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# TRADEMARK EXHAUSTION IN THE EUROPEAN UNION: COMMUNITY-WIDE OR INTERNATIONAL? THE SAGA CONTINUES

IRENE CALBOLI\*

## I. INTRODUCTION

While the exclusive rights of use of a trademark entitle an owner to prevent third parties from using identical or similar marks in relation to identical or similar products without his consent, these rights are qualified by the principle of “exhaustion,” also known as the “first-sale rule.”<sup>1</sup> According to this principle, “[t]he right of a producer to control distribution of its trademarked products does not extend beyond the first sale of the product,” and “[r]esale by the first purchaser of the original article under the producer’s trademark is neither trademark infringement nor unfair competition.”<sup>2</sup> These

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1. See generally Herman Cohen Jehoram, *Prohibition of Parallel Imports Through Intellectual Property Rights*, 30 I.I.C. 495 (1999); Roland Michael Beckmann, *Die Reichweite des Erschöpfungsgrundsatzes nach neuem Markenrecht*, 11 G.R.U.R. INT’L 836 (1998); Gallus Joller, *Zur territorialen Reichweite des Erschöpfungsgrundsatzes im Markenrecht*, 10 G.R.U.R. INT’L 751 (1998); Gallus Joller, *Markenrecht und freier Warenverkehr*, 4 G.R.U.R. INT’L 309 (1998); Christopher Heath, *Parallel Imports and International Trade*, 28 I.I.C. 623 (1997); Ulrich Löwenheim, *Nationale und Internationale Erschöpfung von Schutzrechten im Wandel der Zeiten*, 4 G.R.U.R. INT’L 307 (1996); Charles Worth, *Free Trade Agreements and the Exhaustion of Rights Principle*, 1 E.I.P.R. 40 (1994); John C. Hilke, *Free Trading or Free-Riding: An Examination of the Theories and Available Empirical Evidence on Gray Market Imports*, 1988 WORLD COMPETITION 75; Richard A. Posner, *The Chicago School of Antitrust Analysis*, 127 U. PA. L. REV. 925 (1979); Friedrich-Karl Beier, *Territoriality of Trademark Law and International Trade*, 1 I.I.C. 48 (1970).

2. *Sebastian Int’l v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1074, 34 U.S.P.Q.2d (BNA) 1720, 1722 (9th Cir. 1995), quoted in J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION 25:41 (2001). According to the Ninth Circuit, “the premise of the first sale is

limits on exclusive trademark rights are founded in the interests of free trade and the free movement of goods. Such limits are justified by the concept that trademarks must not be used as tools of distribution, marketing policy, or as a means for market division, in a way that counters their function as distinctive indicators of origin.<sup>3</sup>

From a legal standpoint, the definition of an exhaustion regime depends upon the recognition of this principle by national trademark laws and upon the determination of the geographical area over which the principle is to apply.<sup>4</sup> Traditionally, national practices have been characterized by two distinct approaches: “national exhaustion” and “international exhaustion.”<sup>5</sup>

Under national exhaustion, once the trademarked products are placed on the market by the owner, or with his consent, the owner’s rights are considered exhausted only in the domestic territory. The owner will still be free to oppose the importation of genuine goods bearing his trademark that have been put on the market outside the domestic territory.<sup>6</sup> In contrast, under international exhaustion, if a trademark owner, or someone with his consent, places the trademarked goods on the market in any of the national jurisdictions where the trademark owner enjoys protection, the owner’s rights are exhausted in other national jurisdictions where he enjoys similar rights.

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that ‘the consumer gets exactly what the consumer bargains for, the genuine product of the particular producer.’” MCCARTHY, *supra*, § 25:41 n.4 (quoting *Sebastian*, 53 F.3d at 1075 (2001)).

3. Even though trademarks perform a variety of functions in modern society, their primary function, from a legal standpoint, is still as indicators of commercial origin. *See generally* W. R. CORNISH, *INTELLECTUAL PROPERTY* 612 (4th ed. 1996); Spyros M. Maniatis, *Competition and the Economics of Trade Marks*, in ADRAIN STERLING, *INTELLECTUAL PROPERTY & MARKET FREEDOM* 65 (London, Sweet & Maxwell 1997); Anselm Kamperman Sanders & Spyros M. Maniatis, *A Consumer Trade Mark: Protection Based on Origin and Quality*, 11 E.I.P.R. 406 (1993); Nicholas S. Economides, *The Economics of Trademarks*, 78 TRADEMARK REP. 523 (1988); Sidney A. Diamond, *The Historical Development of Trademarks*, 65 TRADEMARK REP. 265 (1975); Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813 (1927) (stating that the “proper function of a trademark” is “to identify the origin or ownership of goods to which it is affixed”). This is reflected in most modern trademark legislation and has been affirmed in the wording of Directive 89/104/EEC (recital 10<sup>th</sup> to the Directive states that “the function [of a trademark] is in particular to guarantee the trademark as an indicator of origin”) and in the European Court of Justice’s case law. *See* Case C-251/95, *Sabel BV v. Puma AG*, 1997 E.C.R. I-6191 and Case C-39/97, *Canon Kabushiki Kaisha v. Metro-Goldwyn-Mayer Inc.*, 1999 R.P.C. 117.

4. *See* S. K. Verma, *Exhaustion of Intellectual Property Rights and Free Trade—Article 6 of the TRIPS Agreement*, 29 I.I.C. 534, 539 (1998).

5. On the differences between national and international exhaustion, *see generally* Jesper Rasmussen, *The Principle of Exhaustion of Trade Mark Rights Pursuant to Directive 89/104 (and Regulation 40/94)*, 4 E.I.P.R. 174 (1995); Herman Cohen Jehoram, *International Exhaustion versus Importation Right: A Murky Area of Intellectual Property Law*, 4 G.R.U.R. INT’L 280 (1996).

6. Verma, *supra* note 4, at 539. On the difference between importation of genuine goods and of materially different products, *see* MCCARTHY, *supra* note 2, §§ 29:46, :48 to :50, :51.2.

Accordingly, the trademark owner will not be free to prevent international importation of genuine products bearing his trademark.<sup>7</sup>

Because of its impact on the control of economic distribution, issues regarding trademark exhaustion have been at the center of discussion in Europe since the adoption of the Treaty of Rome. In the formative years of the European Economic Community (EEC), the European Community Commission (the “Commission”) and the European Court of Justice (ECJ) argued that the exclusive rights afforded by national laws to trademark owners could be an obstacle to the creation of a unified internal market. This resulted in the development of the doctrine of Community-wide exhaustion,<sup>8</sup> a regional compromise between national and international exhaustion.

According to the doctrine of Community-wide exhaustion, once a product has been put on the market in a particular Member State, by or with the consent of the legitimate trademark owner, the owner can no longer rely on his national rights to prevent the importation of the product from that State into another Member State.

To approximate the laws of Member States relating to trademarks, the Community-wide exhaustion criterion was eventually incorporated into Article 7(1) of the First Council Directive 89/104/EEC of December 21, 1988 (the “Trademark Directive”).<sup>9</sup> The adoption of the Agreement for the

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7. Verma, *supra* note 4, at 539.

8. On the development of the principle of Community-wide exhaustion, see generally, Herman Cohen Jehoram, *Harmonising Intellectual Property Law Within the European Community*, 23 I.I.C. 622 (1992); Friedrich-Karl Beier, *Industrial Property and the Free Movement of Goods in the Internal European Market*, 21 I.I.C. 131 (1990); Vito M. Mangini, *Competition and Monopoly in Trademark Law: An EEC Perspective*, 11 I.I.C. 591 (1980); Friedrich-Karl Beier, *The Doctrine of Exhaustion in EEC Trademark Law—Scope and Limits*, 10 I.I.C. 20 (1979); Friedrich-Karl Beier, *Trademark Conflicts in the Common Market: Can They be Solved by Means of Distinguishing Additions?*, 9 I.I.C. 221 (1978); Ulrich Löwenheim, *Trademark and European Community Law*, 9 I.I.C. 422 (1978); Lord Mackenzie Stuart, *The Function of Trade Marks and the Free Movement of Goods in the European Economic Community*, 7 I.I.C. 27 (1976); Willem Mak, *Trademarks and the European Common Market*, 6 I.I.C. 29 (1975). The ECJ developed the principle of Community-wide exhaustion independently of the exhaustion regimes adopted by European Member States at the national level. The laws of some countries, such as Germany, the Benelux Countries, Austria, Denmark, Sweden, and Norway, generally accepted the principle of “international exhaustion,” while other European jurisdictions, such as France, Italy, and Spain, opted for the principle of “national exhaustion.”

9. Council Directive 89/104/EEC was adopted by the European Council on December, 21 1988 after almost ten years of debate. The first draft of the Directive was published in December 1980. Council Directive 89/104/EEC, 1980 O.J. (C 351/1). An attempted “final proposal” was submitted to the Council in December of 1985. Council Directive 89/104/EEC, 1985 O.J. (C 215/4). Following the comments of several Member States, a new text was drafted in October 1986 and discussed by the Working Group. In December 1987 an amended text, strongly influenced by the Dutch delegation, was published and subsequently approved by the Council in June of 1988. Following the advice of the Economic and Social Committee in October of 1988 and the Opinion of the European Parliament in December of 1988, the Council adopted the Trademark Directive on

European Economic Area (EEA) of May 2, 1992 extended this principle to the European Free Trade Agreement (EFTA) countries joining the EEA (Norway, Iceland, and Liechtenstein).<sup>10</sup>

However, it is unclear from the wording of the Trademark Directive whether the principle of Community-wide (now EEA-wide) exhaustion only represents a minimum standard that leaves Member States free to apply more generous rules (i.e., international exhaustion), or whether Community-wide exhaustion should be applied as the general criterion to all intra-EEA trade. To settle this ambiguity, the ECJ interpreted Article 7(1) of the Trademark Directive in two recent cases: *Silhouette International Schmied v. Hartlauer Handelsgesellschaft*<sup>11</sup> in 1998 and *Sebago Inc. et. al. v. GB-Unic SA*<sup>12</sup> in 1999. The ECJ ruled that the Trademark Directive precludes national rules that provide for international exhaustion of trademark rights.<sup>13</sup> Nevertheless, after considering the strong pressures coming from some Member States in favor of international exhaustion, the ECJ suggested that a possible remedy could be “to extend the exhaustion provided for by Article 7 to products put on the market in non-member countries by entering into international agreements in that sphere, as was done in the context of the EEA Agreement.”<sup>14</sup> As has been noticed, such compromise could come under the scope of the World Trade Organization (WTO) Agreement as a violation of the principle of “Most Favored Nation Treatment,” as per Article 4 of the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS).<sup>15</sup>

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December 21, 1988. Council Directive 89/104/EEC, 1988 O.J. (L 40/1). For a detailed analysis of the Commission’s working documents with special attention to the drafting of Article 7, see Cohen Jehoram, *supra* note 1, at 501.

10. Annex XVII and Article 2(1) of the Protocol to the Agreement for the European Economic Area (O.J.E.C. L 1/3, January 3, 1994) extended the effect of Article 7 of the Trademark Directive to the EEA from January 1, 1994.

11. Case C-355/96, 1998 E.T.M.R. 539, available at <http://curia.eu.int/jurisp> (last visited May 3, 2002).

12. Case C-173/98, 2 C.M.L.R. 1317 (1999).

13. *Id.*

14. *Silhouette*, 1998 E.T.M.R. at ¶ 30.

15. See Verma, *supra* note 4, at 557; Stanislaw Soltysinsky, *International Exhaustion of Intellectual Property Rights Under the TRIPS, the EC Law and the Europe Agreements*, 4 G.R.U.R. INT’L 316 (1996). Article 4 of the TRIPS Agreement states that “with regard to the protection of intellectual property, any advantage, favour, privilege or immunity granted by a Member to the nationals of any other country shall be accorded immediately and unconditionally to the nationals of all other Members.” GATT Agreement on Trade-Related Aspects of Intellectual Property Rights, 1994, art. 6. The concern that negotiation of reciprocity agreements for the purpose of trademark exhaustion can come under the scope of the WTO Agreement has also been recently expressed by the Commission. See generally *Exhaustion of Trade Mark Rights: Working Document from the Commission Services*, available at <http://europa.eu.int/comm/dg15/intprop/indprop/exhaust.htm> (December 9, 1999) [hereinafter *Commission Working Paper on Trademark Exhaustion*].

The debate on the issue was reignited by the 1999 High Court of London decisions in *Zino Davidoff S.A. v. AG Imports Ltd.*<sup>16</sup> and *Levi Strauss & Co. v. Tesco Stores Ltd.*<sup>17</sup> These cases introduced elements of the law of contracts and the sale of goods, and private international law into the debate. Despite pressure from some Member States, in its November 2001 judgment in *Zino Davidoff*, the ECJ has continued to prevent any change towards international exhaustion.<sup>18</sup>

The issue of trademark exhaustion has also been the subject of discussion within European institutions and among private trade organizations. In April 1999, the Commission organized two meetings with interested parties in order to discuss possible changes to the current regime. As a result of these consultations, the Commission concluded that a shift towards international exhaustion would not, at least in short term, lead to a significant reduction in prices for consumers and decided that such a change was not appropriate for the time being.<sup>19</sup> In March 2001, however, the European Parliament took an opposite approach and published a draft report on the issue, advocating the transition to international exhaustion.<sup>20</sup> Thus far, no relevant legislative measures have been adopted and the debate on the issue is still open.<sup>21</sup>

Following the recent ECJ case law, and in light of the overall debate on the issue, this Study analyzes whether, and under what conditions, a shift towards a regime of international exhaustion in Europe could still be possible. This Study focuses on an analysis of trademark exhaustion within the meaning of the Trademark Directive. It does not elaborate on other issues, such as competition or questions on vertical restraints that are also relevant in the larger context of parallel trade.<sup>22</sup> First, this Study will offer a description

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16. 30 I.L.C. 567 (1999) [hereinafter *Zino Davidoff*].

