

argue that the principle of regional trade mark exhaustion discourages parallel importation notwithstanding some justifiable policy grounds.⁸²⁶ Parallel importation is a tool that limits the ability of trade mark owners to dissect the global markets into pieces of national or regional markets. As a tangible benefit of this tool, intra-brand competition is enhanced with the results that the prices of branded goods are reduced. Moreover, essential function of trade mark supports the practice of parallel trade, for the essence of trade mark regime is to guarantee the origin of trade-marked goods and hence their quality.⁸²⁷ This guarantee remains unaffected by a normal practice of parallel importation except in some isolated scenarios, discussed in section C (III) below in this chapter, in which the practice of parallel importation is likely to contravene some legitimate interests of trade mark proprietors especially where the condition of goods is impaired or the packaging is changed.

III. Conditions for Community trade mark exhaustion

Pursuant to the provisions of Articles 7(1) and 13(1) of the TD and the CTMR respectively, a “trade mark owner’s rights are exhausted in respect of specific goods once he puts those goods on the market in the EEA himself or if he has either expressly or impliedly consented to those goods being marketed there”.⁸²⁸ The purpose of Articles 7(1) and 13(1) of the TD and the CTMR is “to make possible the further marketing of an individual item of a product bearing a trade mark that has been put on the market with the consent of the trade-mark proprietor and to prevent him from opposing such marketing”.⁸²⁹

To the extent the trade mark proprietor is able to adduce some legitimate reasons justifying his action of opposing further commercialisation of the goods to whose sale he has already consented, the doctrine of exhaustion will not apply in respect of those goods. This could particularly be the case, if the “the condition of the goods has been changed or impaired after they have been put on the market”.⁸³⁰

826 Cf. N. GROSS, “Trade mark exhaustion: The U.K. perspective”, 23(5) E.I.P.R. 224, 228 (2001).

827 Cf. ECJ, Case C-173/98, *Sebago Inc. SA v G-B Unic SA* [1999] ECR I-04103, para. 16.

828 PHILIPS, J., “Trade Mark Law: A Practical Anatomy” 285 (Oxford University Press, Oxford 2003).

829 ECJ, Case C-173/98, *Sebago Inc. and Ancianne Maison Dubois & Fils SA v G-B Unic SA* [1999] ECR I-04103, para. 20.

830 Cf. Articles 7(2) and 13(2) of TD and CTMR respectively.

Trade mark rights protected in Europe cannot be regarded as exhausted, unless it is proved that not only the goods have been put on the market but also that the putting of goods on the market was accompanied by a clear consent on the part of the trade mark proprietor.

1. Putting goods on the market

The central question in this section is whether the mere putting of trade-marked goods on the market exhausts the trade mark proprietor's exclusive rights. The term "putting goods on the market" simply means an act of marketing the goods in the Community. The term can be clearly and precisely explained in light of the *Peak Holding* case.⁸³¹ The dispute in this case concerned the use of *Peak Performance* trade mark owned by Peak Holding – a group of companies. Peak Performance Production AB (henceforth the claimant), being a member of that group, was able to secure some rights to use the trade mark in relation to clothing and accessories, that it produced and marketed in Sweden and in other countries. Factory Outlet (henceforth the defendant) carried out parallel imports of goods bearing claimant's trade mark in Sweden. It transpired that the goods in issue were manufactured outside the EU and imported into the EU by the claimant, who put the products in production shops and in base camp stores for purpose of selling them to final consumers. The defendant received the claimant's products from another dealer (independent of the claimant) before those goods were actually sold in the EU by the claimant. The defendant maintained that the goods had been put on the market by virtue: (i) of their import into the internal market by the claimant with the intention of selling the goods in the Community, and (ii) of having been marketed by the claimant in its own shops and the Base Camp Store. The defendant reiterated that, in the foregoing circumstances, the goods had been offered to consumers.⁸³²

As the defendant's submissions necessitated a legal interpretation of the term "putting goods on the market", the ECJ responded that:

