# TRADEMARK LAW SEMINAR

# PARALLEL IMPORTS


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## What Parallel Imports (P.I.) are about?

**Imports of *genuine* goods, bearing a trademark in the EEA without authorization from the trademark owner**

## What is the issue about Parallel Imports (PI)?

**Are P.I. a trademark infringement?**

***Does Import of goods* amount to unauthorized use of the trademark?**

***Does Trading of goods* also amount to unauthorized use of the trademark?**

# Why are P.I. a trademark infringement?

**Territoriality:** a trademark exists only in the State where it is registered. Trademarks are granted by the State and exist only within the territorial limits of the State granting them.

**Exclusivity:** Trademarks are exclusive rights

A parcel of CAMEL cigarettes imported from the US in GR amounts to trademark infringement, because the Greek and the US "CAMEL" trademarks belong to two different Registries.

# Another approach of the P.I. is through the the first sale doctrine

**What is the reason justifying the existence of trademarks?**

**Trademarks are deemed to:**

- **enhance the information to consumers**
- **enhance product quality**
- **enhance competition**

**Hence, trademarks can be the reward for the producer’s efforts to create products of better quality and to offer better products for better prices.**

**The efforts of the producer are rewarded by the power granted to be the first who will trade its goods in each different geographical market.**

**Being the first to trade is a reward for the manufacturer, because the first sale is without competition, so, it is possible to achieve higher prices.**

# P.I. and Free Movement of Goods

# P.I. and Free Competition

Within the EU – EEA, the free movement of goods principle prevails

The EU – EEA is an integrated market with free competition and similar terms of trading among member states

# P.I. and the right to property

When a consumer purchases a product bearing a trademark (i.e. a ROLEX watch), he acquires a property right over a tangible movable object.

Suppose the purchaser of a ROLEX watch wishes to resell it. Is he able to resell it? Or can the trademark owner prevent such resale?

Selling a product bearing a trademark is in principle a use of the mark.

If the trademark owner can prevent further sales of products bearing the mark, then consumers do not enjoy a full property right.

Trademark rights would lead to restrictions over property.

However, the position of the law is that property rights prevail and trademark rights are exhausted after the first sale.

This is the **EXHAUSTION** doctrine. Trademark rights are exhausted after the first sale.

**Exhaustion applies to specific, particular and individual items from a series of goods only and only in the specific market where the trademark owner placed the goods; not in other markets.**

**Exhaustion is National; not International**

## The *SEBAGO* case (ECJ)

Sebago shoes were traded by the trademark owner within EU and in Central America.

Independent traders imported Sebago shoes from Mexico to the EU. They claimed that since Sebago shoes were traded both in Mexico and the EU, the respective trademark rights were exhausted.

Held that exhaustion applied **only to the particular and specific** Sebago shoes that the trademark owner himself had placed in the EU market. With respect to Sebago shoes traded in Mexico, trademark rights were not exhausted in the EU.

The **SEBAGO (1999)** case is important for two reasons:

1. **Community-wide exhaustion only** (like in *Silhouette*, 1998)

2. **Consent.** Consent is required **for each individual item** in respect of which exhaustion is pleaded.

(on "consent" see also *Zino Davidoff/ Levy Strauss* 2001 and *Diesel* 2009)

# EXHAUSTION AND FREE MOVEMENT OF GOODS

The problem was that in the EU Treaty, intellectual property rights (IPRs) are in conflict with the free movement of goods principle.

The conflict is due to the territoriality and the exclusive nature of IPRs.

The doctrine of Exhaustion provided a solution to a problem of interpretation of the EU Treaty.

# EU TREATY PROVISIONS

**Article 34 (ex Article 28 TEC)**

Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between Member States.

**Article 36 (ex Article 30 TEC)**

The provisions of Articles 34… shall not preclude prohibitions or restrictions on imports, … on grounds of… the protection of industrial and commercial property…

**Article 345 (ex Article 295 TEC)**

The Treaties shall in no way prejudice the rules in Member States governing the system of property ownership.

