

EXHAUSTION OF TRADEMARK RIGHTS POSITION PAPER

I. Introduction

In 1998, the European Court of Justice's ruling in the *Silhouette* case (Case C-355/96) initiated a revival of the discussion in EU circles as regards the exhaustion of trademark rights. The Ruling established that, on the basis of article 7 of Council Directive 89/104/EEC on the approximation of laws of the Member States relating to trademarks, the holder of a trademark can legally stop the parallel importation into the European Economic Area (EEA) of trademarked goods which have been put on the market in countries outside the EEA.

Three years later, the Court delivers a new judgement, in the so-called *Levis/Tesco* case (Joined cases C-414/99, C-415/99 and C-416/99). In its judgment the Court of Justice refuses, in practice, to parallel importers the right to trade in goods bought outside the territory of the European Economic Area on the basis of the adoption of a stricter rule on the expression of consent.

More than ten years after the adoption of Council Directive 89/104 and more than five years after the adoption of Regulation 40/94, FTA urges the EU decision-making bodies to redress a situation that restricts the international movement of trademarked goods and is, as such, out of touch with recent developments in international trade and communication means.

II. The legal basis

Currently, there is a dual regime for trademarks in the EU:

- a) *National trademarks*, which are harmonised by Directive 89/104, and
- b) *Community trademark*, which has been launched by Regulation 40/94.

The principle of Community-wide exhaustion applies to both of them. This means the trademark rights expire within the EU only if the trademark owner puts the product into circulation within the EU. If the products are put into circulation outside the EU, the rights do not automatically expire, so that the trademark owner can determine the use of his product without restriction.

Prior to the current EU regime, Member states had different exhaustion rules ranking from international exhaustion (Austria, Sweden, Germany) to national exhaustion (France).

III. Trademarks: notion & use

Trademarks are *graphic signs*, which serve to distinguish the goods or services offered by a given company from those offered by other companies. FTA acknowledges that marks are a very important tool for the economy, designed to fulfil two mutually dependent economic functions.

For its owner, a trademark represents a property right that limits the possibilities for third parties in imitating the product or service, or in reselling it unrestrictedly. In particular, without the consent of the trademark owner third parties may not affix that trademark to goods, offer goods for sale or import goods under that trademark.

For the consumers a trademark represents an instrument that helps to identify the source of products and hence improves their ability to judge quality.

Trademarks are thus beneficial for all parties (brand owners, traders, consumers) but the goal of a mark is to protect brandowners and traders and not to put obstacles to trade. Trademarks cannot be used to partition markets or to limit the rights of traders.

IV. The WTO approach

FTA is of the opinion that the principles of free trade laid down in the WTO Agreements are contradicted, if trademark holders are able to partition the global market on the basis of trademarks. Rules restricting parallel imports of trademarked goods within the EEA are non-tariff barriers to trade that distort the internal market. Article 6 of the TRIPs Agreement permits each WTO Member to prescribe its own rules on the subject of exhaustion leaving to them the best choice. Minimum rights for trademark holders are already ensured on a global level through the WTO TRIPs Agreement. Therefore the prohibition of international exhaustion serves much more as an encouragement to trademark holders to maintain artificially high prices rather than as a safeguard for their intellectual property rights. Given the fact that international exhaustion is an issue of major importance for the future development of a global market without protectionist barriers, FTA favours its application worldwide and urges the EU to implement it, even without reciprocity.

V. The EU approach

Following the publication of the so called “NERA report” early 1999 and at the request of the Council, the Commission Services have submitted to the Parliament, in December 1999, a Commission Staff Working Paper to serve as a basis for a further and detailed discussion in a Council expert group. In April 2000, answering to a Parliamentary question¹, the Commission underlined that “The Commission will

¹ Joint answer to Written Questions E-0362/00 and E-0363/00 given by Mr Bolkestein on behalf of the Commission (7 April 2000)

take a position on international exhaustion after the current discussions have been finalised.”

The E.P. draft Report (“the Mayer Report”) issued on 15 February 2001 perfectly represented the position of FTA. The Report advocated a properly thought out transition from Community-wide exhaustion to international exhaustion, and called on the Commission to submit legislative proposals to this effect.

Unfortunately, the European Parliament was not in a measure to adopt a clear final position, in favour or against, on the current legislation. On 3 October 2001, the European Parliament published the final report concerning the exhaustion of trademark rights. This report, adopted on the basis of a compromise amendment, asks the Commission to deepen the question of trademark exhaustion through the elaboration of different studies analysing the possibilities and the consequences of a modification of the current system.

VI. The Levis/Tesco – Davidoff/A&G cases

The joint cases were brought before the Court of First Instance further to two different proceedings before national courts. On the one hand, the Zino Davidoff case originated from A & G Imports Ltd, which acquired stocks of Davidoff's products that had originally been placed on the market in Singapore by Davidoff or with its consent. A & G imported those stocks into the Community, specifically into England, and commenced selling them there. On the other hand, the companies Tesco and Costco obtained genuine Levi's 501 jeans from suppliers who imported such jeans into the Community from countries outside the EEA, and sold them in the United Kingdom.