... goods bearing a trade mark cannot be regarded as having been put on the market in the EEA where the proprietor of the trade mark has imported them into the EEA with a view to selling them there or where he has offered them for sell to consumers in the EEA, in his own shops or those of an associated company, without actually selling them.⁸³³

831 ECJ, Case C-16/03, *Peak Holding AB v Axolin-Elinor AB* [2004] ECR I-11313.

832 Cf. Case C-16/03, *Peak Holding AB v Axolin-Elinor AB* [2004] ECR I-11313, paras. 6 to 18.

833 ECJ, Case C-16/03, *Peak Holding AB v Axolin-Elinor AB* [2004] ECR I-11313, para. 44.

The argument in the above quotation is based on the legal position which regards an act of placing the goods on the market outside the EEA as incapable of exhausting the trade mark owner's right to prohibit the importation of those goods.⁸³⁴ This legal position reflects the mind of the EU legislature expressed in Articles 9 and 13 of the CTMR. It must be recalled that Article 9 grants a CTM proprietor some exclusive rights, whereas Article 13 tactically limits those rights in a way that does not affect the right of a trade mark proprietor to control the initial marketing of the goods in the EEA of goods bearing the mark.⁸³⁵ Both Articles 9 and 13 of the CTMR incorporate the term "putting the goods on the market", albeit in different connotations.

It is noteworthy that Article 9(2) of the CTMR stipulates some specific acts in relation to a trade mark, which can only be perpetuated by a trade mark proprietor or another person authorised by him. Some of these acts include: (a) affixing the signs to goods or to the packaging thereof; (b) offering the goods, putting them on the market or stocking them for these purposes under that sign, or offering or supplying services thereunder; (c) importing or exporting the goods under that sign. The term "putting them on the market" appearing in Article 9(2) (b) has been interpreted differently from a semantically similar term found in Article 13(1). The term "putting on the market" as a sword which the CTM proprietor may apply against third parties pursuant to Article 9(2) (b) is not necessarily confined to actual selling of the branded products but encompasses as well an act of putting the goods in the shop for the purposes of selling them or any act of putting the goods in the state which would constitute an act of selling.⁸³⁶ However, the term as applied in the context of Article 13(1) to restrict the proprietor from controlling the after-market goods, refers to an actual sale of the product concerned.⁸³⁷ This is opposed to merely stocking the goods in a shop waiting for customers to buy the goods. Thus, goods offered in a shop have been put on the market for the purpose of Article 9(2) of CTMR but not for the purpose of Article 13(1) of the CTMR.⁸³⁸

It cannot be presumed that where a trade mark proprietor imports his goods with a view to selling them in the EEA or offers them for sale in the EEA, has

834 ECJ, Case C-16/03 *Peak Holding AB v Axolin-Elinor AB* [2004] ECR I-11313, para. 36.

835 Opinion of Advocate General Stix-Hackl, in: ECJ, Case C-16/03, *Peak Holding* [2004] ECR I-11313, para. 20.

836 Opinion of Advocate General Stix-Hackl, in: C-16/03, *Peak Holding* [2004] ECR I-11313, paras. 28 & 29.

837 Opinion of Advocate General Stix-Hackl, in: C-16/03, *Peak Holding* [2004] ECR I-11313, para. 40.

838 Opinion of Advocate General Stix-Hackl, in: C-16/03, *Peak Holding* [2004] ECR I-11313, paras. 36 & 37.

put the goods on the market within the meaning of Article 13(1) of CTMR.⁸³⁹ Through these acts, the CTM owner does not dispose of the goods nor does he “realise the economic value of his trade mark”.⁸⁴⁰ Thus, putting the goods on the market within the meaning of Article 13(1) signifies an act of actual sale of a branded good for the first time. Thereafter, any third parties are free to put the same good on the market for the subsequent times without infringing exclusive trade mark rights enjoyed by the proprietor under Article 9 of CTMR.