**ON THE BASIS OF THE ABOVE, IS IT FREE MOVEMENT THAT SHOULD PREVAIL OVER IPRs OR VICE VERSA ?**

**THEORIES DEVELOPED BY THE ECJ TO OVERCOME THE DIFFICULTIES OF INTERPRETATION THE TREATY AND TO SECURE FREE MOVEMENT OVER IPRs**

- The distinction (dichotomy) between the *"existence"* and the *"exercise"* of IPRs
- The *"specific subject matter"* doctrine
- The *"exhaustion"* doctrine

# The distinction (dichotomy) between the ***<u>"existence"</u>*** and the ***<u>"exercise"</u>*** of IPRs

The Treaty protects IPRs as such, meaning it protects their ***existence***. However, their ***exercise*** can be restricted in favor of free movement of goods.

<u>ECJ cases</u>

***Consten & Grunding*** 1966

***Parke Davis*** 1968

***Deutsche Grammophon*** 1971

**A privileged first sale is part of the existence**

## The *"specific subject matter"* doctrine

Each IPR serves a specific purpose (has a specific subject, an essential subject matter). Only this specific subject matter is the core of legal protection. So long as the specific subject matter is not harmed, restrictions can be applied in favor of free movement of goods and competition.

ECJ cases

***Deutsche Grammophon*** 1971

***Centrafarm v. Winthrop*** 1974

## **What is the specific subject-matter of trademarks?**

Think of the reasons justifying the existence of trademarks in law:

(a) Better information for consumers

(b) Better quality of products

(c) A reward to trademark owners for promoting the above through a privileged ( = with no competition) first sale

Think of the functions of trademarks:

(a) Origin
(b) Quality
(c) Advertising

**A privileged first sale is part of the specific subject-matter; it is the reward**

# The *"exhaustion"* doctrine

IPRs are exhausted after the first sale of goods.

The trademark owner has the power to be the first who will sell his goods, to be the first who will put the goods in the market.

**The whole EU is** considered to be **a single market**; that is if the owner sells goods in one Member State, he cannot prevent exportation to other Member States.

IPRs do **not** follow the goods after their first sale; they do not enjoy a right to control the goods after their first sale.

**After the first sale, it is the free movement of goods that prevails**.

***Consten & Grunding*** **1966 (C-56, 58/64)**

The distinction between *“existence”* and *“exercise”* of IPRs. The **exercise** of IPRs can be restricted in favor of free competition. It is only the **existence** of IPRs that cannot be restricted.

The German company, Grunding, had appointed Consten to be its distributor in France. It had also allowed Consten to register the mark “GINT” in its own name in France. Unef, independent importer, imported Grunding products under the mark GINT from Germany to France. Consten prevented such imports invoking trademark rights.

Unef filed a complaint with the EU Competition Commission for violation of free competition. The Commission found that the agreement between Consten & Grunding that the first would file the GINT mark in its name in France, so, as to be able to prevent imports from other member states, was in violation of competition law.

Consten & Grunding argued that this approach of the Commission affected their IPRs and violated arts. 36 and 345 of the Treaty

The ECJ found that the Commission' s decision was in compliance with the Treaty and reasoned that arts. 36 and 345 protected only the existence of IPRs, while their exercise could yield in favor of competition law.

## Deutsche Grammophon vs. Metro 1971 (ECJ C-78/70)

Deutsche Grammophon had exported music recordings to France. Metro, independent importer, purchased such music recordings in France and re-imported them into Germany. Deutsche Grammophon brought legal proceedings in Germany to prevent imports from France. Metro argued that free movement of goods was violated. The ECJ reasoned that Deutsche Grammophon was exercising its IPRs in a way that restricted free movement of goods and that <u>free movement of goods should prevail</u> in this case. In order to substantiate this view, the ECJ applied the "existence" / "exercise" distinction doctrine and the "specific subject matter" doctrine and the "exhaustion" doctrine.

***Terrapin vs. Terranova*** **1976**

**Not a parallel imports case – a L/C case**

**Terrapin and Terranova products were produced by different manufacturers.**

**Terrapin goods were imported from EU country X to EU country Y where they co-existed with Terranova goods.**

A trademark owner in a member state can invoke trademark rights to prevent imports of infringing goods from another member state, that is the import of similar goods bearing a similar mark, thus leading to likelihood of confusion.