According to the Court, consent constitutes the decisive factor in the extinction of the trademark owner right; consent must thus be expressed in such a way that an intention to renounce those rights is unequivocally demonstrated. Implied consent can neither be deduced from the mere silence of the trademark owner, nor be inferred from the fact that contractual reservations were not imposed at the time of the transfer of ownership of the goods bearing the mark. Likewise, consent cannot be deduced neither from the fact that the trademark proprietor has not communicated his opposition to marketing within the EEA nor from the fact that the goods carry no warning of a prohibition on their being placed on the market within the EEA.

The impact on trade of this judgement will be enormous. The considerations made by the Court on the notion of expression of consent will, in practice, endanger all international transactions within the sector of the so-called parallel imports.

First of all, following the Court's reasoning, it will be practically impossible to keep confidential the identities of suppliers, as the express consent must come from the brand-owner itself. Secondly, the consideration that it is not for the trademark proprietor to demonstrate absence of consent, but rather for the trader alleging consent to prove it will allow brand-owners to block goods at the customs, simply alleging that they “did not consent”. It will then be on the traders' side to be able to provide evidence of the consent.

VII. CONCLUSION

The current EC legislation on trademarks, precluding international exhaustion, is contrary to today's functioning of the global market, free competition principles and the interests of EU consumers. The EU should therefore take a leadership position by including the principle of international exhaustion of trademarks in relevant EU legislation.

FTA is strongly deceived of the recent Court position, which has the practical effect of allowing single consumers to buy on the Internet from non-EEA countries and import directly the goods into the EEA territory, but forbids traders to provide their services to consumers.

The judgement has, as a first result, the effect of depriving consumers of the know-how of traders and resellers, opening the door to all sort of counterfeited goods to be “e-commerced” and bypassing an important ring of the commercial chain.

Moreover, the Court does not pay any attention to the debate held at the European Parliament during the preparation of the Mayer Report, which clearly focused on the traders’ problems. This position shows a “political involvement” of the Court in the discussion, and will surely complicate the progress towards a new approach to the exhaustion of trademark.

FTA would like to stress again the following issues:

- The use of the trademark legislation as an instrument to control distribution channels and partition markets is contrary to the principles of sound competition. It should be re-established that the function of a trademark is to protect the proprietor of the brand of any misuse, and not to provide trademark holders with the possibility to divide up the market and exploit price differentials through selective or exclusive distribution channels.
- The recent developments in the information society, including e-commerce, urges the Institutions to take a clear position on the freedoms of the retail sectors. Every day, new retailers put their merchandise up on the Internet, giving consumers real free choice of purchase around the world.
- The impact of parallel imports on consumer behaviour would be beneficial not only to consumers and retailers, but also, and in particular, to manufacturers. More affordable imports of branded products on the EU market may attract traditional brand-users but also consumers who would normally not be able to afford these goods, thereby overall increasing the sales of the goods. It may also be important in this context to bear in mind that levels of unemployment in Europe are affecting negatively the purchasing power of a large part of the population which, again, will not buy branded goods - or much less frequently - if they are not available at prices that meet their means.
- FTA rebuts the notion of a necessary link between parallel import and counterfeiting. Contrary to often presented arguments, branded products

imported through parallel import may constitute a powerful barrier to the development of counterfeiting, as counterfeited products would lose their attractiveness compared to attractively-priced branded goods whose import entails no legal risks. Trademark owners could thus, on a global scale, increase their sales, as their goods would take over counterfeit markets.

- As a last remark, FTA would also stress that the argument according to which 'grey goods' would automatically offer less quality and guarantees to consumers should be examined in the light of a variety of Directives such as the Product Liability Directive, the Consumer Guarantees Directive and many technical regulations such as the Cosmetics Directive. The current legislation, in fact, applies to all imports and binds importers whether or not the goods enter the EU with the blessing of the trademark holder.

VIII. The next steps

First of all, FTA alerts the trading sector to pay a particular attention to the developments of this issue. Shall the national authorities interpret the Court judgement in a restrictive way, every retailer selling parallel imported goods, even if legally imported from within the EEA, will risk to be obliged to disclose its sources. Moreover, every retailer selling "branded goods" without belonging to a selective or exclusive distribution system, risks the same.

Secondly, FTA calls the trading sector, together with the consumers association, to be attentive to the new study which will be performed by the European Commission. The NERA report lacked of the point of view of traders, the new study shall take this opinion into due account.

Thirdly, FTA draws the attention on the consideration that the current legislation in the field of trademark exhaustion is based on Directive 89/104 and on Regulation 40/94. Because these two texts do not have the same legal basis, their modification is not subject to the same majority procedure in the Council. Therefore, if the Commission decides to modify the current system, it is of utmost importance to have a political agreement among the Member States to modify both texts in the same way, irrespective of the majority requirements in the Council. If this were not to happen, the co-existence of two different systems could lead to generate discriminatory situations.

Brussels, November 2001/Gi