17. Unreported.

18. Joined Cases C-414-416/99, *Zino Davidoff SA v. A & G Imports Ltd, Levi Strauss & Co. v. Tesco Stores Ltd.*, and *Levi Strauss & Co. v. Costco Wholesale UK Ltd.* (Nov. 20, 2001), available at <http://curia.eu.int/jurisp> [hereinafter *Zino Davidoff SA and Levi Strauss* (Joined Cases C-414-416/99)].

19. For a summary of these meetings, see *Commission Working Paper on Trademark Exhaustion*, *supra* note 15, at 17-19. Further updates on the issue are available at the Commission's web site at [http://europa.eu.int/comm/internal\\_market/en/indprop](http://europa.eu.int/comm/internal_market/en/indprop).

20. This unreported text was drafted by delegation members from Member States in favor of international exhaustion.

21. On October 3, 2001, the European Parliament voted 473 to 22 (with 27 abstentions) in favor of a resolution providing for the creation of another Commission working paper about the exhaustion of trademark rights. A provisional edition of the minutes of the Parliament's resolution (SEC(1999)2033 - C5-0354/2000 - 2187/2000(COS)) is available at the Community Parliament's web site (through a search in the Legislative Observatory using the Rapporteur's name: Mayer Hans-Peter) at <http://www.europarl.eu.int/oeil> (last visited May 22, 2002).

22. From the ECJ's judgment in Case C-306/96, *Javico Int'l & Javico AG v. Yves Saint Laurent Parfums SA*, 1998 E.C.R. I-1983, it is clear that parallel imports from a third country may, under certain circumstances, be acceptable under European Union competition rules. *See*

of the development of the doctrine of Community-wide exhaustion and of the relevant rulings of the ECJ before the adoption of the Trademark Directive. Next, this Study will focus on the interpretive problems of Article 7(1) of the Trademark Directive that have characterized the provision so far, and will analyze the ECJ rulings in *Silhouette*<sup>23</sup> and *Sebago*.<sup>24</sup> Finally, it will refer to the recent consultations organized by the Commission and the European Parliament, and to the ECJ ruling in *Zino Davidoff*<sup>25</sup> and *Levi Strauss*,<sup>26</sup> in order to draw conclusions as to the possibility of a change towards a regime of international exhaustion.

## II. DEVELOPMENT OF THE DOCTRINE OF COMMUNITY-WIDE EXHAUSTION

So far, the position adopted by the Community regarding the exhaustion of intellectual property rights has been different from other jurisdictions. Clearly inspired by economic liberalization, but mainly at the Community level, the main goal was to integrate national markets and to create a unified European internal market.<sup>27</sup> During the years that followed the adoption of the Treaty of Rome, the Commission and the ECJ argued that the exclusive powers afforded by national law to the holder of an intellectual property right could not be considered "indispensable for its protection." Therefore, they argued against absolute territorial protection to prevent the hindrance of parallel importation within the Community. To this end, the ECJ initially prohibited the exclusive use of intellectual property rights by application of the rules of competition set by the European Community Treaty (EC Treaty).<sup>28</sup> Since the early 1970s, the ECJ relied more frequently on the

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*Commission Working Paper on Trademark Exhaustion*, *supra* note 15, at 1. For a position in favor of international trademark exhaustion because of its effects on free trade and world-wide competition, see Irini A. Stamatoudi & Paul L.C. Torremans, *International Exhaustion in the European Union in the Light of "Zino Davidoff": Contract Versus Trade Mark Law?*, 31 I.I.C. 123, 140 (2000); W. R. Cornish, *Trade Marks: Portcullis for the EEA?*, [1998] E.I.P.R. 174, 176.

23. *Silhouette*, 1998 E.T.M.R. at 539.

24. *Sebago*, 2 C.M.L.R. at 1317.

25. *Zino Davidoff*, 30 I.I.C. 567 (1999).

26. *Zino Davidoff SA and Levi Strauss* (Joined Cases C-414-416/99), *supra* note 18.

27. Verma, *supra* note 4, at 546; Cohen Jehoram, *supra* note 5, at 282.

28. The ECJ applied the EC antitrust provisions in the leading case *Costen & Grunding v. EC Commission*, 1966 E.C.R. 299. Article 81 (ex. Article 85) of the EC Treaty states that "[t]he following shall be prohibited as incompatible with the common market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market." TREATY ESTABLISHING THE EUROPEAN COMMUNITY, Nov. 10, 1997, O.J. (C340) (Final) (1997) [hereinafter EC TREATY]. Article 82 (ex. Article 86) provides: "Any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common

principle of the free movement of goods, as settled in Articles 28 and 30 of the EC Treaty, in order to achieve the most awaited market integration.<sup>29</sup>

Article 28 of the EC Treaty prohibits quantitative restrictions on importation between Member States, and other measures having an “equivalent effect,” in order to ensure the free movement of goods within the European internal market.<sup>30</sup> The ECJ has held repeatedly that national intellectual property rights that were directed to prevent acts of importation may amount to measures having equivalent effect to quantitative restriction.<sup>31</sup> Accordingly, actions enforcing exclusive rights should not be allowed to succeed unless the actions are justified by Article 30 of the EC Treaty, which allows Member States to apply their national laws when protecting intellectual property rights.<sup>32</sup> Furthermore, the ECJ has traditionally overruled national laws governing intellectual property rights when those laws would empower trademark owners to prevent parallel importation within the Community, and argued that the second part of Article 30 provides that domestic laws should not provide a means of “arbitrary discrimination or a disguised restriction of trade between Member States.”<sup>33</sup>

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market insofar as it may affect trade between Member States.” *Id.* at art. 82. According to both provisions, anti-competitive behavior can consist, in particular, in

(a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions; (b) limiting production, markets or technical development to the prejudice of consumers; (c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage; (d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

*Id.*

29. For a detailed reconstruction of the ECJ’s case law, see Guy Tritton, *Articles 30 to 36 and Intellectual Property: Is the Jurisprudence of the ECJ now of an Ideal Standard?*, 10 E.I.P.R. 472 (1994).

30. Article 28 (ex. Article 30) of the EC Treaty states that “[q]uantitative restriction on imports and all measures having equivalent effect shall be prohibited between Member States.” EC TREATY art. 28.

31. Verma, *supra* note 4, at 546.

32. Article 30 of the EC Treaty provides that

[t]he provisions of Article 28 and 29 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.

EC TREATY art. 30.

On the extent of this provision, see Bryan Harris, *The Application of Article 36 to Intellectual Property (a Review of the Case Law)*, 1 EUR. L. REV. 515 (1976).

33. Verma, *supra* note 4, at 546 (quoting EC TREATY art. 30). For further references see also *supra* note 8.



These principles constitute the foundations of the doctrine of Community-wide exhaustion and have been developed by the ECJ in several leading cases.

*A. Deutsche Grammophon Gesellschaft v. Metro Grossmarket*

In *Deutsche Grammophon*,<sup>34</sup> the ECJ ruled for the first time that the exercise, by the owner of an intellectual property right, of the right enjoyed under the domestic law of a Member State to prohibit the sale in that state of a product protected by that right and marketed in another Member State by him or with his consent, was incompatible with the EC Treaty rule on the free movement of goods in the common market. The ECJ analyzed the scope of Article 30 of the EC Treaty in order to overcome the argument that the provision allows restrictions on the free movement of goods for the protection of “industrial and commercial property.”<sup>35</sup> The ECJ drew a distinction between the “existence” of the intellectual property rights and their “exercise.”<sup>36</sup> While the existence of the exclusive right is determined by respective national laws, its exercise should be consistent with the EC Treaty.<sup>37</sup> Accordingly, a restriction under Article 30 could only be justified to the extent that it aims to safeguard the “specific subject matter” of the intellectual property right at issue.

*B. Centrafarm v. Winthrop*

In relation to trademarks, the ECJ clarified the meaning of the exclusive right’s specific subject-matter in *Centrafarm v. Winthrop*.<sup>38</sup> According to the ECJ, trademark rights

guarantee that the owner of the mark has the exclusive right to use the mark, for the purpose of putting products protected by the trade mark into [the market] for the first time, and therefore was intended to protect him against competitors wishing to take advantage of the status and reputation of the trade mark by selling products illegally bearing that trade mark.<sup>39</sup>

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34. Case 78/70, *Deutsche Grammophon Gesellschaft mbH v. Metro-SB-Grossmarket GmbH*, 1971 E.C.R. 487. The distinction between the “existence” and the “exercise” of intellectual property rights arises from *Costen & Grundig v. EC Commission*, 1966 E.C.R. 299. For further analysis, see Georges Friden, *Recent Developments in EEC Intellectual Property Law: The Distinction Between Existence and Exercise Revisited*, 26 C.M.L.R. 193 (1989).

35. Friden, *supra* note 34, at 193.

36. *Id.* at 194.

37. *Id.*

38. Case 16/74, *Centrafarm BV v. Winthrop BV*, 1974 E.C.R. 1183.

39. *Id.* at 1194. The Court confirmed its view in Case 3/78, *Centrafarm BV v. Am. Home Prods. Corp.*, 1978 E.C.R. 183 and Case 1/81, *Pfizer Inc. v. Eurim-Pharm GmbH*, 1981 E.C.R. 2913. See Bryan Harris, *The “Exhaustion Principle” and the Centrafarm Case*, 4 EUR. L. REV. 379 (1979).

As a result, in the case of parallel importation by independent parties within the Community, the ECJ held that the invocation of the right of exclusivity did not fall within the specific subject matter of trademark rights, as long as the products in question were put into the market of the Member State from which they were imported by the trademark owner or with his consent.<sup>40</sup>

*C. Van Zuylen v. Hag*

In the 1970s, the ECJ was at the height of its efforts to rid the common market of intellectual property subdivision. In a 1973 case, *VanZulen v. Hag*, also known as “*Hag I*,”<sup>41</sup> the ECJ developed the doctrine of “common origin” as a complement to the doctrine of Community-wide exhaustion. According to this principle, when marks at issue were “sharing the same origin,” it was incompatible with Articles 28 and 30 of the EC Treaty to prohibit the trading of the trademarked product in a Member State that was lawfully registered in another Member State because an identical trademark registration already existed in the first state.<sup>42</sup> *Hag I* concerned two trademark registrations in Belgium and Germany for the decaffeinated coffee “Hag.”<sup>43</sup> Before World War II, both registrations were owned by the same German company; but after the war, the Belgium registration was confiscated by the Belgian government and eventually sold to a local independent company, Van Zuylen Freres.<sup>44</sup> According to the ECJ, in spite of the facts that the two registrations were actually owned by different companies and that Van Zuylen had the exclusive right on the trademark in Belgium, their shared “origin” was sufficient to allow importation into Belgium of German products bearing the trademark “Hag.”<sup>45</sup>

The ECJ ruling in *Hag I* was heavily criticized. It was argued that the ECJ had failed to address the essential function of a trademark, that is, to indicate the origin of a product in order to prevent any likelihood of confusion on the part of the public.<sup>46</sup> Like the facts of *Hag I*, when two identical

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40. On these aspects, see CORNISH, *supra* note 3, at 646; Eike Ullmann, *Reconciling Trade Mark Decisions of National Courts and the European Court of Justice*, 27 I.I.C. 791 (1996); INGE GOVAERE, *THE USE AND ABUSE OF INTELLECTUAL PROPERTY RIGHTS IN E.C. LAW* 157 (1996); Ulrich Löwenheim, *Intellectual Property Before the European Court of Justice*, 26 I.I.C. 829 (1995); Giuliano Marengo & Karen Banks, *Intellectual Property and the Community Rules on Free Movement: Discrimination Unearthed*, 15 EUR. L. REV. 224 (1990).

41. Case 192/73, *Van Zuylen Freres v. Hag AG*, 1974 E.C.R. 731.

42. *Id.*

43. *Id.*

44. *Id.*

45. *Id.*

46. For a detailed analysis of the criticisms expressed by the European legal doctrine, see *supra* note 8. For a discussion on Trademark functions, see *supra* note 3.

trademark registrations are owned by different economic entities in different Member States, the ECJ could not use the free movement of goods as a pretext to prevent the enforcement of the legitimate owner's exclusive rights against the importation of similar products bearing identical trademarks from another Member State. This would be contrary to the "specific subject matter" of a trademark as affirmed by the ECJ,<sup>47</sup> and as a result would illegitimately deprive trademark owners of their exclusive rights.

In light of these criticisms, two years later the ECJ drew back from its ruling in *Hag I* with its decision in *Terrapin Ltd. v. Terranova Industrie C.A. Kapferer & Co.*<sup>48</sup> The ECJ held that *Hag I*'s "common origin" doctrine had been applied in a special case.<sup>49</sup>

#### D. *CNL-Sucal v. Hag GF*

In 1989, fifteen years after the decision in "*Hag I*," the ECJ reversed itself in *S.A. CNL-Sucal v. Hag Gf AG*.<sup>50</sup> This case, known as "*Hag II*," had identical facts as *Hag I*. The ECJ confirmed that the essential function of a trademark, the function of indicator of commercial origin, would be compromised if trademark owners were not able to prevent the importation of products bearing marks that are identical to, or likely to be confused with, their own trademarks.<sup>51</sup> Accordingly, and in spite of their "common origins," two identical national registrations in different Member States can legitimately prevent the importation of trademarked products from and to these Member States.

#### E. *IHT Internationale Heiztechnik v. Ideal-Standard*

In 1994, the ECJ confirmed this line of reasoning in *IHT Internationale Heiztechnik GmbH v. Ideal-Standard GmbH*.<sup>52</sup> *Hag I* and *Hag II* addressed the situation in which a trademark right had originally been in common ownership and then had been divided "involuntarily" through confiscation, without the original owner's consent. *IHT* concerned a voluntary assignment of the trademark "Ideal Standard" to one member of the IHT group, without the consent of the other.<sup>53</sup> According to the ECJ, such an assignment did not

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47. Van Zuylen Freres, 1974 E.C.R. 731.