This was a genuine case of likelihood of confusion.

It was not a parallel imports case.

The goods in question were originating from different manufacturers and were bearing confusingly similar marks.

Free movement of goods should not prevail over trademark infringement (likelihood of confusion). The specific subject matter was affected.

*(compare with* ***Cotonelle****)*

# ***Terrapin*** - ***Terranova***

There are two types of trademark infringement:
(a) Infringement by Likelihood of confusion
(b) Infringement by Parallel Imports

You can invoke free movement of goods:
to do away with a Parallel Imports infringement
but not to do away with a L/C infringement

L/C is part of the “existence” and the “specific subject matter”

## ***Fratelli Graffione vs. Ditta Fransa (Cotonelle)*** **1997**

This case related to an attempt to prevent imports of toilet paper under the mark COTONELLE from France to Italy, on the ground that there was a risk to deceive consumers in Italy that the products were made of cotton.

The ECJ considered that this risk was not serious enough to restrict the free movement of the goods among member states.

*(compare with* ***Terrapin / Terranova****)*

***Javico vs. YSL* (1998)**

The case was decided on the basis of competition law.

YSL had appointed a distributor in Russia only. The agreement provided that the goods would not be imported in the EU. The distributor breached this clause and YSL attempted to enforce the agreement. The distributor argued that such a clause regarding non importation into the EU was contrary to free competition.

Held:

Importation of goods lawfully marketed in a third country into the EU could not be stopped.

The essence of the case was that it would be an illegitimate restriction of free competition within the EU to prohibit imports of goods from abroad.

Compare with the ***Silhouette*** case, where it was decided, on the basis of trademark law (parallel imports) that the importation of goods lawfully marketed in a third country into the EU could be stopped, because trademark rights were not exhausted.

## ***HAG I*** **(1974) and *HAG II*** **(1990)**

HAG was a trademark for coffee. It was originally owned by a German company that enjoyed registrations in many countries including Belgium.

During the 2nd World War, the Belgian trademark was expropriated and sold to another company.

This amounted to an assignment of trademark that resulted to the same mark being owned by different manufacturers in Belgium and Germany.

In HAG I the Belgian owner attempted to prevent imports of HAG products from Germany to Belgium.

The Court applied a doctrine known as **"initial common ownership"**.

According to the *"initial common ownership"* doctrine, it was submitted that in case of trademark assignment, there is an implied consent of the assignor with respect to future sales of products by the assignee. So, when a mark is assigned in some member states and retained in others, the assignor cannot oppose to future sales by the assignees in the countries for which he retains the trademark for himself.

So, the Belgian owner of the HAG mark was not able to prevent imports from Germany. The ECJ reasoned that free movement of goods should prevail and in order to justify this decision it applied the *"initial common ownership"* doctrine.

This judgment and the *"initial common ownership"* doctrine were heavily criticized on the ground that this was a case of different products, developed by different manufacturers and the quality and the origin functions of the mark were obviously violated. Due to this criticism, this doctrine was abandoned and the ***HAG I*** is considered as bad law.

***HAG I*** was a L/C case and should be decided as ***TERRAPIN/TERRANOVA*** case

About 15 years later, in the ***HAG II***, it was the German trademark owner who attempted to prevent imports from Belgium. This time the ECJ considered that such imports could be prevented, because the origin function and the quality function were violated. Although the goods had the same mark, they were manufactured from different manufacturers and they were of different quality. So, IPRs should prevail over free movement of goods.

Similar to ***HAG II*** is the ***IDEAL STANDARD*** **case (1995)**

# *Summary*

**WHAT PARALLEL IMPORTS ARE?**

Imports of genuine goods into a market, originating from another market, which are not authorized by the trade mark owner and are carried out by independent traders.