2. Consent

The term “consent” as stipulated in Article 13 of CTMR refers to an act of putting the goods on a market in the EEA. The purpose of requiring the proprietor’s consent as a condition for trade mark rights to be exhausted is to allow the CTM owner to control where and when initial marketing of his branded product(s) should take place. Thus, consent is a legal proof of the fact that the proprietor has renounced his exclusive CTM rights.⁸⁴¹ Evidence of such renunciation is governed by the rule that (i) consent is required for each specific batch of goods sold, (ii) implied consent can only be inferred from unequivocal facts, and (iii) contractual restrictions between the parties do not extend to the principle of trade mark exhaustion.

a) Consent is given for specific goods

Consent, for purpose of CTM exhaustion, relates only to specific goods whose initial marketing was done by the proprietor himself or any other person with the proprietor’s approval. The trade mark owner’s consent in relation to a single batch of goods “does not exhaust the rights conferred by the trade mark as regards the marketing of other batches of his goods even if they are identical”.⁸⁴² This position is confirmed in Article 13(2) of CTMR. By employing the phrase “further commercialisation of goods”, Article 13(2) limits the principle of

839 Indeed, if a mere importation customs clearance of branded goods could be considered as exhausting trade mark rights, the “proprietor would, in the final analysis, have no control over the first sale of the goods in the EEA” (*cf.* opinion of Advocate General Stix-Hackl, in Case C-16/03, *Peak Holding* [2004] ECR I-11313, para. 25).

840 ECJ, Case C-16/03, *Peak Holding AB v Axolin-Elinor AB* [2004] ECR I-11313, para. 42.

841 ECJ, Case C-244/00 *Van Doren + Q. GmbH v Lifestyle sports + sportswear Handelsgesellschaft mbH and Michael Orth* [2003] ECR I-03051, para. 34.

842 ECJ, Case C-173/98, *Sebago Inc SA v G-B Unic SA* [1999] ECR I-04103, para. 15.

exhaustion to “only specific goods which have first been put on the market with the consent of the trade-mark proprietor”.⁸⁴³

b) Express and implied consent

Consent for the sale of specific batch of goods must be expressed positively. The case law provides an appropriate response to the question whether a trade-mark proprietor’s consent must be express, or whether it may also be implied. In *Zino Davidoff*,⁸⁴⁴ the ECJ was called upon to clarify the circumstances under which a trade mark owner may be presumed “as having consented, directly or indirectly, to the importation and marketing in the EEA by third parties who currently own them, of products bearing that trade mark, which have been placed on the market outside the EEA by the proprietor of the mark or with his consent”. The court’s findings attached great weight to the fact that the proprietor’s consent extinguishes the trade mark owner’s exclusive rights that enable him to control the initial marketing in the EEA. In view of this serious effect, the court held that “consent must be so expressed that an intention to renounce those rights is unequivocally demonstrated”.⁸⁴⁵ While the proprietor’s intention to renounce his exclusive rights is derived from an express statement of consent, in some cases, such intention may also be discerned from “facts and circumstances prior to, simultaneous with or subsequent to the placing of the goods on the market outside the EEA”.⁸⁴⁶ These facts and circumstances must, nonetheless, demonstrate unambiguously that the proprietor signified his intention to renounce his rights. It follows that where consent is not expressly given, an implied consent can be endorsed by the court only if the facts of the case demonstrate, unequivocally, that “the trade mark proprietor has renounced any intention to enforce his exclusive rights”.⁸⁴⁷ However, implied consent, for the marketing of the goods in the EU of the goods initially marketed outside the EU market, cannot be discerned from the fact that the trade mark proprietor was silent and/or did not oppose the subsequent marketing of the goods in the EU or the goods did not carry with them the proprietor’s notice to such opposition.⁸⁴⁸

