existence*” and the “*exercise*” of intellectual property rights, holding that any exercise of I.P. rights which prohibits or restricts trade between Member States is only justified under Article 30 of the E.C. Treaty if this is for the purpose of safeguarding rights which constitute the “*specific subject-matter*” of the I.P. rights concerned. The ECJ defined the “*specific subject-matter*” of a trade mark as the right of the trade mark owner to put a branded good onto the market within the Community for the first time, or with his consent¹⁷. The application of

¹⁵ PHILLIPS, J. Analysis: Pariah, Piranha or Panther? The New View of Intellectual Property in Europe”, *I.P.Q.* 1998, 107.

¹⁶ GROSS, N., *o.c.*, *E.I.P.R.* 2001, 5, 220.

¹⁷ CARBONI A., Cases Past the Post on Trade Mark Exhaustion: An English Perspective, *E.I.P.R.* 1997, 4.

the Community wide exhaustion was, as far as trade marks are concerned¹⁸, first considered by the Court in 1974 in the *Centrafarm v. Winthrop*¹⁹ case.

As a result of the EEA Agreement from 1993, the principle is extended beyond the EU to the EEA so that the “exhaustion market” became EEA-wide²⁰.

2.4. International Exhaustion – A Worldwide Market?

The ultimate form of exhaustion is of course international or worldwide exhaustion. This means that the IP rights are exhausted once the product has been sold by the IP owner or with his consent in any part of the world. Whereas the system of international exhaustion was widely spread and accepted in Europe, as will be shown below, before the introduction and implementation of the Trade Mark Directive, the situation is now somehow completely different. No European country accepts these days international exhaustion of trade mark rights anymore. Basically there are two arguments in favour of international exhaustion. The first one is a policy argument that parallel imports are “a good thing” because they limit the trade mark proprietor’s ability to partition the world market into individual countries. This would lead to more intra-brand competition, which in turn leads to a reduction in consumer prices. The second argument in favour of international exhaustion is more one of a theoretical nature. It is based on the view that the function of a trade mark should limit the brand owner’s ability to prevent parallel importation of genuine goods. Succinctly stated, this view suggests that the main purpose of a trade mark is to act as a badge of origin. Since it is not about counterfeit goods that trade mark owner’s

¹⁸ This is briefly explained the situation on trademark rights, although similar principles apply to other IR rights, such as copyright, patents and neighbouring rights (WALSH, P., TREACY, P. and FEASTER,, T., The Exhaustion and unauthorised exploitation of Trade Mark Rights in the European union, *E.L.Rev.* 1999, 24, p. 259.) .

¹⁹ C-16/74, *Centrafarm v. Winthrop* (1974) *E.C.R.* 1183: “*The owner of a trade mark cannot exercise his rights to prohibit the importation of products with the same trade mark and marketed in another Member State provided that the goods are marketed by the trade mark owner, or by a third party with the trade mark owner’s consent. To do so would be incompatible with the free movement of goods provisions in the EEC Treaty.*”

²⁰ WHITE, A.W., *Sunglasses: A Benefit to Health?*, *E.I.P.R.* 1999, 4, 17.

monopoly cannot be extended that it allows him to prevent further dealings in such goods²¹.

²¹ GROSS, N., *o.c.*, *E.I.P.R.* 2001, 5, 220

3 Exhaustion of Trade Mark Rights in the EU: Legal Framework

3.1. The Situation Prior to the Trade Mark Directive

Prior to the entry into force of the Trade Mark Directive, the majority of European countries applied the rule of international exhaustion. This was so in Austria²², the Benelux-countries²³, Denmark, Germany²⁴, Norway, United Kingdom²⁵ and Sweden²⁶. The trade mark owners could not exercise their exclusive right in order to stop imports of branded goods marketed by them or with their consent, anywhere abroad. The French case law was contradictory²⁷ and in Italy²⁸ the parallel importation of branded goods marketed abroad by the local trade mark owner did not constitute an infringement if the Italian exclusive right belonged to the same person but did if the national rights had been split up. In Spain, exhaustion only existed on the national level²⁹.

On the contrary, the ECJ developed, out of cases such as *Centrafarm v. Winthrop*³⁰, the doctrine of Community exhaustion of rights. However, in general, in the European countries where international exhaustion has been introduced, this has been upheld, co-existing with the exhaustion of rights within the Common Market area³¹.

²² Oberster Gerichtshof 30 November 1970 (*Agfa*) 1971, *GRUR Int.* 20

²³ CHIELEN, Ch., *De Beschermingsomvang van het Merk*, in *Algemene Problemen van Merkenrecht/Problèmes Généraux au droit des marques*, Ed. F. GOTZEN, Bruylant, Brussels, 1994.

²⁴ Germany, BGH 22 January 1964 (*Maja*): (1964) *GRUR Int.* 202; BGH 2 February 1973 (*Cinzano*); 1973, *GRUR Int.* 562, 1974, 2, *C.M.L.R.* 21.

²⁵ *Revlon Inc. v. Cripps & Lee Ltd* (1980) FSR 85 (1980) 11 *I.I.C.* 372, *Colgate Palmolive v. Markwell Finance Ltd.* (1989) *R.C.P.* 497.

²⁶ High Court 17 October 1967 (*Polycolor*) 1968, *GRUR Int.* 22

²⁷ Cass. (comm.) 1 April 1969 (*Körting*) 1970, *RIPIA* 5, Cass. (comm.) 2 December 1997 (*Ocean Pacific*) *GRUR Int.* 1998 717

²⁸ Cassaz, 20 October 1956 (*Palmolive*) 1957 *Foro it.* I, 1021.

²⁹ ALEXANDER, W., *Exhaustion of Trade Mark Rights in the European Economic Area*, *E.C.L.Rev.* 1999, 24, p. 56

³⁰ C-16/74, *Centrafarm v. Winthrop* (1974) *E.C.R.* 1183.

³¹ ALEXANDER, W., *o.c.*, *E.C.L.Rev.* 1999, 24, p. 58.

3.2. The History of the Trade Mark Directive

The *Trade Mark Directive* (Council Directive 89/104³²) was adopted with a view to harmonise the trade mark laws of the Member States. Its purpose was to reduce or eliminate the substantive differences that exists in the national laws throughout the European Union and expressly incorporates the Community doctrine of exhaustion of rights³³.

In order to fully understand the meaning and scope the Directive it is wise to look at the preparatory works of both the Directive and the Regulation³⁴. They are based on the same proposal made by the Commission in 1980, where it is stated that *“the proposal for a Regulation seeks the same ends as the Directive”*. Throughout the preparatory period the clauses have been treated alike. It has not been doubted that the initial intend of the Commission was based on the principle of international exhaustion. The proposed Article 6 (1) of the Directive and Article 11 (1) of the Regulation have almost identical wording and read as follows: *“The trade mark shall not entitle the proprietor thereof to prohibit its use in relation to goods which have been put on the market under that trade mark by the proprietor or with his consent”*.

When commenting Article 6 of the Directive a reference was made to the commentary in the Explanatory Memorandum to Article 11 in the Regulation, where it was stated that: *“The place where the marked product is put on the market is not important in this respect (...) whether the product was put on the market within or outside the Community”*.

It was the Economic and Social Committee who, during the parliamentary procedure, proposed an amendment to Article 6 (1) in the Directive³⁵ (and Article 11 (1) of the Regulation). The reasons why they wanted to insert the words *“in the European Community”* in the last line was formulated as

³² First Council Directive 89/104/EEC of December 21, 1988 to approximate the laws of the Member States relating to trade marks, (1989) *O.J.* L40/1, as amended by Art.65(2), in conjunction with Annex XVII, point 4, of the EEA Agreement, (1994) *O.J.* L1/3.

³³ WALSH, P., TREACY, P. and FEASTER,, T., *o.c.*, *E.L.Rev.* 1999, 24, p. 260.