Basic principle:

P.I. = trademark infringement

# *Summary*

Import of goods = use of the trademark →

Unauthorized import = unauthorized use →

Unauthorized import = trademark infringement

Exception:

Imports among EU member states are legitimate, because of <u>free movement of goods</u>

# *Summary*

**An example:**

Imports from Mexico to Germany =
= illegitimate – prohibited

Imports from France to Germany =
= legitimate – allowed
(free movement of goods)

# *Summary*

**EXHAUSTION** of trademark rights

Trademark rights are exhausted (i.e. extinguished), after the trademark owner has placed his goods on a certain market

“to place goods on a certain market” =

= first sale, i.e. the trademark owner has completed the first sale of his goods → after the first sale, trademark rights are exhausted → further sales cannot be prohibited

# The *"exhaustion"* doctrine

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**The whole EU is** considered to be **a single market**; that is if the owner sells goods in one Member State, he cannot prevent exportation to other Member States.

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(on "consent" see also *Zino Davidoff/ Levy Strauss* 2001 and *Diesel* 2009)

# EC Directive 1989/105, later amended 2008/95

## Article 7

## Exhaustion of the rights conferred by a trade mark

**1.** The trade mark shall **not** entitle the proprietor to prohibit its use in relation to goods which have been **put on the market in the Community** under that trade mark **by the proprietor** or with his **consent**.

**2.** Paragraph 1 shall **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.

# When are Parallel Imports allowed?

**<u>Three Conditions, as per para.1 :</u>**

1. **Goods put in the market (= first sale)**
2. **In the Community market – not in any market**
3. **By the trademark owner or his/her consent**

**If any of the above pre-requisites is missing, then, P.I. are prohibited.**

# When are Parallel Imports NOT allowed?

- **A. If any of the three pre-requisites is missing**
- **B. If para. 2 exception is in place**

**Para. 2 exception means that there are <u>legitimate reasons to oppose</u> to further commercialization, i.e., condition of the goods changed, <u>differentiated</u>, or impaired.**

**Art. 7 (2) applies also to cases of re-packaging.**

# WHAT IS THE REAL POLICY BEHIND THE RULE ON P.I.?

**AIM 1:**

P.I. allowed among Member States

*REASON:* free movement of goods and enhancement of competition

**AIM 2:**

P.I. prohibited from third non EU countries

*REASON:* to protect EU industries; if P.I. from third countries were allowed, all EU industries would move to low cost third world countries and unemployment would increase.

## EXHAUSTION

## <u>NATIONAL, COMMUNITY, INTERNATIONAL</u>

***<u>ECJ: Silhouette (1998)</u>***

The rule is **Community wide** exhaustion; MS have **no discretion to opt for international exhaustion.**

So, no international exhaustion.

On the matter of exhaustion, Art. 7 of the Directive is a rule of <u>complete harmonization</u>, meaning that MS are not allowed to adopt international exhaustion.

What is material is <u>whether the specific goods in question have been put into the market **within the EU/EEA** by the trademark owner himself or with his consent</u>. If goods have been put in the market outside the EU/EEA, there is no exhaustion.

# WHAT LEADS TO EXHAUSTION OF IPRs ?
# WHAT CAUSES EXHAUSTION OF IPRs ?

**“put on the market” = “first sale doctrine”**

Exhaustion is caused by the first sale. However:
What about a sale with retention of title?
Is it the transfer of property that is decisive in a first sale?

The major issue is whether the trademark owner had the <u>chance to achieve a fair price through a privileged first sale;</u> it is not transfer of property that is decisive.

What matters is whether a privileged first sale took place. This is what gives a reward to the trademark owner.

## ***ECJ: Peak Performance (2004)***

Key point: what *"put on the market"* means?

What causes exhaustion is putting goods on the market, completing a first privileged sale (but not necessarily in terms of transfer of title over the goods).

What is **not "exhaustion":**

Goods in transit, warehousing, completing customs procedures, importation of goods from a third country in the EU without selling them yet, putting goods on shelves without selling them yet, etc.

IPRs are NOT exhausted with respect to goods that have been put into the market, they were offered to consumers for sale through shops, but were not sold and were later on withdrawn from the market by the trademark owner and warehoused again.