843 ECJ, Case C-173/98, *Sebago Inc. SA v G-B Unic SA* [1999] ECR I-04103, para. 20.

844 ECJ, joined cases C-414/99 to 416/99, *Zino Davidoff* [2001] ECR I-0869, para. 34.

845 ECJ, joined cases C-414/99 to 416/99, *Zino Davidoff* [2001] ECR I-0869, para. 45.

846 ECJ, joined cases C-414/99 to 416/99, *Zino Davidoff* [2001] ECR I-0869, para. 46.

847 ECJ, joined cases C-414/99 to 416/99, *Zino Davidoff* [2001] ECR I-0869, para. 53.

848 ECJ, joined cases C-414/99 to 416/99, *Zino Davidoff* [2001] ECR I-0869, paras. 55 - 58.

c) Contractual restrictions do not vitiate consent

It is of particular interests to enquire whether, a third party, who buys some branded products, can be prohibited, by a contract between him and the trade mark proprietor, to resale those goods in the EEA.

Contractual restrictions on resale may be elaborated under two instances. The first instance relates to a scenario in which a trade mark proprietor sells the branded product in the market outside the EEA with an express prohibition from reselling the product in the EEA. This scenario reflects the facts of *Zino Davidoff*⁸⁴⁹ which reveal that the company *Zino Davidoff SA* (henceforth the claimant) owns *cool water* and *Davidoff Cool Water* trade marks registered in the United Kingdom. The claimant uses the two trade marks to market, within and outside the EU, a wide range of toiletries and cosmetics.⁸⁵⁰ The claimant sold the products to a trader (henceforth the distributor) in Singapore pursuant to an exclusive distribution agreement which required the distributor not to resell the products into the EU. The distributor undertook as well to impose the same restrictions on traders to whom the goods were subsequently distributed by the distributor. It transpired that A & G Imports Ltd (henceforth the defendant) acquired the claimant's products produced in the EU but which had been sold, legally, in Singapore. The defendant re-imported the products into the United Kingdom. The claimant alleged that by importing and selling the goods in the United Kingdom, the defendant infringed the claimant's rights, and thus bringing the question of consent required under Article 13(1) of CTMR in issue, since the claimant submitted that it had not consented to the marketing of the goods in the EU. In view of these facts, contractual prohibition would seem unnecessary for the trade mark proprietor to achieve his aim of keeping the goods out of the EEA market, since the doctrine of Community-wide exhaustion allows a trade mark owner to market goods outside the EU common market without exhausting the rights within the EU market.⁸⁵¹

The second instance may be exemplified by a scenario in which a trade mark owner sells the product to a purchaser in the EEA with a restriction on resale of the purchased product in the EEA. This is a typical situation reflected in *Peak Holding* case,⁸⁵² in which the claimant sold the goods to the defendant

849 ECJ, joined cases C-414/99 to 416/99, *Zino Davidoff* [2001] ECR I-0869, para. 34.

850 Cf. 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), which was implemented in the United Kingdom by the Cosmetic Products (Safety) Regulations 1996 (SI 2925/1996).

851 Cf. ECJ, joined cases C-414/99 to 416/99, *Zino Davidoff* [2001] ECR I-0869, para. 33.

852 ECJ, Case C-16/03, *Peak Holding AB v Axolin-Elinor AB* [2004] ECR I-11313.

established in France. The defendant signed an undertaking stipulating that it (the defendant) was not allowed to resell the products in European countries other than Russia and Slovenia.⁸⁵³ The court held that:

...the stipulation, in a contract of sale concluded between the proprietor of the trade mark and an operator established in the EEA, of a prohibition on reselling in the EEA does not mean that there is no putting on the market in the EEA within the meaning of Article 7(1) of the Directive and thus does not preclude the exhaustion of the proprietor's exclusive rights in the event of resale in the EEA in breach of the prohibition.⁸⁵⁴

The court clarified further that any territorial restrictions on the right to resell the goods imposed on a purchaser by a contract concerns only the relations between the parties to the contract.⁸⁵⁵ This confirms the elaborative opinion, of Advocate-General Stix-Hackl, which holds that:

...exhaustion of rights arises by operation of law, irrespective of the contract between the proprietor and purchaser. Breach of any territorial restrictions on sale which the proprietor may have imposed on a purchaser of the goods in relation to their sale in the EEA may give rise to claims under the contract, but is not relevant in principle under trade mark law.⁸⁵⁶