³⁴ Regulation on a Community Trade Mark (40/94), 20 December 1993, *O.J.* 1994 L11/1)

³⁵ Article 6 (1) of the proposed Directive at *O.J.* 1980 C-351/80, p. 1.

followed: *“The Committee is of the opinion that an approach based solely on principles of trade mark law would lead to undesirable commercial consequences. In so far as third countries do not acknowledge the principle of international exhaustion the Commissions proposal would result in discrimination of the industry in the Community”*³⁶. This is clearly the result of massive lobby work by the European industry, and was supported by all Member States except Germany. The preamble of the amended proposal of the Commission introduced the words *“in the Community”*. The Commission declared, in an Explanatory Memorandum³⁷ to the amendment concerning the Community trade mark: *“On the question of international exhaustion of the rights conferred by a Community trade mark, the Commission has formed the opinion that the Community legislator should refrain from introducing this principle and make do with the rule of Community-wide exhaustion”*. Friedrich-Karl Beier, the German who was advisor to the Commission was particularly scathing of this *“about-face of 180 degrees”* and argued that it was open to the national courts of the Member States to go beyond *“this minimum requirement”* and retain the principle of international exhaustion despite the Commission’s apparent intent³⁸.

The Trade Mark Directive (and the Regulation) thus introduces for all Member States the principle of Community-wide (EEA-wide) exhaustion of rights. This is binding for all Member States, and there seems to be no room for conflicting or supplementary national rules. However, this is not as absolute as it may sound, in the Commentary to Articles 7 (1) and 13 (1) the Commission expressed two possibilities of a future introduction of the principle of international exhaustion. The first one is the conclusion of bilateral or multilateral agreements with important trading partners whereby international exhaustion is introduced. The other is the extension of the Community wide (EEA-wide) principle of exhaustion to

³⁶ Document I-611/83, 1 August 1983 at 63.

³⁷ COM (84) 70 Final

³⁸ BEIER, F.K. “Industrial Property and the Free Movement of Goods in the Internal European Market” (1990) *I.I.C.* 131 at 159-160.

international exhaustion by the national courts where, even in the absence of a formal agreement, reciprocity is guaranteed.

The first possibility is self-explanatory, the second however, could mean that the ECJ would have the discretion to interpret Article 7 in a way that it will in practice give parallel importers the opportunity to plead the “*guaranteed reciprocity*” principle as a defence against the granting of an injunction prohibiting the parallel importations. This means on the other hand, that before commencing preliminary injunction proceedings against the parallel importer of genuine goods imported from a country outside the Community (EEA), a trade mark owner should first examine whether the trade mark legislation in the third country in question acknowledges the principle of international exhaustion towards goods coming from the Community (EEA). If this is the case, the right owner will have no possibility to prevent the importation pursuant to Article 7 (1) or national trade mark law. If, however, the third country in question does not acknowledge international exhaustion then it will be possible to do so, until a bilateral agreement is made or the third country in question amends its trade mark law³⁹.

3.3. The Trade Mark Directive: Content

The key article of this Directive for this master thesis is without any doubt Article 7 (1), which is a codification of the case law developed by the ECJ leading up to the Directive. This Article 7 addresses the issue of exhaustion of national trade mark rights and states that:

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*⁴⁰.
2. *Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially*

³⁹ RASMUSSEN, J., The Principle of Exhaustion of Trade Mark Rights Pursuant to Directive 89/104 (and Regulation 40/94), *E.I.P.R.*, 1995, 4, 179.

where the condition of the goods is changed or impaired after they have been put on the market.

In the scope of this master thesis I will not focus on paragraph 2 of this Article for obvious reasons.

The controversial question related to Article 7 of the trade mark Directive was whether it regulates the exhaustion of trade mark rights comprehensively or whether Community wide exhaustion can be seen primarily as a minimum requirement. In other words, the question was, does Article 7 of the Directive allow Member States to maintain or introduce the principle of international exhaustion of trade mark rights?

It has been argued that the Directive did not carry out a complete harmonisation of the principle of exhaustion, from which it follows that Member States are free to make their own provisions. Does the Directive imposes on Member States only a minimum requirement of enacting a principle of EEA wide exhaustion of trade mark rights, leaving the national legislatures and courts to decide whether to adopt or maintain a principle of international exhaustion? The Directive does not provide a plain answer to the issue⁴¹. As shown below a lot of preliminary questions have been asked at the ECJ concerning the interpretation of this Article 7 (1).

3.4. Implementation of the Trade Mark Directive in the EEA

Following the entry into force of the Directive there was considerable debate about Article 7 (1) and more specifically of its scope. Did it impose a minimum standard, leaving individual Member States free to adopt the principle of international exhaustion or is it on the other hand a maximum standard? It seemed at least arguable that Article 7 (1) only stated the position

⁴⁰ According to the Agreement on the European Economic Area (EEA), Annex XVII point 4, the Directive (and Regulation 40/94) is to be extended to the EFTA countries joining the EEA. The exhaustion principle in the Directive will therefore cover the whole EEA territory.

with regard to goods first sold in the EEA without excluding the possibility that national law could provide for the broader rule⁴².

Despite the ambiguity of Article 7 (1), the European courts of the Member States that had previously upheld a regime of international exhaustion, interpreted Article 7 (1) in such a way as precluding this principle⁴³. The German Federal Court, notwithstanding the fact that they among the first ones had endorsed international exhaustion, was quite clear and held that the principle had not survived the introduction of the Directive. In the *Dyed Jeans* case⁴⁴, the Court held that: "the national legislator have abandoned the earlier principle of international exhaustion". The Court was so sure of its interpretation of Article 7 (1) of the trade mark Directive, that it did not consider that it had an obligation to refer the question to the ECJ under Article 234⁴⁵. There are similar decisions in the Netherlands⁴⁶, France⁴⁷ and Italy⁴⁸. The protest against this is most vividly demonstrated by some Belgian courts⁴⁹ who declared actions aimed at preventing parallel imports from outside the EU inadmissible because their objective had nothing to do with trade mark protection⁵⁰. The Danish courts⁵¹ as did the Brussels Court of Appeal⁵² referred questions to the ECJ. The Norwegian Fredrikstad byrett referred preliminary questions to the EFTA Court in the *Mag Instruments* case, and similar questions were submitted to the ECJ by the Oberster Gerichtshof of Austria in the *Silhouette* case .

⁴¹ SHEA, N., Does the First Trade Mark Directive Allow International Exhaustion of Rights?, *E.I.P.R.* 1995,10.

⁴² GROSS, N., *o.c.* , *E.I.P.R.* 2001, 5, 229.

⁴³ NORMAN, H. Parallel Imports from Non-EEA Member States: The Vision Remains Unclear, *E.I.P.R.* 2000, 4, 161.

⁴⁴ Decision of the Federal Supreme Court, December 14, 1995, Case N° 1 ZR 210/93 (1997 *I.I.C.* 131-136).

⁴⁵ ALBERT and HEATH, Dyed But Not Exhausted – Parallel Imports and Trade Marks in Germany", *I.I.C.*, 1997, 24.

⁴⁶ *Braun AG v. Elbeka Electro BV*, District Court of Breda, June 26, 1996.

⁴⁷ *Société Océan Pacific Sunwear et Société Mercure International of Monaco v. Société Eximin et Société Carrefour France*, Cour de Paris, May 12, 1995.

⁴⁸ *Samsonite Co. and Samsonite Italia v. Rio SpA*, Tribunale di Torino, July 11, 1994.

⁴⁹ Vice-Pres.Trib. De Commerce Brussels, 1 October 1996 (*Sebago*).

⁵⁰ ALEXANDER, W., *o.c.*, *E.C.L.Rev.* 1999, 24, p. 59.

⁵¹ C-4/98 *Calvin Klein Trademark Truat/Cowboyland* and Case C-80/98 *3 Com Corporation/Blue Danmark and Kiss Nordic*.

⁵² Case C-172/98 *Sebago and Anciennen Maison Dubois et Fils v . G-B Unic*.

From the authorities submitting observations to the Court of Justice and to the EFTA Court, the Austrian, French, German, Italian and United Kingdom Governments and the Commission argued that Article 7 (1) did not allow the maintaining of a rule of international exhaustion of national trade mark rights, while the Governments of Sweden, Norway and Liechtenstein and the EFTA Surveillance Authority defended the opposite thesis. There is no country in the European Union, however, that maintained international exhaustion of trade mark rights⁵³.