# ***ECJ : Peak Performance (2004)***

A contractual clause in a sale contract between the trademark owner and a wholesaler within the EU that the latter will not sell the products within the EU does not mean that there is no putting on the market and hence exhaustion is not precluded.

So, breach of a contractual term on the part of a distributor *situated within the EU* not to sell within the EU but to destine the products to third countries does not preclude exhaustion, because the dealing of the trademark owner with an EU situated distributor is a first sale allowing the trademark owner to obtain some financial benefits from the goods and hence leading to exhaustion.

**Note:** If the distributor is situated outside the EU, there is NO exhaustion, because breach of the contractual clause means that there is no consent from the trademark owner to circulate the goods within the EU.

**Note:** compare with the cases of *Cram & Rheinzink* and *Javico*

# ***ECJ: CLASS INTERNATIONAL (2005)***

## **(goods in transit = no infringement)**

If goods that are the subject matter of a parallel import are in transit through the EU and no final destination within the EU has been established, there is no trademark infringement, because there is no use within the EU.

Sales to ships carrying on international voyages reaching EU ports are not considered to be sales within the EU and do **not** establish a trademark infringement. International ships at ports are deemed not to have entered the EU yet.

## Consent to put goods in the market

Exhaustion results when the trademark owner himself putting goods on the market.

Exhaustion results when goods are put on the market by third parties **with the consent** of the trademark owner, i.e.:

- Affiliated companies
- Authorized distributors and licensees

**Consent to put goods on the market outside the EU-EEA does not lead to exhaustion within the EU-EEA**

*(ECJ cases: **Sebago** 1999 & **Davidoff/Levi Strauss** 2001)*

**CONSENT**

*ECJ cases:* ***<u>Davidoff/Levi Strauss (2001)</u> & <u>Diesel (2009)</u>***

Consent must be **<u>clear, express, unambiguous</u>**

The fact that the products do not bear a notice that sale within the EU is prohibited does not amount to consent.

That fact that the trademark owner does not bind contractually his distributors not to sell within the EU does not amount to consent.

Hence, consent cannot be inferred from other facts, such as notice, absence of contractual clause binding distributors.

**Mere silence** does **not amount to consent**, unless accompanied by a certain behavior clearly evidencing consent.

**Consent can be implied**, but evidence has to be unequivocal.

Consent cannot be inferred from the fact that:

- the trademark owner has not demonstrated to future purchasers that he opposes to the importation of the goods in the EU
- The goods bear no notice of prohibition of importation in the EU

- the trademark owner has transferred ownership over the goods without any contractual reservation regarding future importation in the EU

It is irrelevant that:

- the parallel importer is in good faith; he was not aware that the trademark owner opposed importation in the EU
- the authorized wholesalers and retailers have not imposed on their purchasers any contractual restriction as to future importation in the EU, although so instructed by the trademark owner.

# ***<u>ECJ: Coty/Simex (2010)</u>***

There is **<u>no consent for further commercialisation</u>** with respect to goods destined for **promotional purposes** only, i.e. as samples, or as free offers.

# BURDEN OF PROOF

***ECJ: Van Doren (2003)***

Who bears the burden to prove that exhaustion occurred?

Who bears the burden to prove that goods have been put on the market within the EU-EEA with the consent of the trademark owner?

Trademark rights are the rule → P.I prohibited

Exhaustion is the exception → P.I allowed

Exhaustion is an objection invoked by a parallel importer.

**It is the parallel importer who has to prove all the pre-requisites for exhaustion.**

*Unless:*

There is a risk that the trademark owner may partition the national markets within the EU-EEA.

There is such a risk when the trademark owner employs a distribution system with exclusive distributors.

If this is the case, then it is the trademark owner who has to prove that there is no exhaustion.

**So, the burden of proof is shifted from the parallel importer to the trademark owner.**

## Burden of proof – *Van Doren*

If the distribution network operated by the trademark owner is a "closed" one, i.e. with a limited number of exclusive distributors, then the sources of supply available to parallel importers are limited. In such a case, if the parallel importer is required to disclose his source of supply, he is likely to lose this source in the future. For this reason, the burden of proof is reversed, according to the precedent of the ***Van Doren*** case.