48. Case 119/75, 1976 E.C.R. 1039.

49. *Id.* at 1062.

50. Case C-10/89, 1990 E.C.R. I-3711.

51. Warwick A. Rothnie, *Hag II: Putting the Common Origin Doctrine to Sleep*, 1 E.I.P.R. 24 (1991); Rene Joliet & David T. Keeling, *Trade Mark Law and the Free Movement of Goods: The Overruling of the Judgement in Hag I*, 22 I.I.C. 303 (1991).

52. Case C-9/93, 1994 E.C.R. I-2782.

53. *Id.* at I-2782 to 783.

exhaust the trademark rights of the whole group.<sup>54</sup> In particular, the ECJ held that the principle of exhaustion only applied

where the owner of the trade mark in the importing state and the owner of the mark in the exporting State [were] the same [economic entity], or where, even if they [were] separate individuals, they [were] economically linked . . . [for example], as licensee, parent company, subsidiary or exclusive distributor.<sup>55</sup>

Conversely, exhaustion did not apply where trademark rights had been assigned to an unrelated enterprise, no longer under the control of the assignor or any related enterprises.<sup>56</sup> In the ECJ's view, in the absence of express or implied consent, the necessary grounds to invoke trademark exhaustion could only be found in commercial "unitary control."<sup>57</sup> It could not be possible to validly invoke the exhaustion of the exclusive rights of the legitimate trademark owner in the absence of consent or unitary control.<sup>58</sup>

#### *F. Analysis*

According to the ECJ's rulings, the primary purpose of trademark protection, as interpreted from Article 28 and 30 of the EC Treaty, is to indicate commercial origin.<sup>59</sup> The "*Affaire Hag*" served as an example of how to understand the ECJ's progression in its appreciation of the fundamental objectives of intellectual property and how it found a compromise between the interest of intangible property protection and the dictates of the free movement of goods. Accordingly, when goods have no common origin but instead have been manufactured and marketed independently, it is always possible to invoke trademark rights to prevent the importation of products bearing identical or similar trademarks that might create consumer confusion. Thus, for national laws to be limited by Article 28 there must typically be a consensual act by the exporting Member State to cause an exhaustion of rights in the importing Member State, and thus free parallel imports.<sup>60</sup>

While affirming the legitimacy of parallel importation of genuine goods within the European internal market, the ECJ did not exclude the possibility for trademark owners to invoke exclusive rights where the products at issue

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54. For a detailed analysis of this case, see Tritton, *supra* note 29, at 423.

55. IHT Internationale Heiztechnik GmbH, 1994 E.C.R. at I-2789 to 792.

56. *Id.*

57. *Id.*

58. *Id.*

59. Case C-251/95, *Sabel BV v. Puma AG*, 1997 E.C.R. I-6191; Case C-39/97, *Canon Kabushiki Kaisha v. Metro-Goldwyn-Mayer Inc.*, 1999 R.P.C. 117.

60. CORNISH, *supra* note 3, at 650.

were “materially different.”<sup>61</sup> In this respect, repackaging and relabeling with different marks raised interesting issues.<sup>62</sup> In many Member States, to sell or distribute trademarked goods that have been re-packed, re-marked, or otherwise interfered with was, and still is, considered trademark infringement because the marks no longer accurately indicate that the goods came unaltered from the originating enterprise. After the adoption of the Trademark Directive, while acknowledging that the matter poses a peculiarly provocative constraint on the free movement of goods, the ECJ held that repackaging and relabeling are two of the “legitimate reasons” trademark owners may invoke to prevent parallel trade within the EEA.<sup>63</sup> According to the ECJ, to trade non-genuine or repackaged products constitutes trademark infringement when it may lead to confusion on the part of the public or provoke unfair detriment to the trademark itself.<sup>64</sup>

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61. See Case 102/77, *Hoffmann-La Roche & Co. v. Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, 1978 E.C.R. 1139, 1164-65. Regarding the differences between “genuine” and “non-genuine goods,” see also MCCARTHY, *supra* note 2, § 29:51.2, and the legal literature and case law cited.

62. The ECJ did not make a clear distinction between the packaging and the product, since “product requirement” also incorporates rules as to the packaging of the product. See *Joined Cases C-267 & C-268/91, France v. Keck and Mithouard*, 1993 E.C.R. I-6097, I-6131. With respect to pharmaceutical products, the ECJ confirmed its approach in *Joined Cases C-427, C-429 & C-436/93, Bristol-Myers Squibb v. Paranova A/S*, 1996 E.C.R. I-3457, I-3536 to 3545, and most recently, in *Case C-379/97, Pharmacia & Upjohn SA v. Paranova A/S*, 1999 E.C.R. I-6927. See generally Karen Dyekjaer Hansen & Christian Karhula Lauridsen, *Rebranding of Parallel Imported Pharmaceuticals: The Pharmacia & Upjohn Case*, TRADEMARK WORLD, Dec. 1999/Jan. 2000, at 16; David Rosemberg & Marleen Van Kerckhove, *Upjohn v. Paranova: Utterly Exhausted by a Trip too Far*, 1999 E.I.P.R. 223. On the “relationship between the specific subject-matter of a trademark and the necessity of repackaging,” see also the April 23, 2002 decisions of the ECJ in *Joined Case C-443/99, Merck, Sharp & Dohme GmbH v. Paranova Pharmazeutika Handels GmbH* and *Case C-143/00, Boehringer Ingelheim Pharma KG v. Swingward Ltd., and others*, available at <http://curia.eu.int/en/jurisp/index.htm> (last visited May 20, 2002).

63. Stamatoudi & Torremans, *supra* note 22, at 137-139; see generally Ansgar Ohly, *Trade Marks and Parallel Importation – Recent Developments in European Law*, 30 I.I.C. 512 (1999); Paul Torremans, *New Repackaging Under the Trade Mark Directive of Well-Established Exhaustion Principles*, 11 E.I.P.R. 664 (1997).

64. For a case concerning these aspects, see *Case C-349/95, Loendersloot v. Ballantine & Son Ltd.*, 1997 E.C.R. I-6227 and *Case C-337/95, Parfums Christian Dior SA v. Evora BV*, 1997 E.C.R. I-6013. For comments, see generally Gert-Jan Van De Kamp, *Protection of Trade Marks: The New Regime – Beyond Origin?*, 1998 E.I.P.R. 364; Helen Norman, *Perfume, Whisky and Leaping Cats of Prey: A U.K. Perspective on Three Recent Trade Mark Cases Before the European Court of Justice*, 1998 E.I.P.R. 306 (1998); Paul Walsh et al., *Parallel Imports: Labelling and Advertising Trademarked Products*, TRADEMARK WORLD, Feb. 1998, at 20. In *Frits Loendersloot* the Court affirmed that

Article 36 of the EC Treaty must be interpreted as meaning that the owner of trademark rights may, even if that constitutes a barrier to intra-Community trade, rely on those rights to prevent a third party from removing and then re-affixing or replacing labels bearing the mark which the owner has himself affixed to products he has put on the Community market, unless: . . . it is established that the use of the trademark rights by the owner to oppose the marketing of the relabeled products under that trademark would contribute to

III. DEBATE ON ARTICLE 7(1) OF THE EUROPEAN TRADEMARK DIRECTIVE: IS  
COMMUNITY-WIDE EXHAUSTION A MINIMUM STANDARD OR THE GENERAL  
CRITERION IN THE  
EUROPEAN COMMUNITY?

Article 7(1) of the European Trademark Directive has been a controversial provision ever since it was in the drafting process. The text was substantially altered during the drafting process.<sup>65</sup> The final text of the provision codifies the exhaustion doctrine as established by historical ECJ and confirms the principle of Community-wide exhaustion for all Member States (EEA-wide exhaustion since the EEA Agreement entered into force in 1994).<sup>66</sup> Article 7(1) states that “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.”<sup>67</sup> However, according to Article 7(2), this principle does not apply where “there exist legitimate reasons for the proprietor to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.”<sup>68</sup> The legitimate owner could not be expected to tolerate “further commercialization” of the branded products when it affects the essential function of the mark by taking unfair advantage or causing illegitimate detriment to the trademark’s reputation.<sup>69</sup>

While Article 7(1) is rather clear about exhaustion at the Community level, the provision is not clear about international exhaustion.<sup>70</sup> After the introduction of the Trademark Directive, the question remains whether the principle of international exhaustion can be preserved in the trademark law of

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artificial partitioning of the markets between Member States; . . . it is shown that the relabelling cannot affect the original condition of the product; . . . the presentation of the relabeled product is not such as to be liable to damage the reputation of the trademark and its owner; and . . . the person who relabels the products informs the trademark owner of the relabelling before the relabeled products are put on sale.

*Id.* at ¶ 52.

For critical comments on the dangers of extending trademark protection against infringements that do not contain elements of confusion, see Stamatoudi & Torremans, *supra* note 22, at 139-140.

65. Stamatoudi & Torremans, *supra* note 22, at 124.

66. See *supra* note 10.

67. Council Directive 89/104, art. 7(1), 1989 O.J. (L 040) 3.

68. *Id.* at art. 7(2).

69. In *Bristol-Myers Squibb*, 1996 E.C.R. at I-3457, *Frits Loendersloot*, 1997 E.C.R. at I-6227, and *Christian Dior*, 1997 E.C.R. at I-6013, the Court introduced new elements into the doctrine of exhaustion, making room for the protection of reputation and goodwill as an exception to the exhaustion rule even where its essential function, i.e., indicator of origin, is not endangered. See also Van De Kamp, *supra* note 64, at 369.

70. Council Directive 89/104, art. 7(1), 1989 O.J. (L 040) 3.

the Member States that originally recognized this principle, such as Germany, Austria, England, and the Netherlands.<sup>71</sup>

There is no doubt that the exhaustion provision of the Trademark Directive and the CTM Regulation in the Commission's original proposal was intended to apply to those imports from outside the Community as much as to those within.<sup>72</sup> The original text of the 8<sup>th</sup> recital of the Trademark Directive stated that "it is not, in principle, possible to prohibit its use by a third party in

71. Nicholas Shea, *Does the First Trade Mark Directive Allow International Exhaustion of Rights?*, 10 E.I.P.R. 463, 463 (1995). The German delegation, for example, argued that, even after the adoption of the Trademark Directive, the national principle of international exhaustion could be maintained and would not be affected by Article 7(1) of the Directive. This position was strongly supported by many German authors, in particular by Professor F. K. Beier, the director of the Max-Planck Institute in Munich. See Beier, *supra* note 8, at 156-160. In *Gefärbte Jeans*, 1996 G.R.U.R. 271 (December 14, 1995) (I ZR 210/93), the German Federal Court held, however, that international exhaustion no longer applied in German trademark law. For a critical analysis of this case, see Florian Albert & Christopher Heath, *Dyed But Not Exhausted—Parallel Imports and Trade Marks in Germany*, 28 I.I.C. 24 (1997). The argument that Article 7(1) only represents a *minimum standard* was strongly supported also by the Swedish Government in its argument in *Silhouette*. 1998 E.T.M.R. 539, ¶¶ 21 and 28-29. Arguing that the Directive was adopted on the basis of Article 95 (ex. Article 100A) of the EC Treaty, the Swedish Government argued, according to Advocate General Jacobs in his opinion, that "it is not part of the function of a trade mark to enable the owner to divide up the market and to exploit price differentials. The adoption of international exhaustion would bring substantial advantages to consumers, and would promote price competition." *Id.* at opinion ¶ 48. According to Article 95:

4. If, after the adoption by the Council or by the Commission of a harmonisation measure, a Member State deems it necessary to maintain national provisions on grounds of major needs referred to in Article 30, or relating to the protection of the environment or the working environment, it shall notify the Commission of these provisions as well as the grounds for maintaining them.

5. Moreover, without prejudice to paragraph 4, if, after the adoption by the Council or by the Commission of a harmonisation measure, a Member State deems it necessary to introduce national provisions based on new scientific evidence relating to the protection of the environment or the working environment on grounds of a problem specific to that Member State arising after the adoption of the harmonisation measure, it shall notify the Commission of the envisaged provisions as well as the grounds for introducing them.

EC TREATY, art. 95.

72. Cornish, *supra* note 22, at 174; COM(80)635 final/2 at 1. For further analysis on the preparatory works of the Trademark Directive and the CTM Regulation, see Cornish, *supra* note 22, at 173-74. On the nature and extent of Article 7, Cornish asserted that the provision is characterized as "by nature of derogation . . . in its original context—free from movement within the market under Article 30 and 36—the provision has indeed only been necessary so far as national trade mark law would otherwise impose a barrier to that movement." *Id.* at 175. The same has been asserted by Advocate General Jacobs in his Opinion in *Silhouette*:

Article 7(1) is a derogation from the rights conferred on the trade-mark owner by Article 5(1). In general derogations should not be construed broadly. Here Article 7(1) cannot be construed more broadly than as providing for Community exhaustion. It would be necessary to read into the Directive a further, implied derogation leaving open the possibility of provision for international exhaustion, which seems contrary to the structure of the Directive.