3.5. Trade Mark Rights Exhaustion Regime under Consideration: New Studies in the EU

The Commission launched in 1999 a study on "The economic consequences of the choice of regime of exhaustion in the area of trademarks" as part of its initiative to reform the EU trade mark Directive . The study has been carried out by an institute in London, *National Economic Research Associates (NERA)*, The study⁵⁴ should serve as a basis for a further discussion in a Council expert group in order to prepare the EC position on a possible change to the current trademark exhaustion regime in the EC. The conclusions of that study are as follows: The short term effects on consumer pricing of a change of exhaustion regime would vary from small (less than 2% price reduction) for certain products to "negligible" (0 % price reduction) for other products. The long term effects of a change of exhaustion are more difficult to predict. It is however likely that the marginal, positive effect on consumer pricing in the long run will disappear.

The NERA study also observes that exhaustion is very complex and that it is not only a pure academic issue. A change from Community to international exhaustion may have an impact not only on prices but also on a numerous other important economic implications in various industries such as product quality, product

⁵³ WELLINK-VOLMER, M., *Mondiale of Communautaire uitputting van het Merkrecht?*, *I.E.R.*, 1995-96, Afl. 1. p. 11.

availability, after-sales services, employment, distribution agreements and market segmentation. The impact would be minimal for certain sectors (alcoholic drinks, confectionery) whereas it may be significant for others (consumer electronics, footwear and domestic appliances).

At the Internal Market Council on 25 May 2000, the Ministers had an exchange of views on the basis of the outcome of recent discussions at expert level. At this meeting Commissioner *Bolkestein* informed the Member States' Ministers that the Commission has, at this stage, decided not to propose a change to the current Community-wide exhaustion regime. The reasoning behind this point of view of the Internal Market Commissioner Frits Bolkestein is the following; *“The extensive discussions on the issue of exhaustion of trade mark right (...), taken into account the NERA study, together with the comments of the Member States and interested circles, have provided sufficient information as a basis for a decision. Further discussions on this issue would only serve to create more uncertainty, on the market place, about the future direction of intellectual property policy within the EU.* The Commission decided not to change its policy to international exhaustion, it based its decision on the following conclusion.

A change from Community exhaustion of trade mark rights to international exhaustion will not lead to a significant fall of consumer prices. Changing the exhaustion regime for trade marks only would produce little effect on the market place given that the large majority of products are covered by a number of intellectual property rights. However, to introduce international exhaustion for all IP rights would not be appropriate. A change of the exhaustion regime in the two legal instruments which govern this matter (a Directive for national trademarks and the Regulation on the Community trademark) cannot however be guaranteed, as the Directive may be changed through a qualified majority decision of the Council. Unanimity is necessary to change the Regulation. It is believed that at least some

⁵⁴ The study focuses on ten different consumer goods sectors in which trademarks are important and where the scope of parallel trade is significant (For a full report of the study see http://europa.eu.int/comm/internal_market/en/indprop/tm/tmstudy.htm 2002-05-15)

Member States would possibly resist any change to the Regulation. The possible co-existence of two different schemes would create confusion in the market place as well as in the minds of consumers. Also a change of exhaustion regime would make it more difficult for EC firms to sell at a lower price outside the Community. The change of regime may over time inhibit investment in new brands or even make trade mark holders withdraw products from the market. Trade mark holders who continue to provide the branded goods may choose to reduce the quality of goods or the provision of associated services.

A EU exhaustion policy has been developed to foster the integration of the Single Market. With an international exhaustion policy EU companies might face a competitive disadvantage, given that such an integration process has not occurred world-wide yet. Market conditions for goods from third countries are less equal at this stage than within the EU; parallel trade may be influenced by differences regarding trade conditions in different countries such as administrative burdens of registration and labour costs. Most of these issues have been addressed by EC legislation or EC policy to ensure a certain uniformity throughout the EU. This is not the case at international level yet. On the basis of these conclusions the Commission has decided, at this stage, not to propose a change to the current Community-wide exhaustion regime⁵⁵.

⁵⁵ http://europa.eu.int/comm/internal_market/en/indprop/tm/comexhaust.htm 2002-05-15

4 The *Silhouette*-judgment⁵⁶

Such legal uncertainty has obviously created conflicts and it is through one such conflict, the case of Austrian sunglasses under the trade mark *Silhouette*, that the ECJ ruled that community wide exhaustion is the proper interpretation in the light of the 1989 Directive. This case is said to be one of the corner stone judgment in this field of law.

4.1. The facts of *Silhouette*

The facts were the following, *Silhouette* is a manufacturer of spectacle frames at the “upper end” of the market who sold them under the trade mark *Silhouette*, which is registered in Austria and in many other countries. In Austria, these spectacles have been supplied to specialist opticians, elsewhere they were supplied through local subsidiaries or distributors. The case came about because *Silhouette* had 21,000 pairs of spectacles which it no longer required as they were, in terms of fashion, out of date. In October 1995 a transaction was arranged whereby the goods were sold through *Silhouette*’s sales representative in the Middle East to a firm called *Union Trading*, the sales representative being under strict instructions to require the purchaser to sell the frames only in Bulgaria or the states of the former Soviet Union and not to export them to other countries. However, *Hartlauer* an Austrian retailer which regularly offers branded products for sale at low prices,⁵⁷ acquired the goods and offered them for sale in Austria in December 1995. *Silhouette* had previously refused to do business with *Hartlauer* because they did not conform to the prestigious image to which *Silhouette* aspired, *Silhouette*’s action for trade mark infringement having failed before both the Steyr Regional Court and the Linz Higher Regional Court, appealed to the Austrian

⁵⁶ Case C-355/96 *Silhouette International GmbH and Co KG v Hartlauer Handelsgesellschaft mbH*, E.C.R. 1998, I-676.

⁵⁷ KUILWIJK K.J., Parallel Imports and WTO Law: Some Thoughts After *Silhouette*, E.C.L.R. 1999,293.

Supreme Court. In view of the existence of the principle of international trade mark exhaustion in Austria prior to its implementation of the Directive, and the apparent lack of clarity in the wording of Article 7 of the Directive, the Oberster Gerichtshof stayed the proceedings, pending a reference to the ECJ⁵⁸. Two questions were submitted to the ECJ by the Austrian Supreme Court⁵⁹; the first one, of most importance for present purposes, reads as follows:

1. *Is Article 7 (1) of the First Council Directive of 21 December 1988 to approximate the laws of Member States relating to trade marks to be interpreted as meaning that the trade mark entitles its proprietor to prohibit a third party from using the mark for goods which have been put on the market under that trade mark in a State which is not a contracting state?*
2. *May the proprietor of the trade mark on the basis of Article 7 (1) of the Trade Marks Directive alone seek an order that the third party cease using the trade mark for goods which have been put on the market under that mark in a State which is not a Contracting State?*

The crucial question which the ECJ had to answer concerned the interpretation on Article 7 (1) of the 1989 E.C. Trade Mark Directive⁶⁰.

4.2. The Opinion Of Advocate-General Jacobs

The Advocate General Jacobs delivered his Opinion in January 1998. Jacobs began by observing that it should be inferred from the Austrian Supreme Court's order for reference that the trade mark owner did consent to the initial marketing of the goods outside the EEA, and that it should be further assumed, despite the referring court's doubts as to the evidence, that Silhouette did not consent to the subsequent re-sale within the EEA. Furthermore it did not

⁵⁸ GROSS, N., *o.c.*, *E.I.P.R.* 2001, 5, 220.

⁵⁹ CARBONI, A., Cases about Spectacles and Torches: Now, Can We See the Light?, *E.I.P.R.* 1998, 12, 471.

⁶⁰ NORMAN, H. Parallel Imports from Non-EEA Member States: The Vision Remains Unclear, *E.I.P.R.* 2000, 4, 161.

appear that there was anything which raised the question as to whether there were “legitimate reasons” within Article 7 (2) of the Directive to oppose further dealing in the goods. There might, however, have been, as in the *Dior v. Evora* case⁶¹, been possible reasons relating to the “aura of luxury” which Silhouette wanted to promote.