# RE-PACKAGING

<u>Types of repackaging:</u>

- **Changing the original packaging** (with a different one).
- Affixing **stickers with information in another language** on the packaging.
- **Joining together two or more small packages** in a single larger one.
- **Breaking down a large package to more smaller ones**.
- In *pharmaceuticals*, **isolating strips of pills** from a large single package and **selling them independently**.
- **Using own packaging with “window holes”,** making it possible to see the trademark in the inside of the packaging.

# Re-packaging & Pharmaceuticals

Most re-packaging cases relate to pharmaceuticals. This is due to the following:

- There are great price differences among MS because prices are set by each national government, i.e., some governments favor more pharmaceuticals' manufacturers and some others favor consumers.
- Legal requirement to have information & instructions in national language.

# Why is re-packaging an infringement ?

Repackaging is a trademark infringement, because it is impossible to make any changes on the packaging without affecting the trademark.

In some cases, repackaging is necessary in order to trade goods originating from lawful parallel imports. In such cases, if the parallel importer is not allowed to re-pack, it is impossible for him to sell the products and this amounts to a disguised restriction of lawful parallel imports and of free movement of goods. This is the case where local law requires information about the product to appear on the packaging in the national language. This is the case of pharmaceuticals.

# Re-packaging & Parallel Imports

- When P.I. are permitted (i.e., P.I. among MS according to the free movement of goods), trademark owners invoke re-packaging as an infringement in order to prohibit parallel imports.
- So, repackaging is used as a second line of defence by trademark owners against parallel importers.

**<u>Conditions for LEGITIMATE Re-packaging</u>** <u>(set by caselaw)</u>**<u>:</u>**

Trademark rights **cannot be invoked**, if **ALL** of the following conditions are present:

- invoking the trademark would lead to **partitioning of markets** between MS, i.e., **<u>re-packaging is objectively necessary to secure free movement of goods</u>**;
- the re-packaging **cannot adversely affect the original condition** of the product;
- it is stated on the new packaging **by whom** the product **has been repackaged and manufactured;**
- the presentation of the re-packaged product is not such as to be liable to damage the **reputation** of the trademark and of its owner;
- the **proprietor of the trademark receives prior notice before the re-packaged product is put on the market.**

**If any of the above is missing, re-packaging is illegal, hence, infrigement.**

The condition of **objective necessity** will **not be satisfied,** if the parallel importer wishes to re-pack the product and re-affix or replace the trade mark solely in order **to secure a commercial advantage**. In that case, <u>the proprietor</u> of the trade mark <u>may lawfully use his right to prevent</u> the actions mentioned above; [however, see ***<u>Boehringer I, II</u>***].

Conditions 1-3 and 5 (above) were set by the ECJ judgment ***Hoffman La Roche v. Centrafarm* (1978)**

Condition 4 (*fame* and *reputation*) was set by the ECJ judgment ***Bristol Mayers Squibb v. Paranova* (1997)**

The ***Ballantine* (1998)** case applied conditions 1, 2, 4 and 5.

ECJ ***Boehringer II* (2007)**: It is the parallel importer (re-packager) who bears the burden to prove that the 5 conditions are in place and that trademark rights cannot be invoked.

Re-packaging may be a legitimate reason to object to lawful parallel imports according to **Article 7(2)** of Dir. 2008/95.

## ECJ: *Pharmacia & Upjohn v. Paranova* (1999)

The manufacturer traded the same medicine under different marks (DALACIN, DALACINE, DALACIN C) in different MS.

The parallel importer purchased DALACINE and DALACIN C from some MS and imported them in others, changing the mark to DALACIN.

The Court reasoned that the practice of trading the same product under different marks in different MS is suspicious of leading to partitioning of markets.

The crucial issue was whether it was objectively necessary for the parallel importer to change the mark to DALACIN in order to be able to trade the imported goods.