*Silhouette*, 1998 E.T.M.R. at Opinion ¶ 34.

respect of goods marketed . . . within or outside the [European] Community under the trade mark by the proprietor or with his consent . . . .”<sup>73</sup> Because of the “intense pressure from [the Community] and international industry, the draft . . . was changed . . . confining [it] to goods first marketed with consent ‘in the Community.’”<sup>74</sup> While the 8<sup>th</sup> recital was first amended to take into account that the Commission’s decision to not require Member States to introduce the principle of international exhaustion into their national laws, the European Council (the “Council”) completely changed its previous text in the final version of the Trademark Directive.<sup>75</sup> The reason given was that “an approach based solely on principles of trademark law would lead to undesirable commercial consequences. In so far as third countries do not acknowledge the principle of international exhaustion, the Commission proposal would result in discrimination of the industry in the Community.”<sup>76</sup>

Based on these considerations, it seemed difficult to contend that the Trademark Directive did not introduce the principle of Community-wide exhaustion for all Member States, while leaving room for conflicting or supplementary national rules.<sup>77</sup> Arguing that the Trademark Directive expressly promotes only the partial harmonization of national law,<sup>78</sup> those who favor international exhaustion noted that by restricting the ambit of Article 7 to EEA-wide exhaustion, the Council did not intend to harmonize international exhaustion, but rather intended to leave the Member States free to make or retain their own provisions.<sup>79</sup> They contended that, prior to

73. See Rasmussen, *supra* note 5, at 176 (quoting COM(80)635 final/2 at 1).

74. Cornish, *supra* note 22, at 174.

75. *Id.* at 176.

76. Document 1-611/83, 1 August 1983, at 63. See also the Commentary to the amended proposal published by the Commission in 1985 (COM(85) final at 13) where it was affirmed that “in line with the proposal made by the Economic and Social Committee and Parliament, the Commission decided not to introduce international exhaustion.”

77. In *Christian Dior*, 1997 E.C.R. I-6013, the ECJ stated that Article 7 of the Directive must be “interpreted in the light of the rules of the [EC] Treaty [about] the free movement of goods, and in particular Article 36.” *Id.* at ¶ 37. It also emphasized that the “provision is intended to reconcile the . . . protection of [trademarks] with the . . . free movement of goods within the [internal] market.” *Id.* at ¶ 42.

78. The 3<sup>rd</sup> recital of the Trademark Directive states that “it does not appear to be necessary at present to undertake full-scale approximation of the trademark laws of the Member States and it will be sufficient if approximation is limited to those national provisions of law which most directly affect the functioning of the internal market.” Council Directive 89/104/EEC, 1988 O.J. (L 40/1) For a discussion concerning the extent of harmonization of the Trademark Directive, see also Advocate General Jacobs Opinion in *Silhouette*, 1998 E.T.M.R. 539, ¶¶ 4-7.

79. Shea, *supra* note 71, at 463. Among those who favor international exhaustion, see Rasmussen, *supra* note 5, at 176-78; Beier, *supra* note 8, at 156-60. According to these authors, the intention of Article 7 was to codify the court’s existing case law. They argued that the ECJ had stressed that the provision should be interpreted in the same way as the court’s case law on Article 28 and 30 of the EC Treaty. However, in the leading case, *Case 270/80, Polydor Ltd. v. Harlequin Record Shops Ltd.*, 1982 E.C.R. 329, the ECJ held that Articles 14(2) and 23 of the Free Agreement



implementation of the Trademark Directive, Member States had discretion whether “to adopt the principle of international exhaustion [and,] in absence of express [direction] to the contrary, [whether this] should remain the position under the [Trademark] Directive.”<sup>80</sup> They also contended that on the signing of the Uruguay Round of the General Agreement on Tariffs and Trade, the ECJ had confirmed its opinion<sup>81</sup> that Member States retained competence, “in conjunction with the Community in matters of international intellectual property.”<sup>82</sup> Accordingly, Member States could be considered “free to negotiate or maintain arrangements with other countries that allow mutual exhaustion of trade mark rights.”<sup>83</sup> Similarly, Article 6 of the TRIPS Agreement had left open the possibility that any of the signatory countries could unilaterally adopt international exhaustion.<sup>84</sup>

The opponents of international exhaustion heavily refuted these arguments. They relied on the text of the 3<sup>rd</sup> recital of the Trademark Directive and asserted that even though the Trademark Directive was not about total harmonization, international exhaustion was one of the provisions that the Trademark Directive sought to harmonize because it “most directly affect[ed] the functioning of the internal market.”<sup>85</sup> They argued that diverging national provisions on international exhaustion would necessarily result in a lack of harmonization in one of the most important aspects of trademark rights.<sup>86</sup> Allowing international exhaustion at a national level would produce distortion in the smooth running of intra-EEA trade and would provide unwelcome barriers to the free movement of goods imported from

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of 1972 between the EEC and Portugal (not yet a Member State), which were literal reproductions of Article 30 of the EC Treaty, did not introduce the principle of exhaustion between Portugal and the Community.

80. *Silhouette*, 1998 E.T.M.R. 539, ¶ 37.

81. Opinion 1/94 of 15 November 1994, 1994 E.C.R. I-5267.

82. Shea, *supra* note 71, at 464 n.15. (“Thus requiring each Member State individually to ratify the TRIPS Agreement.”).

83. *Id.* at 464.

84. See Cohen Jehoram, *supra* note 1, at 508 (noting that Article 6 of the TRIPS Agreement provides that “for the purposes of dispute settlement [under this Agreement, subject to the provisions of Articles 3 [“national treatment”] and 4 [“most favoured nation treatment”]] nothing in [this Agreement] shall be used to address the issue of the exhaustion of intellectual property rights”). This provision represents a compromise between two opposite approaches: “[t]he US Proposal [to introduce its own national system,] national exhaustion[,] and the [pleas of] developing countries . . . for the opposite,” international exhaustion. *Id.* at 508. Because of the lack of consensus on the issue, “[e]very country [remained] free to adopt the exhaustion [regime it] want[ed].” *Id.* On the drafting of Article 6 of TRIPS, see *id.* at 506-508. For a critical analysis, see generally Soltysinsky, *supra* note 15, at 317-20.

85. Shea, *supra* note 71, at 484. See also Annette Kur, *Harmonization of the Trademarks Laws in Europe – An Overview*, 28 I.I.C. 16 (1997).

86. Shea, *supra* note 71, at 484. See generally Kur, *supra* note 85.

third countries within the EEA.<sup>87</sup> Indeed, it would obviously contradict the spirit of the Trademark Directive and the trend established by the ECJ in its decisions concerning Articles 28 and 30 of the EC Treaty if international exhaustion were to only apply within the borders of States that recognize this principle.<sup>88</sup> On the contrary, if products put into the market of the Member States that allow international exhaustion could freely circulate throughout the EEA, international exhaustion would be imposed in the whole Community, and non-exhaustion rules of other countries would be defeated.<sup>89</sup>

The opponents of international exhaustion found an additional argument in support of their position in the interpretation of Article 13 of the CTM Regulation.<sup>90</sup> Like Article 7 of the Trademark Directive, the final version of Article 13 of the CTM Regulation refers exclusively to the exhaustion of trademark rights in relation to goods marketed within the Community.<sup>91</sup> However, the CTM Regulation was different from the Trademark Directive because it did not intend to achieve partial harmonization.<sup>92</sup> The CTM Regulation affected all Member States and denied any discretion to opt for alternative rules, including the international exhaustion regime.<sup>93</sup>

Therefore, the question remained whether the provisions of the CTM Regulation and the Trademark Directive could be construed differently, even though they had a common origin and identical text. The opponents of international exhaustion stressed that, in order to establish a consistent exhaustion regime applicable to all trademarks within the European market, the provision of Article 13 of the CTM Regulation supported the view that the Trademark Directive was intended to preclude international exhaustion.<sup>94</sup> In contrast, the supporters of the principle of international exhaustion argued that the objectives of the two instruments were different because the Trademark Directive only aimed for limited harmonization.<sup>95</sup>

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87. *Id.*; Cornish, *supra* note 22, at 175.

88. Cornish, *supra* note 22, at 175; *see also* Shea, *supra* note 71, at 464.

89. Cornish, *supra* note 22, at 175; *see also* Shea, *supra* note 71, at 464.

90. Council Regulation EC/40/94 of 20 December 1993 on the Community Trade Mark, art. 13, 1994 O.J. (L 011) [hereinafter CTM Regulation].

91. Article 13(1) of the CTM Regulation states that “[a] Community 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.” *Id.*

92. *Silhouette*, 1998 E.T.M.R. at Opinion ¶¶ 59-61.

93. CTM Regulation, *supra* note 90 ¶ 61. The purpose of the CTM Regulation is to create a unitary right enforceable throughout the whole Community. *Id.* ¶ 56. Accordingly, Article 14(1) of the CTM Regulation requires the effects of the right to be governed solely by its own provisions, stating that “the effects of Community trademarks shall be governed solely by the provisions of this Regulation.” *Id.*, art. 14. *See also Silhouette*, 1998 E.T.M.R. at Opinion ¶¶ 55-63.

94. *Silhouette*, 1998 E.T.M.R. at Opinion ¶¶ 61-62.

95. *See* Shea, *supra* note 71, at 464.

Despite the fact that supporters of international exhaustion are not unfounded in their arguments, the conclusion that Article 7(1) precludes Member States from adopting international exhaustion, so that any national provisions in this sense are contrary to European trademark law, seems difficult to avoid.<sup>96</sup> The wording and the purpose of the Trademark Directive, its legislative history, the identical wording of the CTM Regulation, and the undesirable effects of leaving matters to the discretion of the Member States favor such a position. On the other hand, differences in the interpretation of the issue at the national level represent a barrier to consistent enforcement practices throughout the Community.<sup>97</sup> Several national courts have repeatedly tried to force an interpretation of the Trademark Directive towards the direct or indirect acceptance of international exhaustion. So far, the adoption of the Trademark Directive does not appear to have profoundly changed the way many national courts evaluate the issue, which is necessary in order to ensure a consistent Community harmonization.<sup>98</sup> It has been noticed that “there is still scope for national courts . . . to reach different views on the same issue when applying [Community] intellectual property law.”<sup>99</sup>

#### IV. VIEW OF THE EUROPEAN COURT OF JUSTICE: COMMUNITY-WIDE EXHAUSTION AS CONFIRMED IN *SILHOUETTE* AND *SEBAGO*

In light of the previous discussion, it is not surprising that in the last few years, national tribunals have repeatedly referred to the decisions of the ECJ for guidance when interpreting Article 7(1) of the Trademark Directive.<sup>100</sup> Because divergences in domestic laws predate the Trademark Directive, it is not surprising that the question of compatibility of international trademark exhaustion with Community law is always raised in those countries that adopt international exhaustion.<sup>101</sup>

The ECJ's rulings represent the most highly qualified guidelines on the interpretation of Community Law. However, from a legal standpoint, they are not binding upon national courts. As for now, domestic tribunals have shown a general willingness to follow the ECJ's decisions. Because the ECJ's rulings do not technically represent the “law of Europe,” national decisions

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96. See Joller, *supra* note 1, at 309; George Pucher, *Der zeitliche Anwendungsbereich der nur EWR-weiten Erschöpfung im Markenrecht*, 4 W.R.P. 362 (1998).

97. See Shea, *supra* note 71, at 464; Cornish, *supra* note 22, at 173-75.

98. For a summary of the different practices and attitudes in the interpretation of the issue by national courts and legislators, see Cohen Jehoram, *supra* note 1, at 502-506. Very interesting in this respect is the study carried out by Abbe E. L. Brown, *Post-Harmonisation Europe—United, Divided or Unimportant?* 2001 INTELL. PROP. Q. 275.

99. Brown, *supra* note 98, at 279.

100. *Id.*

101. See *supra* note 8 and accompanying text.

cannot be excluded in the future, even after the conclusions reached by the ECJ in the following cases.

*A. Silhouette*

The need for interpretation of Article 7(1) was first expressed by the Austrian Supreme Court when it was confronted with the re-importation from Bulgaria to Austria of sunglasses and spectacle frames bearing the trademark “Silhouette.”<sup>102</sup> The Austrian company, Silhouette International Schmied (Silhouette International), sold 21,000 out-of-fashion sunglasses and spectacle frames to a Bulgarian company at a discount price with the instruction to sell those products only in Bulgaria or the states of the former Union of Soviet Socialist Republics, and not to export them to other countries.<sup>103</sup> “Nevertheless, the goods found their way back to Austria where the discount chain Hartlauer tried to sell them at . . . advantageous price[s].”<sup>104</sup> Silhouette International argued that the products at issue had been put into the market in the EEA without its consent and therefore brought an action for interim relief against Hartlauer.<sup>105</sup> Silhouette International claimed that its trademark right was not exhausted, since that would only occur when its products were put into the EEA market.<sup>106</sup>

Prior to the implementation of the Trademark Directive, Austrian courts applied the principle of international exhaustion.<sup>107</sup> However, the position subsequent to implementation was still unclear.<sup>108</sup> The explanatory memorandum to the Austrian law that implemented Article 7 of the Trademark Directive indicated that the law was intended to leave the question of whether the principle of international exhaustion was valid to future judicial decisions.<sup>109</sup> The Austrian Supreme Court decided to ask the ECJ whether national rules providing for exhaustion of trademark rights with respect to products put into the market outside the EEA by the trademark owner or with his consent are contrary to Article 7(1) of the Trademark Directive.<sup>110</sup> In other words, the question to resolve was whether the principle

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102. *Silhouette*, 1998 E.T.M.R. ¶¶ 1-14.

103. *Id.* ¶ 8.

104. Stamatoudi & Torremans, *supra* note 22, at 125.

105. *Silhouette*, 1998 E.T.M.R. ¶ 10.

106. *Id.* The judicial proceedings at the national level are summarized in the ECJ’s decision. *Id.* ¶¶ 10-14.

107. *Id.* ¶ 13.

108. *Id.*

109. *Id.* See also Cohen Jehoram, *supra* note 1, at 504.