In a nutshell, Jacobs’ advice was that the Trade Mark Directive precluded international exhaustion. He based his conclusion on three interdependent arguments. One based on the language and structure of the Directive in the light of its legislative history, one based on the objectives of the single market and the last one based on the need to achieve conformity with the Community trade mark.

I will now go deeper into these arguments, the first one is based on the language and structure of the Directive as to the effect that the scope of the trade mark is conclusively established by Article 5. Article 7 is a derogation from the principle found in Article 5, and should be narrowly construed. It means it can not be construed more broadly than providing for Community-wide exhaustion. The key phrase in Article 7 (1), whether it precluded international exhaustion or left the question open, is without any doubt “*within the Community*”. Advocate-General Jacobs’ view was that its statement on exhaustion of rights should be treated as “exhaustive”. “*In providing that the rights are exhausted when the goods are marketed in the Community, Article 7 (1) is naturally understood as meaning that the rights are not exhausted when the goods are marketed in a third country. It is true that the Directive does not specially preclude international exhaustion, but that effect can reasonably be inferred from the language. I accept that there are arguments which go the other way, but those arguments derive little support from the language of the Directive*”⁶².

However, since the wording of the Directive alone was not conclusive enough, Jacob’s second line of argument explored the aims and scope of the Directive.

⁶¹ C-337/95 *Parfums Christian Dior SA and Parfums Christian Dior BV v. Evora BV* (1997) E.C.R. I-6013; (1998) I, C.M.L.R. 737.

⁶² Opinion A.G JACOBS, Para. 34.

Recital 3 indicates that partial harmonisation of the “*national provisions which most directly affect the functioning of the common market would suffice*”, however, the wording of Recital 9 stated that it was necessary to ensure that trade marks “*enjoy the same protection under the legal systems of all the Member States*”. The supporters of international exhaustion of rights argued that Article 7 laid down a minimum requirement. Moreover, as the Article merely encapsulated the Court’s case law on Articles 28 to 30 E.C., Member States should still enjoy the discretion to apply the doctrine of international exhaustion. On the other hand, those opposed to international exhaustion argued that it is one of those issues which most directly affects the functioning of the internal market. They continue that if the Directive was to ensure that trade marks enjoyed uniform protection, any discretion left to Member States had to be very limited. Advocate-General Jacobs reasoned that the Directive had “transformed” the impact of Community law on trade mark protection with its provisions substituted for diverse national laws. “*If some Member States practiced international exhaustion and others did not there would be barriers to trade, and this would affect the functioning of the internal market, and this is precisely the objective pursued by the Directive*”⁶³.

The third and last stand of reasoning was concerned to ensure uniformity between national trade mark law and that contained in the Community Trade Mark Regulation⁶⁴. The said Regulation did not confer any discretion on Member States following Article 14. Since the wording of Article 13 of the Regulation is identical to Article 7 of the Directive it would be quite illogical to have Community wide exhaustion under the former, but international exhaustion, at the discretion of the Member States, under the latter⁶⁵.

Although Jacobs came to the conclusion that Community exhaustion should be it, he, nevertheless, made some interesting notes showing that he appears to support the ideas of the proponents of international exhaustion on a number of points.

⁶³ Opinion A.G. JACOBS, Para. 41.

⁶⁴ NORMAN, H., *o.c.*, *E.I.P.R.* 2000, 4, 159.

⁶⁵ Opinion, A.G. JACOBS, Para. 60.

He, for instance, finds it a very attractive argument that it is not one of the functions of a trade mark to isolate markets and to avoid price competition in that manner. He also shows his concern for free international trade that might be impeded when applying the doctrine of Community exhaustion. This seems to indicate that the Advocate-General would have liked to have arrived at a different conclusion, but that he thought that the Trade Mark Directive did not leave him any other choice than to argue for Community exhaustion⁶⁶.

4.3. The Judgment in *Silhouette*

On July 16, 1998 the ECJ delivered its judgment in this case. It confirmed the conclusion reached by A-G. Jacobs expressing thus: ‘*national rules providing for exhaustion of trade mark rights in respect of products put on the market outside the EEA under that mark by the proprietor or with his consent are contrary to Article 7 (1) of the Directive, as amended by the EEA Agreement*’. Any other interpretation was found to be contrary to the scheme and purpose of the Directive. The ECJ thus held that Member States do not have the discretion to unilaterally apply the principle of international exhaustion. The judgement meant that Article 7(1) of the Directive precluded Member States from adopting an exhaustion regime wider than community exhaustion⁶⁷. In other words, the ECJ ruled that the Directive makes it clear that exhaustion only occurs when the products have been placed on the market in the EEA, thus reaffirming that the principle of international exhaustion has no application within the EEA where the goods were first placed on the market outside the EEA. I will now make a more detailed analysis of the judgment. The ECJ relied, *i.a.*, on three Recitals in the preamble to the Directive. In the first Recital it is pointed out that the then current trade mark laws in Member States contained disparities which could impede the free movement of goods and that it was therefore necessary to “approximate” these laws. However, the third Recital

⁶⁶ KUILWIJK K.J., *o.c.*, *E.C.L.R.* 1999, 293.

⁶⁷ KUILWIJK K.J., *o.c.*, *E.C.L.R.* 1999, 294.

states that full-scale approximation is not necessary, but that it should take place in relation to those provisions of national law which most directly affect the functioning of the internal market. Finally, the ninth Recital was relied on. This one states that it is fundamental, in order to facilitate the free circulation of goods and services, to ensure that registered trade marks enjoy the same protection under the legal systems of all Member States. The Court pointed out in its judgment that, if it were possible for trade mark owners to prevent parallel imported goods from entering one Member State, but not another, this would inevitably give rise to barriers to free movement of goods between them and jeopardise the working of the internal market, and therefore be inconsistent with the purpose of the Directive.

The Court answered the second question of the Austrian Supreme Court by stating that Article 7 (1) of the Directive cannot be interpreted as meaning that the trade mark owner is entitled, on the basis of his provisions alone, to obtain an order restraining a third party from using his trade mark for products which have been put on the market outside the EEA under that mark by the owner or with his consent. In contrast to Jacobs' Opinion, the ECJ held that, since Article 7 was effectively a narrowing of the rights granted to a trade mark owner in Article 5 of the Directive, it could not itself add further rights. This part of the judgment simply highlights the fact that differences will remain between the Member States while national laws do not fully implement all of the provisions of the Directive⁶⁸.

4.4. Analysis of the Judgment

4.1.1 General Comments

On the one hand it is perhaps understandable that the Court opted for exclusion of international exhaustion for reasons of uniformity of the law within the European Community. However, if one starts looking at the legislative history

⁶⁸ CARBONI, A., o.c., *E.I.P.R.* 1998, 12, 471.

of the Directive and more specifically its Preamble, it is clear that it only envisaged partial harmonisation. That is why the Court could have allowed itself some more leeway, which it obviously didn't do.

A more fundamental question is perhaps whether outlawing international exhaustion would be compatible with basic principles of the E.C. Treaty Article 3a, one of the more fundamental principles, states that the economic policy is to be “*conducted in accordance with the principle of an open market economy with free competition*”. The requirement that the E.C. market should be open is a clear cut reference to the common commercial policy and its basic provision, Article 131 E.C. Treaty, which provides that: “*by establishing a customs union between themselves Member States aim to contribute, in the common interests, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers*”. The ECJ's judgment in this case is not really an example to the attainment of these fundamental goals of the European Community⁶⁹.

4.1.2 Silhouette is not a case of parallel importation but of re-importation

Some authors have argued that the Silhouette case is not a proper one to determine the effect of Art. 7 (1) of the Trade Mark Directive with respect to international exhaustion of intellectual property rights and to decide the parallel importation question, and this for three main reasons,. First of all, the Community law issues referred to the ECJ were not issues in the Austrian trial and consequently were never subject to a formal taking of evidence, in other words, the facts of the case have never been clearly proven in Court. Second, it was a case of re-importation following first sale within the EEA rather than parallel importation following first sale outside the EEA, and thirdly, that the agreement

⁶⁹ KUILWIJK K.J., *o.c.*, *E.C.L.R.* 1999,293.

between Silhouette and its distributor infringed the competition policy of the Community as expressed in Article 81 (1) E.C.⁷⁰.