In the light of the holding in the above cases, it is appropriate to conclude that the rights of the trade mark proprietor within the Member States of the Community are determined by the Community legislature. It is therefore, unacceptable to apply the national law of contract to limit the rights of the trade mark proprietor (such as where goods, which were marketed outside the EEA, are considered exhausted), or to extend those rights beyond the parameters set out in Article 13(1) of CTMR (i.e. where the contract allows the proprietor to retain control over the after-market goods).

3. Burden of proof in relation to exhaustion

The general rule of evidence places a burden on whoever alleges existence of certain facts to prove those facts. In light of this rule, it would seem that a defendant who pleads exhaustion as a defence against trade mark infringement has to prove that the proprietor's rights in branded-goods are exhausted.⁸⁵⁷ Under

853 ECJ, Case C-16/03, *Peak Holding AB v Axolin-Elinor AB* [2004] ECR I-11313, para. 12.

854 ECJ, Case C-16/03, *Peak Holding AB v Axolin-Elinor AB* [2004] ECR I-11313, para. 56.

855 ECJ, Case C-16/03, *Peak Holding AB v Axolin-Elinor AB* [2004] ECR I-11313, para. 54.

856 Cf. opinion of Advocate-General, in: Case C-16/03, *Peak Holding* [2004] ECR I-11313, para. 49.

857 ECJ, Case C-244/00 *Van Doren + Q. GmbH v Lifestyle sports + sportswear Handelsgesellschaft mbH and Michael Orth* [2003] ECR I-03051, para. 35.

certain circumstances, the court may depart from the general rule of evidence especially if placing a burden of proof on the defendant may lead to the partitioning of the internal market contrary to the provisions of Articles 34 and 36 of TFEU. In the *Van Doren* case⁸⁵⁸ the ECJ appreciated the need to qualify the above general rule of evidence in order to avoid a conflict with the principle of free movement of goods.

One would wonder as under which circumstances could a rule requiring a defendant to prove that the trade mark proprietor's rights are exhausted interfere with the free movement of goods. Manufacturers have unhampered powers to establish own exclusive marketing or distribution systems. Under most exclusive distribution systems, manufacturers supply their products only to distributors who are faithful to the distribution scheme. The manufacturers ensure that only members of the exclusive distribution systems get the supplies. In so doing, the manufacturer is able to partition the internal market. A third party's commercial interests in maintaining future supplies require him not to disclose a distributor (belonging to the exclusive distribution system) who sells the goods to him, since if disclosed, the manufacturer would stop supplying his products to this unfaithful distributor.

A defendant who raises a reasonable doubt that "there is a real risk of partitioning of national markets if he himself bears the burden of proving that the goods were placed on the market in the EEA by the proprietor of the trade mark or with his consent",⁸⁵⁹ is discharged from that burden. Instead, the burden shifts to the trade mark proprietor by being required to adduce evidence showing that he had never sold the goods in the EU, and the goods in respect of which a third party claims exhaustion were marketed by the proprietor of the trade mark outside the EEA. The burden shifts again to the defendant to prove that even if the goods were marketed outside the EEA, they were thereafter marketed in the EEA with the consent of the trade mark proprietor.⁸⁶⁰

IV. Factors vitiating exhaustion

The principle of exhaustion provided in 13(1) above can be derogated from on the basis of Article 13(2) of CTMR.⁸⁶¹ According to the Article, CTM rights are

858 ECJ, Case C-244/00, *Van Doren + Q. GmbH, ibid.*, para. 37.

859 ECJ, Case C-244/00, *Van Doren + Q. GmbH, ibid.*, para. 41.

860 ECJ, Case C-244/00, *Van Doren + Q. GmbH, ibid.*, para. 41.

861 Cf. BAINBRIDGE, D. I., "Intellectual Property" (6th ed.) 782 (Longman, London 2007).