110. *Silhouette*, 1998 E.T.M.R. ¶ 15.

of international exhaustion was still applicable under Austrian law after the implementation of the Trademark Directive.<sup>111</sup>

The answer given by the ECJ followed the approach adopted by the Commission and the Council when they issued the Trademark Directive.<sup>112</sup> On July 16, 1998, the ECJ clarified that “national rules providing for exhaustion of trademark 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.”<sup>113</sup> While confirming the principle of EEA-wide exhaustion, the Advocate General emphasized that “international exhaustion is one of the . . . [matters] which ‘most directly affect the functioning of the internal market’ and . . . which the [Trademark] Directive . . . [seeks] to harmonize.”<sup>114</sup> Accordingly, “if some Member States practice international exhaustion while others do not, there will be trade barriers within the internal market which it is precisely the object of the [Trademark] Directive to remove.”<sup>115</sup> In particular, the Advocate General stressed that “the [Trademark] Directive cannot be interpreted as leaving it open to the Member States to provide in their domestic law for exhaustion of the rights conferred by a trade mark in respect of products put on the market

111. Stamatoudi & Torremans, *supra* note 22, at 125. The questions asked by the Austrian Supreme Court were:

(1) Is Article 7(1) of the First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trademarks (OJ 1989 L 40, p.1) to be interpreted as meaning that the trademark entitles its proprietor to prohibit a third party from using the mark for goods which have been put on the market under that mark in a State which is not a Contracting State?

(2) May the proprietor of the trademark on the basis of Article 7(1) of the Trade Marks Directive alone seek an order that the third party cease using the trademark for goods which have been put on the market under that mark in a State which is not a Contracting State?

*Silhouette*, 1998 E.T.M.R. ¶ 14.

112. See *id.* ¶ 27. For discussions of this case, see generally Alan W. White, *Sunglasses: A Benefit to Health?* 1999 E.I.P.R. 176; Jochen Pagenberg, *The Exhaustion Principle and “Silhouette” Case*, 30 I.I.C. 19 (1999); Andrew Clark, *Parallel Imports: A New Job for Customs?*, 1999 E.I.P.R. 1; Thomas Hays, *The Silhouette Case: The European Union Moves to the Highest Common Denominator on the Gray Market Question*, 88 TRADEMARK REP. 234 (1998); Thomas Hays & Peter Hansen, *Silhouette is not the Proper Case Upon Which to Decide the Parallel Importation Question*, 1998 E.I.P.R. 277; Carl Steele, “Fortress Europe” for Trademark Owners: *The Spectacle of the ECJ Silhouette Judgment*, TRADEMARK WORLD Aug. 1998, at 14.

113. *Silhouette*, 1998 E.T.M.R. ¶ 31. In its ruling, the court affirmed:

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 its consent are contrary to Article 7(1) of First Council Directive 89/104/EEC of December 21, 1988 to approximate the laws of the Member States relating to trademarks, as amended by the Agreement on the European Economic Area of May 2, 1992.

*Id.* at Ruling ¶ 1.

114. *Id.* at Opinion ¶ 41.

115. *Id.*

in non-member countries.”<sup>116</sup> The ECJ replied to the argument of the Swedish Government that the [Trademark] Directive was adopted on the basis of Article 100(a) of the Treaty “with the result that Article 7 is to be interpreted as meaning that the [Trademark] Directive applies only to intra-Community relations.”<sup>117</sup> The ECJ stated that “Article 7 is not intended to regulate relations between Member States and non-member countries but to define the rights of proprietors of trademarks in the Community.”<sup>118</sup> In the ECJ’s view, “[t]his is the only interpretation which is fully capable of ensuring that the purpose of the [Trademark] Directive is achieved, namely to safeguard the functioning of the internal market.”<sup>119</sup>

Considering the strong pressure from some Member States, the ECJ ultimately noted that “the Community authorities could always extend the exhaustion provided for by Article 7 to products put on the market in non-member countries by entering into international agreements in that sphere, as was done in the context of the EEA Agreement.”<sup>120</sup> However, as noted earlier, this approach could come under the scope of the WTO Agreement.<sup>121</sup> Article 6 of the TRIPS Agreement does not address exhaustion.<sup>122</sup> Despite this, establishing bilateral or multilateral agreements with non-member countries for the purpose of trademark exhaustion may ultimately represent a violation of the principle of “Most Favored Nation” as per Article 4 of TRIPS.<sup>123</sup>

### B. *Silhouette & Mag Instrument*

In its judgment, the ECJ attempted to overrule a decision adopted by the EFTA Court of Norway, Iceland, and Liechtenstein, on the same issue one

116. *Id.* at Opinion ¶ 26.

117. *Id.* ¶ 28. For the full text of Article 95 (ex. Article 100A) of the EC Treaty, see *supra* note 71.

118. *Id.* ¶ 29.

119. *Id.* ¶ 27. Following the ECJ decision, the Austrian Supreme Court decided the *Silhouette* case consistently with the ECJ, and declared that *Silhouette Internationale*’s rights “were not exhausted by putting its spectacles bearing the trademark on the market in Bulgaria; by re-importing these spectacles into Austria, the defendant has infringed Sec. 10a(1) of the Trademark Act.” *Id.* See also Case No. 4 Ob 223/98, Decision of the Austrian Supreme Court, 31 I.L.C. 207, 212 (2000).

120. *Silhouette*, 1998 E.T.M.R. ¶ 30.

121. See Verma, *supra* note 4, at 552-62; Heath, *supra* note 1, at 628-30; Soltysinsky, *supra* note 15, at 316.

122. Verma, *supra* note 4, at 535.

123. See Shea, *supra* note 71, at 464 n.16; Verma, *supra* note 4, at 552-62. “A review of TRIPS started in 2000 and it was believed that one issue which may be considered was the question of parallel import[ation] and [trademark] exhaustion.” Brown, *supra* note 98, at 285. However, “[t]o date . . . there [are no new] developments in this regard.” *Id.* The issue was not stressed, as it was not even on the agenda, during the WTO Conference in Doha, Qatar, in November 2001. For further details see the WTO web site at <http://www.wto.org> (last visited May 2, 2002).

year earlier in *Mag Instrument Inc. v. California Trading Company*.<sup>124</sup> *Mag Instrument* concerned the parallel importation of flashlights from the United States into Norway.<sup>125</sup> The EFTA Court argued that “the principle of international exhaustion is in the interest of free trade and competition, and thus in the interest of consumers.”<sup>126</sup> The court stated that it was for the courts or legislators in EFTA States to decide whether they wish to introduce or maintain the principle of international exhaustion of trademark rights for products imported from outside the EEA.<sup>127</sup> In order to draw a distinction between the position of the EFTA countries and the Member States, the court stressed that, “unlike the EC Treaty, the EEA Agreement does not establish a customs union,”<sup>128</sup> but merely a free trade area, and that the EEA Agreement does not entail a common commercial policy towards third countries.<sup>129</sup>

This decision encountered severe criticism. Even if there is no doubt that international exhaustion can play an important role in increasing competition, the approach suggested by the EFTA Court would result in reinstating those barriers against the free movement of goods within the EEA that the

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124. 29 I.I.C. 316 (EFTA 1998).

125. *Id.*

126. Cohen Jehoram, *supra* note 1, at 505.

127. *Silhouette*, 1998 E.T.M.R. at Opinion ¶ 30.

128. *Id.* at Opinion ¶ 43.

129. *See id.*; *see also Mag Instrument*, 29 I.I.C. at 316. According to the EFTA Court, the principle of Community-wide exhaustion only applies to products “originating in the EEA . . .” *Id.* at ¶ 43. Indeed,

[t]he purpose and the scope of the EC Treaty and the EEA Agreement are different (see Opinion 1/91 of the ECJ regarding the Draft Agreement between the Community, on the one hand, and the countries of the European Free Trade Association, on the other, relating to the creation of the European Economic Area [1991] ECR I-6079). Thus, the EEA Agreement does not establish a customs union, but a free trade area. The above mentioned differences between the Community and the EEA will have to be reflected in the application of the principle of exhaustion of trademark rights. According to Article 8 EEA, the principle of free movement of goods as laid down in Articles 11 to 13 EEA applies only to goods originating in the EEA, while in the Community a product is in free circulation once it has been lawfully placed on the market in a Member State. In general, the latter applies in the context of the EEA only in respect of products originating in the EEA. In the case at hand, the product was manufactured in the United States and imported into Norway. Accordingly, it is not subject to the principle of the free movement of goods within the EEA.

*Silhouette*, 1998 E.T.M.R. at Opinion ¶ 43 (quoting *Mag Instrument*, 29 I.I.C. ¶¶ 25-26). For an interesting comparison of the two decisions, *Silhouette* and *Mag Instruments*, see Anna Carboni, *Cases About Spectacles and Torches: Now, Can We See the Light?* 1998 E.I.P.R. 470; Joller, *supra* note 1, at 751-65; Kunz-Hallstein, *Zur Frage der Parallelimporte im Internationalen Gewerblichen Rechtsschutz*, 1998 G.R.U.R. 268; Troller, *The Parallel Importation of Trade-Marked Goods and the Protection of Selective Distribution Systems*, 1998 E.I.P.R. 67. Always interesting in this respect is Vanderburg, *The Problem of Importation of Genuinely Marked Goods is not a Trademark Problem*, 1959 TRADEMARK REP. 707 (1959).

Trademark Directive attempts to eliminate by harmonizing national laws.<sup>130</sup> Within the meaning of Article 7(1) of the EC Treaty, the exclusive rights of trademark owners are equally exhausted if products are put into the market in Norway, Iceland, and Liechtenstein, or in any Member State of the Community. Consistency between the ECJ and the EFTA Court is necessary in order to avoid conflicting interpretations.<sup>131</sup>

### C. *Sebago*

One year after *Silhouette*, the ECJ confirmed the principle of EEA-wide exhaustion in *Sebago*.<sup>132</sup> *Sebago*, a United States corporation, and Maison Dubois, *Sebago*'s exclusive distributor in the Benelux, contended that another company's importation into Belgium of shoes marketed in El Salvador, bearing *Sebago*'s trademark "Docksides," without their consent, constituted trademark infringement under Benelux Trademark Law.<sup>133</sup> The trademark owners argued that their rights had not been exhausted under Article 13A(8) of the Benelux Uniform Trademark Law, which had implemented Article 7 of the Trademark Directive, because the products in question were put into the market outside the EEA and were brought into Belgium without their consent.<sup>134</sup> In response, GB-Unic, the company that imported the shoes, argued that "to satisfy the consent requirement in Article 13A(8) of the . . . [Benelux Trademark Law, it was sufficient] that similar goods bearing the same trade mark had already been lawfully marketed in the Community with the consent of the trade mark proprietor."<sup>135</sup> In turn, *Sebago* claimed that "consent must be obtained for each defined batch of goods."<sup>136</sup> GB-Unic also argued that *Sebago* had given implied consent to the importation of the Docksides shoes into the EEA by failing to impose an export ban on its licensee in El Salvador.<sup>137</sup> Accordingly, this failure should be interpreted as implied consent to importation of the products at issue into the EEA.<sup>138</sup>

The Brussels Court of Appeal dismissed the latter argument because GB-Unic could not prove that *Sebago* had effectively granted a license to use the

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130. See Cohen Jehoram, *supra* note 1, at 505-506.

131. See *id.* Contrary to what is stated by the EFTA Court, it was also not so clear whether the EEA countries could withdraw so easily from the EC intellectual property rules.

132. *Sebago*, 2 C.M.L.R. ¶ 22.

133. *Id.* ¶¶ 5-8.

134. *Id.*

135. *Id.* ¶ 10.

136. *Id.*

137. *Sebago*, 2 C.M.L.R. ¶ 11.

138. Stamatoudi & Torremans, *supra* note 22, at 126 (summarizing the ECJ's decision); see also *Sebago*, 2 C.M.L.R. ¶¶ 1-11 (stating the opinion of the Advocate General Jacobs).



trademark in El Salvador.<sup>139</sup> As this Study will analyze, the same argument was subsequently raised in the High Court cases *Zino Davidoff* and *Levi Strauss*<sup>140</sup> in England. Instead, the Brussels Court of Appeal deferred to the ECJ for a preliminary ruling on the general extent of Article 7(1) of the Trademark Directive.<sup>141</sup> More specifically, the Belgian Court asked whether consent could be considered implied within the meaning of Article 7(1) when the trademark owner had consented to the marketing of other individual batches of the products in the EEA.<sup>142</sup>

In its July 1, 1999 decision, the ECJ restated its previous ruling in *Silhouette* and affirmed that “the rights conferred by the trademark are exhausted only if the products have been put on the market in [the EEA].”<sup>143</sup> Article 7(1) of the Trademark Directive “does not leave it open to the Member States to provide in their domestic law for exhaustion of the rights conferred by the trademark in respect of products put on the market in non-member countries.”<sup>144</sup> The ECJ then stated that:

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139. *Sebago*, 2 C.M.L.R. ¶ 30.

140. *Zino Davidoff SA and Levi Strauss* (Joined Cases C-414-416/99).

141. *Sebago*, 2 C.M.L.R. ¶ 10.

142. *Id.* ¶ 12. The Brussels Court of Appeal referred to the ECJ the following questions:

Is Article 7(1) of the First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks . . . to be interpreted as meaning that the right conferred by the trademark entitles its proprietor to oppose the use of his trademark in relation to genuine goods which have not been put on the market in the European Economic Community (extended to Norway, Iceland and Liechtenstein by virtue of the Agreement of 2 May 1992 establishing the European Economic Area) by the proprietor or with his consent, where:

- the goods bearing the trademark come directly from a country outside the Community or the European Economic Area,
- the goods bearing the trademark come from a Member State of the Community or of the European Economic Area in which they are in transit without the consent of the proprietor of the trademark or his representative,
- if the goods were acquired in a Member State of the European Community or of the European Economic Area in which they were put on sale for the first time without the consent of the proprietor of the trademark or his representative,
- either where goods bearing the trademark - which are identical to the genuine goods bearing the same trademark but are imported in parallel either directly or indirectly from countries outside the European Community or the European Economic Area - are, or have already been, marketed within the Community or the European Economic Area by the proprietor of the trademark or with his consent,
- or where goods bearing the trademark - which are similar to the genuine goods bearing the same trademark but imported in parallel either directly or indirectly from countries outside the European Community or the European Economic Area - are, or have already been, marketed within the Community or the European Economic Area by the proprietor of the trademark or with his consent.