The first reason, the facts in this case, the Austrian company Silhouette owned 21 000 spectacles in Norway. Silhouette sold the goods by way of a trader in London. The agreement specified that Austrian law would apply and that Austrian courts would have jurisdiction, It further required that payment be made in Austrian Schillings to Silhouette's bank account in Linz, Austria. The place of payment was designated as the *situs* of a contract for the sale of goods. It is not clear whether the first sale of the goods was entirely within the EEA market. If the first sale was entirely within the market, meaning that the seller, the first buyer, the goods themselves and the *situs* of the contract for sale were all within the EEA then Article 7 (1) would certainly apply. Silhouette could not then oppose the resale of the goods in a Member State since such opposition is specifically prohibited by that Article. Silhouette may have put the goods on the market of the EEA with its first sale, and by doing so having exhausted its trade mark rights.

The second reason is that the Silhouette case is not a question of parallel importation but of re-importation. This is an important distinction, both factual as legal. Parallel importation into a particular market arises where goods first become available for sale outside of that market. Then comes the parallel importer, he buys the goods, and brings them into the market for sale in competition with the goods of the market-based undertaking. Re-importation is the case, as here in Silhouette, where the complainant decides to sell the goods from inside the market for export out of the market. The spectacles were in Norway, Silhouette then sold the goods and shipped them to Bulgaria, where Hartlauer, bought the goods and brought them back into the market for resale. It is thus clear that Silhouette is a case of re-importation, the goods first went from inside the market to the outside, facilitate by a sale from within the market, not the reverse⁷¹. The trade mark owner argued that Hartlauer could not re-import the

⁷⁰ NORMAN, H.o.c., *E.I.P.R.* 2000, 4, 159.

⁷¹ HAYS, T. & HANSEN, P., Silhouette is Not the Proper Case Upon Which to Decide the Parallel Importation Question, *E.I.P.R.* 1998, 283-285.

goods, it said that the exported goods were never intended for sale in the market. Perhaps they were inferior or, reflected badly on the goods the trade mark owner sells in the market. Silhouette had several options available, it could have chosen to try and sell its goods in the market at a price attractive to the public, it could have removed the mark from the goods and then sold them, it could have not sold them at all, storing or destroying them to keep them off the market, or, as it did, it sold them for export out of the market then came Hartlauer and bought the goods. What is there in the Trade Mark Directive to stop Hartlauer from buying the goods in Bulgaria and re-import them into the market?

Thirdly there is the agreement between Silhouette and its distributor which infringed the competition policy of the Community as expressed in Article 81 (1) E.C.⁷². The first part of the agreement Silhouette had required the buyer of the goods to sell them outside the market, this is not in itself a violation of Article 81 because it does not limit competition. The second part however is a general and negative clause saying that no one is to re-sell the goods inside the market. This clearly intends to limit imports into the market and thus affects trade within the market⁷³. The community competition system does not allow the abusive use of rights deriving from one or another national trade mark law in order to defeat the effectiveness of the Community law on restrictive practices. Silhouette's agreement isolated the market from what was obviously a cheaper source of goods⁷⁴. Silhouette's agreement has a restrictive effect on Hartlauer's ability to buy the goods on the international market and resell them in the international market, it thus has an appreciable effect on trade between Member States and infringes Article 81 (1). It allows Silhouette to continue to control distribution of the exported goods upon their re-entry into the market. Silhouette tried with its

⁷² NORMAN, H. Parallel Imports from Non-EEA Member States: The Vision Remains Unclear, *E.I.P.R.* 2000, 4, 159.

⁷³ Already in the *Consten and Grundig* case, the ECJ held that Article 81 refers in a general way to all agreements which distort competition within the Common market and does not establish any distinction between those agreements. Agreements containing export and import restrictions enforced by a national trade mark infringe Article 81. (Cases 56 and 58/64 *Consten & Grundig v Commission*, *E.C.R.* 1996, 299)

⁷⁴ HAYS, T. & HANSEN, P., *o.c.*, *E.I.P.R.* 1998, 284

agreement to split up the markets in half by excluding buyers/re-sellers from sources of goods at the lower, external price, and limiting them to the higher, internal price. Silhouette's trade mark rights were exhausted when the spectacles were sold and shipped from within the market to Sofia. They were free to dispose the goods in Bulgaria, without interference from Silhouette, which they did. Now, however, Silhouette claims that its trade mark rights were somehow *re-born* when the goods were re-imported into the market. If one is to accept this, this requires the Court to hold that intellectual property rights become separated at the border of the market from the underlying goods they protect and that the rights wait there for their lost goods to return. This however, has never been the position of E.C. law. When Silhouette sold goods outside, it accepted certain limitations on the exercise of its trade mark-based control over those goods. If Silhouette can export, then Hartlauer should be allowed to import. After all these are the very same goods! The conflict in this case comes from Silhouette, that didn't want intra-market competition from Hartlauer, but that is just the competition that the competition laws seek to protect! Silhouette's attempt to use its Austrian trade mark to prevent the reselling the goods in the market is an unacceptable restraint on competition and is prohibited by Article 81 (1) ECT⁷⁵.

⁷⁵ HAYS, T. & HANSEN, P., *o.c.*, *E.I.P.R.* 1998, 283-285.

5 After Silhouette: the *Sebago*-case: the End of Parallel Imports?⁷⁶

What is the position of parallel importers after the *Silhouette* judgment? In the EU there is currently considerable uncertainty about the legality of parallel trade/grey market trade. In the 1999 *Sebago Inc. v GB-Unic S.A.* case⁷⁷, the European Court of Justice confirmed its earlier ruling in the *Silhouette* case that European Union trade mark rights are only exhausted once products bearing the mark have been put on the market in the European Economic Area .

The issue in this case was whether or not, in the absence of an explicit prohibition against re-exporting goods, implied consent could be inferred from the silence of the trademark owner⁷⁸. More specific was the fact that the trademark owner had already consented to the marketing in the EU of one batch of goods, and thus the issue was whether or not, in absence of a prohibition, the sale of one batch of goods exhausted the rights conferred by the trademark as regards the marketing of other batches of goods identical to those already put on sale⁷⁹.

The ECJ took the position that the *Silhouette* decision had already disposed the exhaustion of rights in consequence of imports from outside the EU⁸⁰.

Starting from this premise the ECJ relied on its previous case law⁸¹ as well as on the second paragraph of Article 7(2) of the Trade Marks Directive which

⁷⁶ www.sib.it 2002-05-22

⁷⁷ Case C-173/98

⁷⁸ The facts in this case, briefly stated: The US company, *Sebago Inc.* manufacture *Docksides* shoes own two Benelux trade mark and sells *Docksides* shoes in the Benelux through an exclusive distributor, *Maison Dubois*. *GB-Unic S.A.* own a chain of hypermarkets. During the summer of 1996, they sold over 2,500 pairs of *Docksides* shoes at cut prices. These shoes had been sourced from a Belgian parallel importation company who, in turn, had obtained the (genuine) shoes, which had been made in El Salvador, from outside the EEA. *Sebago* brought an action for trade mark infringement before the Brussels Cour d'Appel. *Sebago* argued that, since the introduction of the Trade Mark Directive, *GB-Unic* had no right to sell *Docksides* shoes sourced from outside the European Economic Area in the EEA without their authorisation. *GB-Unic* countered this by arguing that, in order to show that the trade mark proprietor had consented to the sale of non-EEA sourced goods in the EEA, it was only necessary to show that other, genuine *Docksides* shoes had already been lawfully marketed in the EEA with *Sebago's* consent .

⁷⁹ www.jenkins-ip.com 2002-05-24

mentions "further commercialisation". The Court found that rights conferred by the trade mark are exhausted only in respect of the individual items of the product put on the market with the proprietor's consent in the territory there defined. The trademark owner may therefore continue to prohibit use of the mark in pursuance of the right conferred on him by the Directive for individual items of that product put on the market in that territory without his explicit consent⁸².