Necessity should be appreciated and assessed on the basis of the national law of where the goods were imported. So, one should consider whether national laws in the country of importation made it obligatory to use the mark DALACIN. **[legislative necessity]**

Necessity is **not** established on the basis of commercial advantage only. So, the fact that it is the mark DALACIN which is well known and easily recognizable in the state of importation does not make objectively necessary to re-pack. **[commercial necessity]**

It is up to the national court of the Member State of importation to assess according to local laws and according to the circumstances prevailing at the time of marketing of the goods whether it is objectively necessary to replace the trademarks

→ so, **assessment of objective necessity is up to the national courts.**

Art. 7 (including 7.2) and Arts. 34, 36 of the Treaty on free movement of goods serve the same purpose, that is to set a balance between trademark rights and free movement of goods. Hence, Art. 7 should be interpreted in view of Arts. 34, 36 of the Treaty.

In general, this judgment is considered to be favorable to trademarks owners, because it adopts a <u>**narrow interpretation**</u> of the term ***"objectively necessary"***.

## ***BOEHRINGER v. SWINGWARD - Boehringer I* (2002)**

Facts: The Parallel importer did not limit himself in placing a sticker in the national language but proceeded with a full re-packaging, where his trademark was more obvious than the trademark of the manufacturer.

Held:

The conditions of *“partitioning of markets”* and of *“objective necessity”* to re-pack are interrelated.

<u>Derogations from the free movement of goods</u> principle are <u>justified only</u> to the extent necessary <u>to protect the “subject subject-matter”</u> of trademark rights (in this case, the origin function was emphasized).

Art. 7(2) allows trademark owners to prevent re-packaging, unless this can lead to partitioning of markets.

It is objectively necessary to re-pack, if, without it, effective access to market is prohibited.

The fact that consumers are suspicious towards re-labeled pharmaceuticals and are not confident with them makes re-packaging objectively necessary.

**The position as to objective necessity has changed from <u>legislative necessity</u> to <u>commercial necessity</u> as well; it is also taken into consideration.**

# P.I. AND ADVERTISING

Suppose there is an independent trader who has effected legitimate parallel imports.

In order to sell the imported products, he has to advertise.

Advertising amounts to using the trademark.

Is such advertising use of the mark a trademark infringement?

Can trademark owners invoke trademark infringement because of advertising use even in case of legitimate P.I. ?

Does exhaustion mean that all functions are exhausted, including the advertising function?

## Article 6

## Limitation of the effects of a trade mark

1. The trade mark shall not entitle the proprietor to prohibit a third party from using, in the course of trade:

(a) his own name or address;

(b) indications concerning the kind, quality, quantity, intended purpose, value, geographical origin, the time of production of goods or of rendering of the service, or other characteristics of goods or services;

**(c)** *the trade mark where it is necessary to indicate the intended purpose of a product or service, in particular as accessories or spare parts; provided he uses them in accordance with <u>honest practices</u> in industrial or commercial matters.*

# ECJ CASE LAW ON P.I. & ADVERTISING

***ECJ : Dior v. Evora*** ***(1997)***

Evora traded Dior products which were obtained through legitimate parallel imports. In order to increase its sales, it had printed and distributed leaflets with photos of Dior products.

Dior claimed that this type of advertising was inconsistent with the luxurious profile of its products and that this amounted to dilution of the advertising value of its mark.

Held that:

Exhaustion applies for all trademark functions including the advertising one.

Parallel importers should not employ advertising methods that lead to dilution of the advertising value of the mark and destroy the image of luxury developed by the owner.

In case of improper advertising, art. 7(2) of Dir. 2008/95 applies.

A court should assess **whether the advertising methods used are customary for the particular market or not.** If not, there is an infringement.

## ***ECJ : BMW* (1999)**

An independent repairer had affixed the BMW mark in his shop together with a statement: “expert repairer”.

Note: the statement was *“expert”* repairer; not *“authorized”* repairer.

The ECJ applied art. 6 (1) of Dir 2008/95.

What was material was **whether the method and the type of the advertisement used** in this case **was customary for the relevant market.** If not, the advertising function has been infringed.

# P.I. and PRODUCT GUARANTEE

***ECJ: Metro / Cartier*** ***(1994)***

Cartier operated a closed distribution network (selective distribution) to secure the luxury character of its products. Its agreements with its distributors prohibited to the distributors to sell products to independent traders, who were not members of the network.