*Id.* ¶ 10.

143. *Id.* ¶ 22. The same statement is reaffirmed in the ECJ’s conclusions.

144. *Id.*

protection would be devoid of substance if, for there to be exhaustion within the meaning of Article 7, it were sufficient for the trade-mark proprietor to have consented to the putting on the market in that territory of goods which were identical or similar to those in respect of which exhaustion is claimed.<sup>145</sup>

Accordingly, the ECJ thought the answer to the second question addressed by the Brussels Court of Appeal should be that “for there to be consent within the meaning of Article 7(1) of the [D]irective, such consent must relate to each individual item of the product in respect of which exhaustion is pleaded.”<sup>146</sup> In support of its ruling, the ECJ stated that its “interpretation is, moreover, confirmed by Article 7(2) of the [Trademark] Directive which, in its reference to the ‘further commercialization’ of goods, shows that the principle of exhaustion concerns only specific goods which have first been put on the market with the consent of the trade-mark proprietor.”<sup>147</sup>

The arguments proposed by the defendant GB-Unic in *Sebago*<sup>148</sup> looked innovative and interesting from a legal standpoint. However, they misinterpreted the exhaustion doctrine’s rationale of preventing abuses of trademark rights by limiting the control of the proprietor of the trademark to the first sale of the products bearing his trademark.<sup>149</sup> The principle of exhaustion, whether EEA-wide or international, should apply to each individual product and not to types of goods or product lines. As noted by Advocate General Jacobs in *Sebago*, if a limitation of trademark rights through the adoption of the principle of international exhaustion in the EEA “seem[s] desirable and would no doubt be welcomed in many circles,”<sup>150</sup> it should be decided as a matter of Community law.<sup>151</sup> As the Advocate General stressed:

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145. *Id.* ¶ 21.

146. *Sebago*, 2 C.M.L.R., ¶ 22. The ECJ also affirmed that this is the interpretation of Article 7(1) that the Court has already adopted. Thus, the Court has already held that the purpose of that provision is to make possible the further marketing of an individual item of a product bearing a trademark that has been put on the market with the consent of the trade-mark proprietor and to prevent him from opposing such marketing (Case C-337/95 *Parfums Christian Dior v Evora* [1997] ECR I-6013, paragraphs 37 and 38, and Case C-63/97 *BMW v Deenik* [1999] ECR I-0000, paragraph 57). That interpretation is, moreover, confirmed by Article 7(2) of the Directive which, in its reference to the ‘further commercialisation’ of goods, shows that the principle of exhaustion concerns only specific goods which have first been put on the market with the consent of the trade-mark proprietor. *Id.* ¶ 20.

147. *Id.*

148. *Id.*

149. See *supra* note 1 and accompanying text.

150. *Sebago*, 2 C.M.L.R. ¶ 29.

151. *Id.* The Advocate General pointed out that “[h]owever, as the Court observed in *Silhouette*, no argument has been presented to the Court that the Directive could be interpreted as imposing a rule of international exhaustion. The dispute centered only on whether the Directive left the matter to the discretion of the Member States.” *Id.*

[t]he [C]ourt cannot . . . be expected to stand legislation on its head in order to achieve an objective, even were it to be considered desirable. If the [Trademark] Directive is found to have effects which are unacceptable, the correct remedy is to amend the [Trademark] Directive or, as the court observed in . . . *Silhouette*, 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.<sup>152</sup>

Once again, the latter approach may be construed as a violation of Article 4 of the TRIPS Agreement. Accordingly, a general consensus for the amendment of the Trademark Directive could represent a more adequate solution to the issue.

#### V. ZINO DAVIDOFF AND LEVI STRAUSS: INTERNATIONAL EXHAUSTION VIA THE BACK DOOR?

In 1999, the High Court of Justice in London reexamined whether or not consent could be implied under certain conditions, as per Article 7(1) of the Trademark Directive, in three cases that concerned the parallel importation of genuine products from outside the EEA: *Zino Davidoff v. A & G Imports*,<sup>153</sup> *Levi Strauss v. Tesco Stores*,<sup>154</sup> and *Levi Strauss v. Costco Wholesale*.<sup>155</sup> These cases did not follow the position adopted by the ECJ in *Silhouette* and *Sebago*, once again showing the reluctance of some Member States to accept the principle of Community-wide exhaustion in their domestic law. Nevertheless, these cases introduced very interesting elements into the debate on the exhaustion of trademark rights. They emphasized the question of the role of national contract law, and because international contracts were involved, the role of national rules on private international law in relation to

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152. *Id.* ¶ 30. See generally Cohen Jehoram, *supra* note 1, at 501. The author stresses how, during the drafting proceeding of the Trademark Directive, the Commission pointed out that, even if it had decided to introduce the principle of Community-wide exhaustion,

the Community must, however, 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. The restriction to Community-wide exhaustion, however, does not prevent the national courts from extending this principle, in cases of a special nature, in particular where, even in the absence of a formal agreement, reciprocity is guaranteed.

Commission Explanatory Memorandum, COM(84)470 final.

153. *Zino Davidoff*, 30 I.I.C. at 567. For comments on this case see, Stamatoudi & Torremans, *supra* note 22, at 129; Anna Carboni, *Zino Davidoff SA v. A&G Imports Limited: A Way Around Silhouette?*, 1999 E.I.P.R. 524; Carl Steele, *Silhouette Put in the Shade: A Summary of the Recent Davidoff Case*, 119 TRADEMARK WORLD 25 (1999); Robert Swift, *Davidoff: Scottish Court Declines to Follow English Rule on Parallel Imports*, 2000 E.I.P.R. 376.

154. *Zino Davidoff SA and Levi Strauss* (Joined Cases C-414-416/99).

155. *Id.*

choice of law in contractual matters.<sup>156</sup> These cases were referred to the ECJ for a preliminary ruling. Following its previous position, the ECJ reaffirmed the regime of Community-wide exhaustion as the applicable rule within the EEA, and consistently analyzed the issue of “consent” as per Article 7(1) of the Trademark Directive.<sup>157</sup>

*A. Zino Davidoff v. Imports Limited*

*Zino Davidoff* came before Mr. Justice Laddie in the High Court of London as an application for summary judgment.<sup>158</sup> Davidoff SA, the owner of the trademarks “Cool Water” and “Davidoff Cool Water,” tried to prevent the importation of a batch of Davidoff toiletries to the EEA by A&G Imports (A&G).<sup>159</sup> The batch in question had been marketed in Singapore with Davidoff’s consent.<sup>160</sup> Even though it was clear that the products were not marketed within the Community with the explicit consent of the trademark owner, it was unclear whether Davidoff’s consent to the marketing of its products in Singapore implicitly extended to their free circulation and sale around the world.<sup>161</sup> “Davidoff den[ied] that it had consented, or could be treated as having consented” to further commercialization of the products in question.<sup>162</sup> In turn, A&G argued that there was consent and that the exact content and implications of the consent were to be derived from the contract for the sale of the goods.<sup>163</sup> Mr. Justice Laddie felt that, pursuant to the relevant law of contract in this case, it was arguable that subsequent purchasers of Davidoff’s products were free to market the goods within the EEA and that the plaintiffs were to be treated as having consented to such marketing.<sup>164</sup> It was suggested that English law included a rebuttable presumption that, in the absence of the imposition of a full and explicit restriction on purchasers at the time of purchase, trademark owners are to be treated as having consented to the importation and the sale of the goods in the EEA.<sup>165</sup> In this case, full and explicit restriction had not been imposed.

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156. Stamatoudi & Torremans, *supra* note 22, at 129.

157. *Id.* at 130.

158. *Zino Davidoff*, 30 I.I.C. at 568.

159. *Id.*

160. *Id.* ¶¶ 3-4.

161. *Id.* ¶ 5.

162. *Id.* ¶ 20.

163. *Zino Davidoff*, 30 I.I.C. at ¶ 21.

164. *Id.* ¶ 23.

165. *Id.* ¶ 28.

Accordingly, on May 18, 1999, the High Court declined to grant summary judgment because it did not consider the defendant's arguments unfounded.<sup>166</sup>

Because the case raised fundamental questions relating to the scope and effect of Article 7 of the Trademark Directive, a reply to which would be necessary for the determination of the issue at the full trial, the High Court of London deferred to the ECJ for a preliminary ruling.<sup>167</sup> The High Court asked whether the concept of consent, as per Article 7(1), could extend to implicit or indirect consent and not only to explicit and direct consent.<sup>168</sup> It also asked whether a national law, which constitutes a general presumption that trademark owners have waived their exclusive rights in the absence of a full and explicit restriction, could be considered consistent within the Trademark Directive's meaning.<sup>169</sup>

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166. *Id.* ¶ 37 (arguing that "neither *Silhouette* nor *Sebago* throw any light on the issue of how the proprietor can object effectively to such trade"). Justice Laddie further declared:

the rights of the third party can be determined by the law of the contract of supply to that customer or the law of the non EEA country in which the sale to the third party takes place. Where that law includes a rebuttable presumption that, in the absence of full or explicit restrictions being imposed on purchasers at the time of purchase, the proprietor is treated as consenting to the goods being imported into and sold in the EEA, courts within the EEA are free to recognize the effect of that law and to allow importation of the authorized external goods accordingly.

*Id.* ¶ 39. For further details, see *Zino Davidoff SA and Levi Strauss* (Joined Cases C-414-416/99). In this context it should also be noticed that a very similar case was submitted to the Outer House of the Court of Session in Scotland (*JOOP! GmbH v. M&S Toiletries Ltd* and *Zino Davidoff SA v. M&S Toiletries Ltd.*, reported by Brown, *supra* note 98, at 279). While the parallel importers argued that, because of insufficient marketing restrictions, there was implied consent to re-importation into the EEA, the Scottish court found that the trademark owner had taken all reasonable measures to ensure goods would be sold in particular territories. Accordingly, no implied consent could be inferred. *Id.*

167. *Zino Davidoff*, 30 I.I.C. ¶ 43.

168. *Id.* at ¶¶ 16-25.

169. *Id.* The High Court of Justice of England and Wales, Chancery Division (Patent Court), requested the ECJ to give a preliminary ruling on the following questions:

(1) Insofar as First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trademarks (OJ 1989 L 40, p. 1) refers to goods being put on the market in the Community with the consent of the proprietor of a mark, is it to be interpreted as including consent given expressly or implicitly and directly or indirectly?

(2) Where: (a) a proprietor has consented to or allowed goods to be placed in the hands of a third party in circumstances where the latter's rights to further market the goods are determined by the law of the contract of purchase under which that party acquired the goods, and (b) the said law allows the vendor to impose restrictions on the further marketing or use of the goods by the purchaser but also provides that, absent the imposition by or on behalf of the proprietor of effective restrictions on the purchaser's right to further market the goods, the third party acquires a right to market the goods in any country, including the Community, then, if restrictions effective according to that law to limit the third party's rights to market the goods have not been imposed, is the Directive to be interpreted so as to treat the proprietor as having consented to the right of the third party acquired thereby to market the goods in the Community?

*B. Levi Strauss v. Tesco Stores and Levi Strauss v. Costco Wholesale*

The issue of how to interpret “consent” was raised again before Mr. Justice Pumfrey in the High Court of London in *Levi Strauss v. Tesco Stores* and *Costco Wholesale*.<sup>170</sup> Levi Strauss commenced proceedings against Tesco Stores and Costco Wholesale, claiming trademark infringement of its “Levi’s” mark.<sup>171</sup> Levi Strauss had refused, directly or through its subsidiary in England, to sell Levi’s 501 jeans to Tesco and Costco.<sup>172</sup> It had also refused to allow these companies to operate as authorized distributors of the products in question.<sup>173</sup> Tesco and Costco accordingly obtained genuine top-quality Levi’s 501 jeans from traders who had imported such jeans from countries outside the EEA.<sup>174</sup> The jeans sold by Tesco had been manufactured by, or on behalf of Levi Strauss in the United States, Canada, or Mexico and were first sold in those respective countries.<sup>175</sup> The jeans sold by Costco had also been manufactured in the United States or Mexico.<sup>176</sup> The contracts pursuant to which Tesco and Costco purchased these jeans contained no restrictions as to the markets in which the goods could be sold.<sup>177</sup>

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(3) If the answer to the previous question is in the affirmative, is it for the national courts to determine whether, in all the circumstances, effective restrictions were imposed on the third party?

(4) Is Article 7(2) of the Directive to be interpreted in such a way that legitimate reasons for the proprietor to oppose further commercialisation of his goods include any actions by a third party which affect to a substantial extent the value, allure or image of the trademark or the goods to which it is applied?

(5) Is Article 7(2) of the Directive to be interpreted in such a way that legitimate reasons for the proprietor to oppose further commercialisation of his goods include the removal or obliteration by third parties (in whole or in part) of any markings on the goods where such removal or obliteration is not likely to cause any serious or substantial damage to the reputation of the trademark or the goods bearing the mark?

(6) Is Article 7(2) of the Directive to be interpreted in such a way that legitimate reasons for the proprietor to oppose further commercialisation of his goods include the removal or obliteration by third parties (in whole or in part) of batch code numbers on the goods where such removal or obliteration results in the goods in question (i) offending against any part of the criminal code of a Member State (other than a part concerned with trademarks) or (ii) offending against the provisions of Council Directive 76/768/EEC of 27 July 1976 on the approximation of the laws of the Member States relating to cosmetic products (OJ 1976 L 262, p. 169)?

*Zino Davidoff SA and Levi Strauss* (Joined Cases C-414-416/99), ¶ 16.

170. *Id.* at Opinion ¶¶ 1-2.

171. *Id.* ¶ 24.

172. *Id.* ¶ 21.