However, the saga on international exhaustion continued in the joined cases C-414 to 416/99⁸³ before the ECJ regarded the proceedings brought by trademark owners *Zino Davidoff* and *Levi Strauss* against retailers which had purchased goods bearing the complainants' marks outside the EEA and sold them again within the EEA⁸⁴. Since those retailers contended that the trademark owners' rights had been exhausted, the ECJ had been asked basically to say exactly what the Directive's Article 7 means by "*consent*", whether consent can be implied, and whether it can be inferred by the trademark owner's silence⁸⁵.

In its decision, issued on 20 November 2001, the ECJ confirmed the opinion in the case of its Advocate General, and pointed out that, since the exhaustion of trademark rights is based upon the consent of the right holder, it is central to establish whether the right holder has actually given consent to placing on the market of goods bearing his mark. Such consent must be proved unequivocally, regardless of whether it is express or implied. In no case can consent be inferred from the mere silence of a trademark owner: it is for the trader alleging consent to prove it and not for the trademark owner to prove its absence⁸⁶.

⁸⁰ GROSS, *o.c.*, *E.I.P.R.* 2001 p. 231.

⁸¹ Case C-337/95 *Parfums Christian Dior v Evora* [1997] *ECR* I-6013, and Case C-63/97 *BMW v Deenik* [1999] *ECR* I-0000, *OJ C 121*, 1.5.1999

⁸² STOTHERS, C., International Exhaustion of Trade Marks And Consent in the EEA, *E.I.P.R.*, 2001, 344.

⁸³ Joined cases C-414/99, C-415/99 and C-416/99 *Zino Davidoff SA v A&G Imports Ltd; Levi Strauss & Co, Levi Strauss (UK) Ltd v Tesco Stores Ltd, Tesco plc; Levi Strauss & Co, Levi Strauss (UK) Ltd v Costco Wholesale UK Ltd*, judgments to be found at the Courts website, www.curia.eu.int

⁸⁴ CARBONI, A., *Zino Davidoff SA v. A&G Imports Limited : a way around Silhouette ?*, *E.I.P.R.* 1999, 10, 524.

⁸⁵ CUSHLEY, D., International Exhaustion: The Davidoff (and Levi) Cases, *E.I.P.R.* 2001, 397.

⁸⁶ *Idem* 83 above

This is the third decision in which the ECJ confirms a strict interpretation of European rules on trademark exhaustion: the first one, rendered in July 1998, was the *Silhouette* which established that only sales within the EEA could exhaust trademark rights. The second of such decisions was the *Sebago* judgement of July 1999, in which the ECJ denied that the sale of one batch of goods exhausts trademark rights as regards the marketing of other identical batches of goods: consent within the meaning of Article 7 (1) must be given for each individual item. And now this third one seems to put a nail on the coffin of parallel imports from outside the EU and will be greeted unenthusiastically by supporters of parallel importation including the majority of the European public and some EU Governments e.g. the U.K. and Swedish Government⁸⁷. It seems clear that a "fortress Europe" policy is developing in this important area of trade. If political interests do not find such legal attitudes convenient or desirable, the solution lies in their own hands. As the Advocate General said in his Sebago opinion, "*the correct remedy is to amend the Directive or (...) to enter into international agreements in order to extend the principle of exhaustion to products put on the market in non-member countries, as was done in the EEA agreement*"⁸⁸.

⁸⁷ It is no secret that *i.a.* UK judges were unhappy with *Silhouette* and will be even less happy with *Sebago*. The Swedish Government too is pushing for a political decision on the issue, and the Commission is holding hearings on the subject

⁸⁸ Advocate General Jacobs in the *Sebago*-case, Para. 30

6 International Agreements

In the mentioned judgments the Court of Justice refers to the possibility available to the Community authorities of extending the limited rule of exhaustion by entering into international agreements. Also in the “*travaux préparatoires*” of the Commission we find references to the effect that “*the Community must be empowered to conclude, at some future time with important trading partners, bilateral or multilateral agreements whereby international exhaustion is introduced by the contracting parties*”⁸⁹.

6.1. The European Economic Area Agreement (EEA)

One Agreement exists in the context of which the issue of parallel imports is subject to the same rule as in the intra-Community trade, namely the EEA Agreement. This Agreement establishes the European Economic Area⁹⁰. All EFTA Members of the EEA had to accept the “*acquis communautaire*”⁹¹.

The rule of exhaustion thus applies to intellectual property right within the EEA. Contrary to the E.C., which is a customs union, the EEA is built on the model of a free trade area. EEA rules govern trade between EEA contracting parties, but not between the latter and third countries. Therefore, the individual EFTA countries remain free to decide whether or not to implement the exhaustion rule in their trade relations with third countries, as was confirmed by the EFTA Court in the *Mag Instruments* case⁹².

I will now go more into detail in this *Mag Instruments* case since it is very similar to the *Silhouette* case on a factual basis, the outcome however was completely different.

⁸⁹ COM (84) 70 Final

⁹⁰ See Agreement establishing a European Area (1994) *O.J. L 1/2*, Articles 6 and 7.

⁹¹ Community legislation and the case law of the Court of Justice.

⁹² Case E-2/97 *Mag Instrument Inc. v. California Trading Company*, 1998 *E.T.M.R.* 85, 1 *C.M.L.R.* 331

6.2. The Mag Instruments case

In an advisory opinion of 3 December 1997, the EFTA Court has stated that Article 7(1) of the Trade Mark Directive is to be interpreted as leaving it up to the EFTA States to decide whether they wish to introduce or maintain the principle of international exhaustion of rights conferred by a trade mark with regard to goods originating from outside the EEA⁹³. The plaintiff before the national court (*Fredrikstad City Court* in Norway) is the producer of the *Maglite* lights in the US. The plaintiff has assigned *Viking International Pruducts Olso* as the official distributor for its products in Norway. The defendant, *California Trading Company Norway, Ulsteen*, has carried on parallel imports by importing Maglite lights directly from the US for sale in Norway. Arguing that the imports infringe its exclusive trade mark rights, the plaintiff brought proceedings against the defendant and requested that the defendant be prohibited from selling Maglite lights in Norway. The EFTA Court held that the principle of exhaustion of trade mark rights and the exceptions to this rule have been laid down in Article 7 of the Trade Mark Directive. According to this provision, the trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in an EEA Member State under that trade mark by the proprietor or with his consent. According to the EFTA Court, the principle of international exhaustion is in the interest of free trade and competition and thus in the interest of consumers. It is furthermore in line with the main function of a trade mark, to allow consumers to identify with certainty the origin of the goods⁹⁴. The protection of goodwill is important, but can not be regarded as a main function of a trade mark that would require a ban on parallel imports. Additionally, the EFTA Court has based its opinion on the fact that there is an important difference of scope between the EEA Agreement and the EC Treaty. The EEA Agreement does not

⁹³ The Norwegian Trade Mark Act does not contain any explicit rules on exhaustion, but according to the EFTA Court it is well established Norwegian (case) law, that the doctrine of international exhaustion applies for trade marks

⁹⁴ ALEXANDER, W., *o.c.*, *E.C.L.Rev.* 1999, 24, p. 60.

establish a customs union, but a free trade area⁹⁵. The rules on the free movement of goods contained in the EEA Agreement apply only to goods originating in the EEA, while in the Union a product is in free circulation once it has been lawfully placed on the market in a Member State. The EFTA States⁹⁶ do not entail a common commercial policy towards third countries and remain free to conclude treaties and agreements with third countries relating to foreign trade. It is therefore for them to decide whether they want to stick to the principle of international exhaustion of trade mark rights⁹⁷.

What would have happened if the U.S. origin torches had continued their tour and being imported from Norway into a random E.C. Member State? Could they have been stopped, after having been freely entered the EEA across the Norwegian border? For Article 7 (1) of the Directive the question is whether the goods have been put on the market within the EEA under the trade mark “*by the proprietor or with his consent*”. *Carboni*⁹⁸ argues that, as the case law stands today, the goods could indeed have been stopped. She continues that if this would not have been the case the effect of the Silhouette decision could easily be circumvented by importers using Norway or either other EFTA state (if they apply the international exhaustion practice of course) as a gateway to trade in grey market products in the E.C.