Metro purchased Cartier products from Switzerland where the law disfavored the above restrictive clauses and distributors were free to sell to non members. Metro traded the Cartier products in the EU.

Cartier reacted and denied to honor the product guarantee for products purchased from Metro.

Metro brought legal proceedings against Cartier to oblige it to honor the product guarantee.

Held that Cartier did not violate the law in denying to honor the product guarantee. So long as Cartier was entitled to prohibit sales to non members of the network, it was also entitled to dishonor the product guarantee as a means to enforce the contractual restriction imposed on its distributors and as a means to secure that its network remained a closed one.

NOTE: This was not a Trademarks and an Exhaustion case but a Competition law case. The key issue was whether it was an abuse not to honour the product guarantee.

# P.I AND FREE COMPETITION LAW

## ECJ case: CRAM & RHEINZINK 1984

Cram and Rheinzink operated a cartel with respect to zinc prices in Europe which were much higher than in other parts of the world.

Initially, Cram and Rheinzink had refused to sell zinc to Schlitz, to prevent the latter from selling zinc to Europe. Schlitz pretended that it intended to sell zinc in Egypt and promised not to sell in Europe. Schlitz did not honored its promise and sold zinc in Europe. Cram and Rheinzinc refused to allow further sales to Schlitz and claimed damages against it.

The ECJ reasoned that the contractual clause prohibiting sales in Europe and obliging Schlitz to sell only in Egypt was a disguised restriction of trade within the EU which violated anti trust legislation.

This is a free competition case.

The legal issue is whether it is legitimate from the point of view of free competition to bind a counter-party to sell outside the EU only.

The case should be considered as one decided on its facts. It is not a leading precedent.

# The ECJ case: YSL / JAVICO 1998

Javico was a distributor for YSL. Javico was appointed as distributor to Russia. The distributorship agreement provided that Javico will sell to Russia only and that the products destined for Russia will not be re-exported to the EU.

The validity of this clause was challenged before the ECJ from the point of view of anti trust legislation.

Held that:

- The purpose of the clause was not to restrict trade within the EU, but instead to secure an efficient penetration in the Russian market and to make sure that a sufficient quantity of products will enter this market.

- However, in the presence of special circumstances, such clauses could result to a disguised restriction if inter-state trade. This depended on the following:

(a) Whether the relevant market within the EU was an open or a closed one (oligopolistic),

(b) Whether prices within the EU were similar to those in other countries

(c) Whether the quantities destined for this other country (Russia) are large enough to have a potential impact to the EU market; if the respective quantities are small for EU standards, it is not possible to argue the trade within the EU can be affected.

# CFI : MICROSOFT / MICRO LEADER 1999

Micro Leader was a parallel importer of Microsoft software from Canada (Quebec) to France. Microsoft addressed letters to its distributors in Canada and France invoking its IPRs and achieved to withdraw Micro Leader from the market.

Micro Leader alleged an abuse of dominant position on the part of Microsoft on the grounds that Microsoft traded its products in much higher prices within the EU than in Canada and the price difference was not justified on the basis of objective reasons.

The EU Commission reach a decision that so long parallel imports from Canada to France were illegal because IPRs were not exhausted, an allegation of abuse of dominant position was ab inition ungrounded in law. In other words, the Commission considered that an attempt to prevent illegitimate parallel imports can not qualify as an abuse of dominant position.

The CFI reversed the Commission' s decision ruling that even in case of illegitimate parallel imports, higher prices within the EU which cannot be justified on objective grounds can qualify as an abuse of dominant position.

*(see also Deutsche Grammophon 1971)*

## What else may account for abuse of dominant position?

- If certain goods are not traded within the EU and are traded only in third countries, without adequate justification based on objective reasons,
- If the same product is traded with different trademarks within and outside the EU, without adequate justification based on objective reasons

## Centrafarm v. American Home Products 1979

The same product was traded with different trademarks in two member – states, but this was due to objective reasons

(SERENID / SERESTA)