173. *Id.*

174. *Zino Davidoff SA and Levi Strauss* (Joined Cases C-414-416/99), ¶ 22.

175. *Id.*

176. *Id.*

177. *Id.*

Levi Strauss emphasized its selling policy for the above countries. In the United States and Canada, Levi Strauss sells its products to authorized retailers, who are obliged, under pain of having their supplies cut off, to sell the jeans exclusively to end users.<sup>178</sup> In Mexico, Levi Strauss usually sells its goods to authorized wholesalers under the condition that they will not be exported from Mexico.<sup>179</sup> In response, Tesco and Costco argued that they had acquired an unrestricted right to dispose of the jeans as they wish, because no express restriction was expressly imposed by contract.<sup>180</sup>

It was against this background that in July, 1999, a few months after Justice Laddie's decision in *Zino Davidoff*, the High Court decided to defer to the ECJ for a preliminary ruling. The questions asked by the High Court were very similar to the ones asked previously in *Zino Davidoff*.<sup>181</sup> The High Court focused on the need to clarify the concept of consent, and in particular the concept of implied consent, pursuant to Article 7(1) of the Trademark Directive. The High Court also addressed the compatibility of Community law with the national provision, according to which, trademark owners should be considered as having waived their exclusive right worldwide in the absence of any express reservation in the contract governing the sale of the goods.<sup>182</sup> In addition, the High Court raised the question of whether a restriction of the right to dispose freely of goods may be relied upon against a third party transferee when it is imposed on the first purchaser by the first vendor, or agreed between the two parties to the sale.<sup>183</sup>

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178. *Id.* at ¶ 25.

179. *Zino Davidoff SA and Levi Strauss* (Joined Cases C-414-416/99), ¶ 25.

180. *Id.* ¶ 27.

181. *Id.* ¶ 28.

182. *Id.*

183. *Id.* The High Court of Justice of England and Wales, Chancery Division (Patent Court), referred the following questions to the Court of Justice:

(1) Where goods bearing a registered trademark have been placed on the market in a non-EEA country by the trademark proprietor or with his consent and those goods have been imported into or sold in the EEA by a third party, is the effect of Directive 89/104/EEC (the Directive) that the trademark proprietor is entitled to prohibit such importation or sale unless he has expressly and explicitly consented to it, or may such consent be implied?

(2) If the answer to Question 1 is that consent may be implied, is consent to be implied from the fact that the goods have been sold by the proprietor or on his behalf without contractual restrictions prohibiting resale within the EEA binding the first and all subsequent purchasers?

(3) Where goods bearing a registered trademark have been placed on the market in a non-EEA country by the trademark proprietor:

(a) to what extent is it relevant to or determinative of the issue whether or not there was consent by the proprietor to the placing of those goods on the market within the EEA, within the meaning of the Directive, that: (i) the person placing the goods on the market (not being an authorized retailer) does so with the knowledge that he is the lawful owner of the goods and the goods bear no indication that they may not be placed on the market in the

*C. The ECJ's Decision*

On November 20, 2001, the ECJ issued its decision.<sup>184</sup> Clearly aware that the questions addressed by the High Court of London were characterized by its criticisms of the exclusion of international exhaustion of trademark rights pursuant to the Trademark Directive,<sup>185</sup> the ECJ again confirmed the principle of EEA-wide exhaustion as the general rule to be applied within the EEA.<sup>186</sup> The ECJ focused its attention on the interpretation of “consent,” and pointed out that consent, as per Article 7(1) of the Trademark Directive, constitutes the decisive factor to be considered when assessing the extinction of a trademark owner’s right to prevent third parties from importing goods bearing his trademark into the EEA.<sup>187</sup> The interpretation of “consent” is a matter of Community law and should be consistent throughout the EEA.<sup>188</sup> Should the meaning of “consent” be a matter for national laws, divergences in the threshold of trademark protection may develop and eventually undermine the

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EEA; and/or (ii) the person placing the goods on the market (not being an authorized retailer) does so with knowledge that the trademark proprietor objects to those goods being placed on the market within the EEA; and/or (iii) the person placing the goods on the market (not being an authorized retailer) does so with the knowledge that the trademark proprietor objects to them being placed on the market by anyone other than an authorized retailer; and/or (iv) the goods have been purchased from authorized retailers in a non-EEA country who have been informed by the proprietor that the proprietor objects to the sale of the goods by them for the purposes of resale, but who have not imposed upon purchasers from them any contractual restrictions on the manner in which the goods may be disposed of; and/or (v) the goods have been purchased from authorized wholesalers in a non-EEA country who have been informed by the proprietor that the goods were to be sold to retailers in that non-EEA country and were not to be sold for export, but who have not imposed upon purchasers from them any contractual restrictions on the manner in which the goods may be disposed of; and/or (vi) there has or has not been communication by the proprietor to all subsequent purchasers of its goods (i.e., those between the first purchaser from the proprietor and the person placing the goods on the market in the EEA) of its objection to the sale of the goods for the purposes of resale; and/or (vii) a contractual restriction has or has not been imposed by the proprietor and made legally binding upon the first purchaser prohibiting sale for the purposes of resale to anyone other than the ultimate consumer?

(b) Does the issue of whether or not there was consent by the proprietor to the placing of those goods on the market within the EEA, within the meaning of the Directive, depend on some further or other factor or factors and, if so, which?

*Id.* ¶ 28.

184. See generally *Zino Davidoff SA and Levi Strauss* (Joined Cases C-414-416/99).

185. Cohen Jehoram, *supra* note 1, at 506-07.

186. *Zino Davidoff SA and Levi Strauss* (Joined Cases C-414-416/99), ¶¶ 30-34.

187. *Id.* ¶ 41 (stating that “[i]t therefore appears that consent, which is tantamount to the proprietor’s renunciation of his exclusive right under Article 5 of the Directive to prevent all third parties from importing goods bearing his trademark, constitutes the decisive factor in the extinction of that right”).

188. *Id.* ¶¶ 42-43.



purpose of the Trademark Directive's harmonization.<sup>189</sup> In the absence of a legislative definition, the ECJ opted to supply a uniform interpretation.<sup>190</sup>

As a general rule, the ECJ stated that "[i]n view of its serious effect in extinguishing the exclusive rights [of trademark owners] . . . consent must be so expressed that an intention to renounce those rights is unequivocally demonstrated . . . ."<sup>191</sup> "Such intention will normally be gathered from an express statement of consent."<sup>192</sup> Nevertheless, the ECJ admitted that:

consent may, in some cases, be inferred from facts and circumstances prior to, simultaneous with or subsequent to the placing of the goods on the market outside the EEA which, in the view of the national court, unequivocally demonstrate[s] that the proprietor has renounced his rights [to oppose placing of the goods on the market within the EEA].<sup>193</sup>

However, contrary to the London High Court's opinion, the ECJ concluded that consent cannot be inferred

from the fact that the proprietor of the trademark has not communicated to all subsequent purchasers of the goods placed on the market outside the EEA his opposition to marketing within the EEA; from the fact that the goods carry no warning of a prohibition of their being placed on the market within the EEA; from the fact that the trademark proprietor has transferred the ownership of the products bearing the trademark without imposing any contractual reservations and that, according to the law governing the contract, the property right transferred includes, in the absence of such reservations, an unlimited right of resale or, at the very least, a right to market the goods subsequently within the EEA.<sup>194</sup>

Article 7(1) of the Trademark Directive should accordingly be interpreted as precluding national rules, such as the English law at issue in these cases that constitute a general presumption of waiver or are equivalent to such a presumption. Indeed, a "rule of national law, which is merely based upon the silence of the trademark proprietor, does not recogn[ize] implied consent, but

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189. *Id.* See also Stamatoudi & Torremans, *supra* note 22, at 133; Cornish, *supra* note 22, at 174-5.

190. *Zino Davidoff SA and Levi Strauss* (Joined Cases C-414-416/99), ¶ 43.

191. *Id.* ¶ 45.

192. *Id.* ¶ 46.

193. *Id.* ¶ 47.

194. *Id.* ¶ 60. Accordingly, the ECJ did not accept the argument stressed by Justice Laddie: "There is nothing to support the suggestion that existing case law or Community law creates a presumption that a proprietor shall be taken to object to unfettered distribution of goods which have been sold on the open market outside the EEA unless he expressly consents to such further distribution." *Zino Davidoff*, 30 I.I.C. 567, ¶ 37. See also Stamatoudi & Torremans, *supra* note 22, at 133.

rather deems consent to have the effect of limiting the protection afforded to trademark owners.”<sup>195</sup>

The ECJ expanded its ruling while replying to the last question addressed by the High Court of London in the *Levi Strauss* cases. In order to prevent further attempts to introduce international exhaustion via the back door, the ECJ adopted an approach clearly in favor of trademark owners. The ECJ concluded that

[s]ince . . . consent cannot be inferred from the proprietor’s silence, preservation of his exclusive right cannot depend on there being an express prohibition of marketing within the EEA, which the proprietor is not obliged to impose, nor, *a fortiori*, on a repetition of that prohibition in one or more of the contracts concluded in the distribution chain.<sup>196</sup>

Accordingly, “national rules on the enforceability of sales restrictions against third parties are not, therefore, relevant to the resolution of a dispute between the proprietor of a trade mark and a subsequent trader in the distribution chain concerning the preservation or extinction of the rights conferred by the trade mark.”<sup>197</sup> In particular, the ECJ stressed that “it is not relevant [whether] the importer of goods bearing the trade mark is aware that the proprietor objects to their being placed on the market in the EEA or sold there by traders other than authorized retailers.”<sup>198</sup> It is equally irrelevant if authorized “retailers and wholesalers have not imposed on their own purchasers contractual reservations setting out such opposition, even though they have been informed of it by the trade mark proprietors.”<sup>199</sup>

The ECJ did not restate the possibility of adopting a less protective approach on the issue of consent in the future through the establishment of bilateral or multi-lateral agreements with non-member countries, as it had

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195. *Zino Davidoff SA and Levi Strauss* (Joined Cases C-414-416/99), ¶¶ 58-59. In this respect, Advocate General Stix-Hackl has affirmed in her Opinion (available on the ECJ’s web site <http://curia.eu.int>) that “it is for the national court . . . to determine whether, when the products concerned were in fact first placed on the market, the trademark proprietor had waived his exclusive right to control distribution within the EEA.” *Id.* ¶ 99. On the other hand, such determination should happen “in compliance with the [provisions] of Community law and having regard to all the circumstances of the individual case.” *Id.* ¶ 123.

196. *Zino Davidoff SA and Levi Strauss* (Joined Cases C-414-416/99), ¶ 64.

197. *Id.* ¶ 65.

198. *Id.* ¶ 66.

199. *Id.* This approach is in contrast with the position adopted by the ECJ, on the same issue, in Case C-306/96, *Javico International and Javico AG v. Yves Saint Laurent Parfums SA*, 1998 E.C.R. I-1983. For criticism of these aspects, see Stamatoudi & Torremans, *supra* note 22, at 139-41; Cornish, *supra* note 22, at 176. As noted before, this article does not elaborate on the antitrust issue. However, it should be pointed out that the position adopted by the ECJ in its decision can be in contrast with principles of Article 81 and 82 of the EC Treaty. See *supra* note 28 and accompanying text.

previously done in *Silhouette* and *Sebago*.<sup>200</sup> As noticed by the Commission itself, such silence probably derives from the increasing awareness that these agreements can be held illegal under the WTO system.<sup>201</sup> As a result, this decision will receive severe criticism because it represents a victory for trademark owners, not for consumers or the market. Because some Member States and national courts are reluctant to accept the current exhaustion regime, there is also little doubt that the debate will be reignited by some domestic tribunal in the near future.<sup>202</sup>

#### VI. POLITICAL DEBATE AND RECENT ATTEMPTS TO INTRODUCE INTERNATIONAL EXHAUSTION IN THE EUROPEAN COMMUNITY

After the adoption of the Trademark Directive, European institutions and trade organizations have also debated the proper interpretation of Article 7(1). Similar to divergences encountered within national courts, Member States and interested circles were sharply divided. This became apparent during the discussion in hearings and meetings among European institutions. Once again, the supporters of international exhaustion claimed that the Community exhaustion regime constitutes an important barrier to parallel trade and creates high prices for consumer goods within the Union. Those advocating Community exhaustion argued that this system is necessary for the promotion of European investments in innovation and high-quality goods.<sup>203</sup>

In 1999, the Commission launched a study on the possible economic consequences of a change in the EEA-wide exhaustion regime.<sup>204</sup> This study, which was carried out by National Economic Research Associates (NERA) in London and presented to the Commission in February 1999,<sup>205</sup> confirmed that “[t]he main argument for maintaining the current exhaustion regime . . . is to

200. See generally *Zino Davidoff SA and Levi Strauss* (Joined Cases C-414-416/99); Stamatoudi & Torremans, *supra* note 22, at 129-33.

201. See *Commission Working Paper on Trademark Exhaustion*, *supra* note 15, at 8.

202. See generally Brown, *supra* note 98 (providing an updated overview of European domestic cases on parallel imports).

203. The arguments stressed during the discussions within European institutions are well summarized on the Commission's web site at [http://europa.eu.int/comm/internal\\_market/en/indprop/01-157.htm](http://europa.eu.int/comm/internal_market/en/indprop/01-157.htm) (last visited May 20, 2002).

204. Rhys et al., *The Choice of Regime of Exhaustion in the Area of Trademarks*, European Commission (1999), available at [http://europa.eu.int/comm/internal\\_market/en/indprop/tmstudy.htm](http://europa.eu.int/comm/internal_market/en/indprop/tmstudy.htm).