⁹⁵ See Opinion 1/91, *Opinion of the Court on the Draft Agreement between the Community and EFTA regarding the creation of the EEA*, Dec. 14, 1991, [1991] E.C.R. I-6079

⁹⁶ Currently only Iceland, Norway and Lichtenstein,

⁹⁷ WALSH, P., TREACY, P. and FEASTER., T., *o.c.*, *E.L.Rev.* 1999, 24, p. 273.

⁹⁸ CARBONI, A., *o.c.*, *E.I.P.R.* 1998, 12, 473.

7 International Exhaustion in the WTO Context

The original GATT Agreement of 1947 didn't really pay attention to I.P. rights. Again, at the start of the Uruguay Round in 1986, I.P. rights were only considered to be a footnote in an already heavy charged agenda⁹⁹. Ironically enough today the agreement on trade-related aspects of intellectual property rights (TRIPS) is considered as being one of the utmost important breakthroughs in the negotiation, however, it remained controversial¹⁰⁰.

The TRIPS Agreement is especially neutral on the controversial topic of international exhaustion. Article 6 of TRIPS is considered to be "*an agreement to disagree*"¹⁰¹. It permits each WTO Member to prescribe its own rule on the subject of international exhaustion.

Cottier, member of the Swiss delegation, summed the situation as follows: "*Both, the concepts of national and international exhaustion, are not entirely satisfactory from a trade related point of view. National exhaustion (or regional in the case of the European Union) is not satisfactory from a consumer's point of view. It allows for considerable market segmentation and differential pricing policies to the extent that (cheaper) parallel imports can be banned in any case. International exhaustion on the other hand, is deficient from the right holder's point of view.*"¹⁰².

In discussing both strongly opposed principles, *Bronckers*, stresses the fact that the TRIPS Agreement as a rule bans import restrictions, unless these can be justified as necessary for intellectual property rights. He, thus, continues, that the

⁹⁹ See Ministerial Declaration on the Uruguay Round, GATT, 33d Supp. *BISD* 19, 25-26 (1987)

¹⁰⁰ MYLLY, T., A Silhouette of Fortress Europe? International Exhaustion of Trade Mark Rights in the EU, *M.J.* 2000, 1,

¹⁰¹ Article 6 of the TRIPS Agreement states: *For the purpose of dispute settlement under this Agreement, subject to the provisions of Article 3 and 4 nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.* The reference made to Articles 3 and 4 means that if a country were to decide to opt for national or regional principle of exhaustion, it would not be permitted to discriminate against other WTO Members in the application of that principle (KUILWIJK K.J., *o.c.*, *E.C.L.R.* 1999,298.)

¹⁰² COTTIER, T., The Prospects for Intellectual Property in GATT, *C.M.L.R.* 1991, 28, 399.

principle of worldwide exhaustion “*is more in line with the GATT spirit*”¹⁰³. The goal as set by the WTO is to lower barriers to trade in goods and services in the international market, and thereby to enhance global economic productivity and encourage growth.¹⁰⁴

The above mentioned Cottier on the other hand believes that the introduction of international exhaustion may amount to frustration of legitimate expectations created by increased protection of intellectual property rights and may be stopped¹⁰⁵.

A lot of companies have based their arguments before the ECJ on the GATT. However with little success, the Court’s case law shows a clear unwillingness to take these arguments into account. Only in the rare occasion where Community law clearly referred to GATT the Court was willing to interpret GATT law and strike down Community law when appropriate. The reasoning in this is that GATT provisions are too vague and flexible to be invoked by companies before the European and national courts¹⁰⁶.



¹⁰³ BRONCKERS, The Impact of TRIPS: Intellectual Property Protection in Developing Countries, *C.M.L.R.* 1994, 6, 1267.

¹⁰⁴ ABBOTT, F.M. & VERKADE, D.W.F., The Silhouette of a Trojan Horse: Reflections on Advocate General Jacobs’ Opinion in *Silhouette v. Hartlauer*, *B.I.E.*, 1998, 115.

¹⁰⁵ COTTIER, T., *o.c.* *C.M.L.R.* 1991, 399.

¹⁰⁶ ALEXANDER, W., De Twist Rond “TRIPS”: Intellectuele Eigendomsbescherming in Ontwikkelingslanden, *S.E.W.* 1995, 10, 635.

8 The Situation in the US and Japan

8.1. The United States Situation

In the USA, the trademark holder cannot act against domestic resellers of products he put on the market himself or with his permission. The idea behind it is that the trademark holder has had a chance to ensure the quality of the product and to make money of the first sale, and then he no longer has a right to control further distribution of that product. If a US trademark holder sells trademarked products abroad, a third party may buy these products and import them into the USA¹⁰⁷.

The *Lanham Act*, which is the US trademark law, can sometimes be used to block imports even if they were manufactured abroad by the trademark holder or an affiliate. For example, when the foreign product would be considered different from the domestic product by the American consumer, the imported products are deemed not genuine. It is not uncommon for a product to have different ingredients, for example, due to local health regulations or to be of different quality in different countries¹⁰⁸.

The US Supreme Court decided recently, on March 9 1998, in a copyright case in favour of international exhaustion in a factual context similar to that of the *Silhouette* case.¹⁰⁹ The case involved the importation of copyright protected hair care products that were exported from the US with the consent of the copyright holder (*L'anza*) and then imported to the US by a third party (*Quality King Distributors*) without the consent of the copyright holder¹¹⁰. The Supreme Court held unanimously that a party which (a) produced copyrighted material in the US and (b) sold it to a party abroad could not use the Copyright Act to block the

¹⁰⁷ ZADRA-SYMES, L.J & BASISTA, J.J., Using U.S. Intellectual Property Rights to Prevent Parallel Imports, *E.I.P.R.* 1998, 223.

¹⁰⁸ www.bitlaw.com 2002-05-24

¹⁰⁹ *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 1998 WL 96-265 (U.S. Cal.),

¹¹⁰ ZADRA-SYMES, L.J & BASISTA, J.J., *o.c.*, *E.I.P.R.* 1998, 219

importation of the product into the US¹¹¹. This decision has essentially shattered any further attempts to use the U.S. copyright law to halt parallel importation of genuine goods originally manufactured in the U.S. and exported. However, U.S. manufacturers will still draw some solace from the “material differences” line of cases under the U.S. trade mark statute. When they change sufficiently enough the labeling, warranties, and/or content of their foreign distributed goods to be country specific, they will be able to argue that the parallel imports are not genuine goods and are likely to cause customers confusion¹¹².

8.2. The Japanese Situation

The Japanese Supreme Court has affirmed the doctrine of international exhaustion of patent rights in relation to parallel imports of patented products into Japan in the 1995 *BBS Kraftverzeug Technik AG - v - Racimax Japan KK & Jap Auto Products KK* case¹¹³. In this case the Japanese courts have adopted for the first time the concept of international exhaustion of patent rights. The Supreme Court ruled that parallel importation does not constitute patent or trademark infringement unless the patentee agreed or indicated on the goods that distribution into Japan was prohibited¹¹⁴. The court's reasoning was that sale of a patented product by the patentee extinguished any patent rights relating to that product. The patentee should be given only one such chance to obtain such additional compensation. The court noted that the purpose of the Japanese patent law was to encourage both inventions and their utilization and that a balance had to be struck between the public interest and the proprietor's interest in such situations¹¹⁵.

¹¹¹ ABBOTT, F.M. & VERKADE, D.W.F., *o.c.*, *BIE*, 1998, 115.

¹¹² ZADRA-SYMES, L.J & BASISTA, J.J., *o.c.*, *E.I.P.R.* 1998, 225.

¹¹³ *BBS Kraftverzeug Technik AG - v - Racimax Japan KK & Jap Auto Products KK*, 1 July 1997, Heisei, (1995) (o) N°.1998.

¹¹⁴ TESSENHORN, J.A. & YAMAMOTO, S. The Big Aluminum Wheel Dust Up – International Exhaustion of Rights in Japan (1998) *E.I.P.R.* 228-238.

¹¹⁵ www.ladas.com 2002-05-23

9 The Point of View of Trade Mark Organisations, Parallel Importers and Consumer Groups

9.1. Trade Mark Associations

On September 3 1999, the *European Communities Trade Mark Association (ECTA)* issued a Memorandum on the exhaustion of trade mark rights addressed to the head of the EU's DG XV. They basically gave their point of view on the whole exhaustion issue, mostly from an economical point of view. I will summarize some of their points. They start by saying that international exhaustion will result in short-term benefits (reduction in prices) for the consumer but also long-term disadvantages, as to the origin of goods and greater difficulties in combating the counterfeiting of products. Moreover they look at the effect this all will have on the profits of brand owners and authorised dealers, and they conclude that it will probably cause a reduction of investments in R&D. The document concludes that "*as long as a real global single market does not exist, it is neither necessary nor desirable to introduce international exhaustion of trademark rights*"¹¹⁶.

The same type of argumentation can be found with the *International Trade Mark Association (INTA)*. They argue that trademark owners often tailor their products, packaging, sales and distribution networks to meet specific cultural, environmental and other conditions in specific countries. They continue that the value of a trademark can therefore be undermined if a standard of international exhaustion of trademark rights and free parallel importation is followed. The prices at which products are sold can vary from country to country for a great variety of reasons, among them differences in regulatory requirements, environmental standards, labour and material costs, and taxes. They argue that parallel importers have little or no incentive to maintain the goodwill of the mark and its ability to attract customers in the future. The parallel importer spends less

¹¹⁶ www.ecta.org 2002-05-23

time and effort to ensure the quality of the product and may provide little, if any, warranty or service. The consumer relies on the trademark about the quality and characteristics of the product and the level of after-sales service. If these expectations are not met because a consumer receives a product intended for another market he or she will blame the trademark owner. Thus the trademark owner's reputation is damaged. A standard of national exhaustion approximately takes these legitimate brand protection concerns into account, international exhaustion does not¹¹⁷.

9.2. Parallel Importers and Consumer Groups

A complete different story can be heard on the other side, namely of parallel importers and consumers organizations. The *European Parallel Importers Coalition (EPIC)*¹¹⁸ stands for the re-introduction of an international exhaustion regime relating to trademark law in the European Union. They believe that current EU trademark legislation is contrary to consumer interest and goes far beyond what it was designed to protect. The result is that the European consumer has less choice, and trademark owners face no competition, giving them freedom to set prices. Traditionally this has meant that EU prices are considerably higher than in the U.S. and the Far East. One important function of a trademark is to promote innovation and creativity by allowing the innovator to reap a benefit for the time, talent and effort put into the creation of a product bearing his trademark, EPIC believes that, as parallel imports cover only genuine goods, trademark owners have already derived this benefit by virtue of their first sale, and therefore this function of trademark law has already been fulfilled.

Parallel traders and consumer organizations counter more or less all arguments put forward by trade mark organizations. I will summarize briefly the most common ones, starting with the fact that parallel imports deny consumers the benefits of after sales service, guarantees and product information. Parallel traders

¹¹⁷ www.inta.org 2002-05-23

argue that the majority of branded goods subject to parallel imports do not require after sales service (perfumery, cosmetics, toiletries, clothing, soft and hard drinks etc.). After all, they say, what after sales service does the consumer get when buying these goods in a duty free shop, on a plane, on a ship in another country, or via the Internet?

Another argument is that parallel imports may reduce the ability to detect and prevent counterfeit imports. EPIC says that this argument has never been either factually or logically proven. Parallel imports are the genuine articles but traded outside the companies own channels.

EPIC's response to parallel traders fear that lower returns will inhibit investment in new brands or reduce the quality of goods is the following: *'Why should the EU consumer finance this extra incentive?'* The USA and Japan both have international exhaustion policies and historically when the principle of global exhaustion ruled before the current there was no lack of investment in new brands nor was there any lowering of quality.

*Consumers' Association*¹¹⁹ has been keen to see reform of the Trade Mark Directive to a regime of international exhaustion for some time as they believe it restricts choice, maintains high prices and works for the benefit of large brand manufacturers and against the interests of consumers.

That is why the CA thinks that regional trade mark exhaustion must be changed to international exhaustion because consumers gain from globalisation and freer trade and that restrictions to trade and competition should be reduced wherever possible.

¹¹⁸ EPIC is a pan-European single-issue organisation set up in late 1998 bringing together importers and retailers active in every sector of consumer goods.

¹¹⁹ Consumers' Association (CA), is an independent consumer organisation with around 700,000 members. CA has campaigned in the consumer interest for over 40 years.

10 Conclusion

Apparently the discussing whether to introduce international exhaustion on the one hand, or, on the other hand maintain the current system of EEA-wide exhaustion depends a lot on what side you are on. As shown above, trade mark owners and organisations strongly advise and lobby to maintain the today's system using arguments that otherwise this will effect investments and consumers choice, not to mention the impact a change may have on employment. For the time being they seem to succeed, with the recent ECJ judgments in the Silhouette, Davidoff and Sebago cases and support from the Commission, who, after the recent studies and hearings, decided that there is no need to change to international exhaustion. This, however, is very much commented not only by consumers' organisations or parallel traders, but also by national courts and some Governments. Their main critique is that trade mark legislation is used as an instrument to control distribution channels and partitions markets, which is contrary to the principle of sound competition.

It must be though being a parallel importer these days, they tried almost everything and lost every time! I will now look at some possible strategies for parallel importers to circumvent the consequences of the Silhouette judgment. A first argument is that of misuse of law. This has been especially "popular" with some Belgian judges who interpreted the legal actions of brand owners as "misuse of the law", *i.e.* the use of the law for a purpose other than that for which it was intended¹²⁰. They argue that the proceedings of brandowners seemed to have been motivated, first and foremost, to prevent parallel importation and by their wish to protect the official dealer network and not the brand. The ECJ could take this into account, since this is a general principle of law¹²¹. Unfortunately for

¹²⁰ *Rechtbank van Koophandel* (trade court) Nijvel, *Esprit v. GB Unic*, *Rechtbank van Koophandel* (trade court) Brussel Caterpillar/GB Unic, 22 januari 1997, *Rechtbank van koophandel* Nijvel (trade court) Esprit/GB-Unic & Eximin Europe (4 april 1997), (*all not published*)

¹²¹ VERKADE, D.W.F. Extra-communautaire parallelimport en rechten van intellectuele eigendom, *S.E.W.* 1997, 9, 311.

parallel importers, the Silhouette judgment rejects the use of the misuse of law principle against extra-EEA parallel imports. Another strategy, with probably more chance of success, are the EU competition rules. It was A-G. Jacobs who putted it like this in his conclusion; *“As regards the Community’s competition policy, the ruling to be given by the Court on international exhaustion will in no way limit the possible application of the competition rules of the Treaty. It will not exclude the possibility that Articles 81 and 82 of the Treaty may apply to agreements between undertakings, or to unilateral behaviour by a dominant undertaking, seeking to divide up the markets”*¹²². However, competition rules are a very poor instrument for addressing the likely adverse impact of a decision precluding international exhaustion. An action under Article 81 or 82 is a costly and time consuming endeavor for an individual EU citizen or private enterprise. It would be an extraordinary situation in which an individual citizen or EU business would be so adversely affected by the decision of an enterprise to block parallel imports that it would justify the expense or time necessary to pursue such matter under Article 81 or 82 ECT.¹²³ The last theory I want to discuss is the one of implied consent and the burden of proof. Some EU Member States and other jurisdictions follow a doctrine of implied consent, allowing for parallel imports by making a presumption that the trademark owner has consented to the importation. It is manifestly unreasonable to create a presumption that a trademark owner has consented to the parallel importation of its goods or to otherwise rely on doctrines of implied or indirect consent. Rather, a presumption that a trademark owner has *not* consented is warranted. The theory of implied consent was rejected in the Davidoff and Levi’s cases.

As there is no help to be expected from the Court in Luxembourg, parallel importers will probably try again and this time with more convincing or creative arguments. The last word hasn’t been said about this interesting and daily-life affecting topic.

¹²² Conclusion Advocate-General JACOBS, para. 53.

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¹²³ ABBOTT, F.M. & VERKADE, D.W.F., *o.c.*, *B.I.E.* 1998, 115.

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