205. *Id.* This study emphasized the impact that a change in the existing regime could have in different market sectors. For this purpose, it did not focus only on price differentials, “but also on product quality, product availability, after-sale services (guarantees), employment, distribution agreements [and] market segmentation.” *Commission Working Paper on Trademark Exhaustion*, *supra* note 15, at 15. As a result, the study emphasized that the impact of a change in the “exhaustion regime would be minimal in certain sectors like alcoholic drinks and confectionery, whereas it may have more significant consequences in others such as consumer electronics, domestic appliances and footwear.” *Id.*

protect [Community] competitiveness and innovation.”<sup>206</sup> In particular, a change to international exhaustion would reduce the value of intellectual property and put European companies at a disadvantage against companies in countries that do not apply the same regime. Furthermore, such a change would not necessarily lead to a tangible change in the market because trademark owners could still control the distribution of their goods by setting up selective distribution networks and prohibiting sales to unauthorized dealers. This study also listed a series of arguments favoring a change to international exhaustion.<sup>207</sup> “Besides reducing prices . . . [p]arallel importation would increase inter-brand competition, by reducing the possibility for a trade mark holder to exploit his position in that [specific] brand and to set higher prices in certain markets, and by increasing competition in the distribution of the product.”<sup>208</sup> However, the study’s overall conclusion was still in favor of the EEA-wide exhaustion regime.<sup>209</sup>

The results of the NERA study were discussed by Member States and interested parties in April 1999 during two meetings organized by the Commission.<sup>210</sup> As expected, the Member States appeared still divided on the issue. Some delegations expressed strong support for the Community exhaustion regime, whereas others strongly advocated a change to international exhaustion.<sup>211</sup> In particular, “certain delegations expressed doubts about the conclusions of the [NERA] study and its presumed negative effects of international exhaustion.”<sup>212</sup> It was mentioned “that the positive long-term effects of international exhaustion should have received more

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206. *Commission Working Paper on Trademark Exhaustion*, *supra* note 15, at 16. The study also emphasized that Community-wide exhaustion “provides a higher economic reward to firms that invest in the quality or style of their products, and that this incentive is necessary in order to maintain the quality and style of products expected by consumers.” *Id.*

207. *Id.* at 16.

208. *Id.*

209. Rhys et al., *supra* note 202, at 19.

210. For a general overview, see Commission’s web site at [http://europa.eu.int/comm/internal\\_market/en/indprop/185.htm](http://europa.eu.int/comm/internal_market/en/indprop/185.htm) (last visited May 20, 2002). These consultations raised the additional question of whether a change in the trademark exhaustion regime “could be discussed separately from the questions concerning exhaustion of other intellectual property rights.” *Commission Working Paper on Trademark Exhaustion*, *supra* note 15, at 15. As pointed out by representatives of some Member States, “[p]roducts are in many cases protected not only by trademarks, but [also] by a multiple set of Intellectual Property Rights (IPR) (copyright, patents, etc.)” Communiqué from Commissioner Bolkestein on the Issue of Exhaustion of Trade Mark Rights, available at [http://europa.eu.int/comm/internal\\_market/en/indprop/comexhaust.htm](http://europa.eu.int/comm/internal_market/en/indprop/comexhaust.htm) (last visited May 20, 2002) [hereinafter Communiqué]. As reported by the Commission in the *Commission Working Paper on Trademark Exhaustion*, *supra* note 15, at 17, it was also held that the introduction of international exhaustion for trademarks would therefore affect only a limited number of sectors in a limited way.

211. *Commission Working Paper on Trademark Exhaustion*, *supra* note 15, at 17-19.

212. *Id.*

attention,”<sup>213</sup> whereas the opponents of international exhaustion suggested that “the potential negative impacts on consumers caused by a change of regime had been played down.”<sup>214</sup>

Consultations with interested parties also showed divergent positions on the issue.<sup>215</sup> Industry representatives “emphasized the important role of trade marks and other intellectual property rights as incentives for innovation and research.”<sup>216</sup> They observed that “international exhaustion would weaken the position of trade mark proprietors and have [negative] implications for their strategic [behavior], this in turn leading to losses in innovation, production and employment.”<sup>217</sup>

In opposition, representatives of foreign associations, associations of parallel traders, and consumer organizations underlined the benefits that free trade could eventually provide.<sup>218</sup> “[A]n international exhaustion regime would lower prices, increase product availability and increase consumption in the Community.”<sup>219</sup> The opponents of international exhaustion argued that the introduction of new technologies (e.g., e-commerce) could give consumers access to a greater choice of products at lower prices.<sup>220</sup> In addition, future expansion of the Community may also have considerable impact on the internal market by further lowering consumer prices.<sup>221</sup> In this context, it was emphasized that the exhaustion regime for national trademarks and the Community trademark should be the same.<sup>222</sup> Accordingly, a change to international exhaustion should apply to both systems.<sup>223</sup>

In December 1999, the Commission published a working document to be discussed by the Council.<sup>224</sup> This document examined four key exhaustion related issues: (1) the possible consequences of different regimes for national trademarks compared to Community trademarks, (2) the distinction between exhaustion regimes and different intellectual property rights, (3) the “differentiation of exhaustion regimes for different sectors of industry,” and (4) “international exhaustion through international agreements.”<sup>225</sup>

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213. *Id.*

214. *Id.* at 17-19.

215. *Id.* at 18.

216. *Commission Working Paper on Trademark Exhaustion*, *supra* note 15, at 18.

217. *Id.*

218. *Id.*

219. *Id.* at 19.

220. *Id.* at 17.

221. *Communiqué*, *supra* note 208.

222. *Id.*

223. *Commission Working Paper on Trademark Exhaustion*, *supra* note 15, at 3-4.

224. *See generally id.*

225. *Id.* at 3.

In May 2000, the Commission concluded that a change from EEA exhaustion would not, at least in the short term, lead to a significant fall in consumer prices. The Commission decided not to submit any proposal to alter the current system of exhaustion.<sup>226</sup> These conclusions were based on the meetings with Member States and interested parties and on the results highlighted in the Commission's working document. The Commission stated that "trademark policy has only a marginal effect on parallel trade."<sup>227</sup> This was in line with the position of trade association representatives and was in part the result of their well conducted lobbying activity. "[O]ther elements, like distribution arrangements, transport costs, health and safety legislation, technical standards and labeling differences may have a greater, and more direct impact."<sup>228</sup>

The Commission then considered that "the exhaustion regime for trademark would have little effect on the marketplace, given the large majority of products that are covered by a [plurality] of intellectual property rights."<sup>229</sup> Community-wide exhaustion had been developed to foster the integration of the internal market.<sup>230</sup> If the Community was to introduce international exhaustion and its trading partners did not do likewise, Community companies, including subsidiaries and distributors of non-Community companies, would face a competitive disadvantage.<sup>231</sup>

The debate on the issue was reignited in 2001. On February 15, the European Community Parliament published a draft report entitled "*The Problem of the Exhaustion of Trademark Rights*," once again advocating the transition to an international exhaustion regime.<sup>232</sup> The rationale behind the request for a change in the current exhaustion regime continued to be that the absence of international exhaustion could lead to higher prices within the Community. The report emphasized that the aim of trademark protection is to promote brand identity, not to allow trademark owners to rely on the right to prevent parallel importation by creating price differences and market barriers. In order to find a compromise with industry representatives, this report excluded pharmaceuticals from international exhaustion application.<sup>233</sup> So

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226. Communiqué, *supra* note 208.

227. *Id.*

228. *Id.*

229. *Id.*

230. *Id.*

231. Communiqué, *supra* note 208. While refusing a change in the current regime, the Commission did not take into account the arguments added to the debate by the High Court of London in the *Zino Davidoff* and *Levi Strauss* cases pending at that time before the ECJ.

232. See *supra* note 21.

233. *Id.*

far, relevant legislative amendments to the current exhaustion regime have been neither discussed nor adopted by the Parliament.<sup>234</sup>

In April 2001, the Swedish Presidency organized an informal seminar of internal market and consumer affairs ministers to reexamine the issue.<sup>235</sup> Once again, this meeting showed a profound division among the Member States.<sup>236</sup> The only consensus reached during this seminar was that any change to the exhaustion regime of trademark rights should be considered according to its impact on employment, product quality and safety, and retail prices. Because of the divergent approaches and the lack of consensus between Member States, trade organizations, and consumer associations, the question of whether international trademark exhaustion should apply in Europe is likely to continue to be at the center of discussion for a long time.

## VII. CONCLUSION

There is apparently little hope left for those who favor international exhaustion in the European Union. At least for the time being, the ECJ has made clear that EEA-wide exhaustion is the only applicable criterion within the internal market, and national rules providing other exhaustion regimes are in contrast with Article 7(1) of the Trademark Directive. According to the ECJ, in order to guarantee free movement of goods within the European market, the same exhaustion regime should apply throughout the EEA. Interpretation of Article 7 at a national level should not contrast with the spirit of harmonization that characterizes the Trademark Directive. The ECJ's rulings did not exclude the possibility for changes to the current exhaustion regime. For the sake of harmonization and the smooth running of the internal market, any change should occur by a general consensus among Member States.

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234. *Id.* Because of the lack of consensus, the Parliament has called on the Commission in order to produce a study that examines (once again!) the legal and economic situation related to trademark exhaustion within Europe and the most important trading nations. According to the provisional edition of the Parliament's minutes, the Parliament has also called on the Commission to examine the legal situation with regard to the exhaustion of trademark rights in the most important trading nations; ascertain the prospects for the conclusion of an international agreement on harmonized rules on exhaustion of trademark rights under the WTO or WIPO; . . . examine whether clarification of trademark law in respect of non-commercial imports of goods purchased by consumers via the Internet was needed; submit to Parliament, by 31 December 2002, a report on these points, containing detailed proposals.

*Id.* For a recital of the questions originally proposed by the European parliament members, see L/Klaus-Heiner Lehne, *Written Question E-0363/00 to the Commission*, Nov 11, 2000, O.J. (C330 E) (2000).

235. *See supra* note 201.

236. *Id.*

However, because national approaches to international exhaustion diverge, future inconsistent case law on the issue should be expected. Although the intervention of the ECJ clarified the interpretation of Article 7(1) as it has been underlined, its rulings are not technically binding for national courts. In addition, the ECJ's rulings in "*Affaire Hag*" have shown that the Court can reverse itself while deciding trademark matters. Even though its decisions have consistently been followed by domestic tribunals, this cannot prevent possible inconsistent judgments in the future.

There is little doubt that the building of a "fortress Europe" represents a strategy. It is a European "defense tower" that repels the aggressive commercial policies of other countries.<sup>237</sup> Ideally, trade should be free and global. Diplomatic negotiations in the WTO framework and the adoption of the TRIPS Agreement have proven that such "free and global trade" is still difficult in actual practice. Because of the lack of consensus on the issue and the economic differences between developed and developing countries, the choice of whether or not to apply international trademark exhaustion still remains a matter for national legislators (Community legislators, in the case of Europe).

The ECJ and the Commission have shown how the Community is not totally opposed to international exhaustion. This gradual process could start on the basis of reciprocity agreements with third countries that guarantee Member States equal treatment of their exports in the states that are parties to agreements. However, these agreements may represent a violation of the "most favored nation" principle as per Article 4 of TRIPS. Because of this risk, the Community and other interested parties have continued to choose a protective policy (i.e., EEA-wide exhaustion) rather than adopt a liberal approach in favor of global trade. As soon as other countries adopt international exhaustion, the Community will probably abandon its defensive tower. Nevertheless, considering the strong pressure from international industries against international exhaustion, such change is not likely to happen in the near future. Multi-national companies can rely on their trademark rights world-wide because of several national trademark registrations. There is little doubt that they will try to prevent, by any means, the adoption of international exhaustion in Europe as well as in any other countries where they conduct their business.

On the other hand, the adoption of international trademark exhaustion world-wide will not necessarily result in the creation of the regime with completely free and global trade that is so feared by trademark owners. Trademark owners will be able to prevent parallel importations of their products by placing reservations and restrictions on their licenses and by

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237. Cohen Jehoram, *supra* note 1, at 503.



placing labels on their product that explicitly prohibit exportation to other countries. As the ECJ ruled, such restrictions might fall within the scope of Article 81 of the EC Treaty as a violation of competition law, but only under exceptional circumstances, such as when there are important price differences between the foreign market and the Community, a large volume of goods exported to that market, and when trademark owners have an oligopolistic position on the European market in the relevant goods. Even in a regime of EEA-wide exhaustion, trademark owners may possibly rely on their exclusive rights to prevent parallel importation of genuine products under these circumstances. This should be seen as an abuse of trademark protection and in conflict with the safeguards of market competition and consumer welfare.

Finally, while international exhaustion appears to be banned from the European Union for the time being, there should be concern for the effectiveness of the EEA-wide exhaustion principle itself. In recent cases about repackaged and relabeled products, the ECJ held that trademark rights are not exhausted, “even if that constitutes a barrier to intra-[C]ommunity trade,” when an unauthorized third party has been removing and then re-affixing or replacing labels bearing the mark that was originally affixed to products by the trademark owner, unless “the relabeling cannot affect the original condition of the product; the presentation of the relabeled product is not such as to be liable to damage the reputation of the trademark and its owner; and the person who relabels the products informs the trademark owner of the relabeling before the relabeled products are put on sale.”<sup>238</sup>

Considering the traditional antagonism of trademark owners towards the principle of trademark exhaustion, whether national, EEA-wide, or international, there are no doubts that they will use and misinterpret the ECJ statements to their advantage in order to control the further commercialization of their products in the internal market. Once again, it should be remembered that the “specific subject matter” and the primary function of a trademark is that of a source indicator. Consumer protection is the primary concern. Protection of the trademark owner is a secondary concern. It is difficult to draw the thin line that divides “legitimate use” and “illegitimate abuse” of intellectual property rights when confronting trademark exhaustion. However, it should not be forgotten that any abuse of trademark protection will entail unwelcome consequences for the marketplace sooner or later.

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238. *Frits Loendersloot*, 1997 E.C.R. at I-6227.