a "necessary tool to safeguard the objective of the establishment of a single market. Any other solution would inevitably lead to the fragmentation and partitioning of the market".[815]

Regional exhaustion of CTM rights can be differentiated in a number of ways from national and international exhaustion.[816] In the context of national exhaustion, the trademark proprietor waives his rights in relation to goods he puts on the national market. This leaves him with the freedom to prevent importation of the goods in his own territory, where the said goods have not been marketed in the national market by the proprietor or any other person with the trade-mark owner's approval. With regard to international exhaustion, the trade mark proprietor cannot control subsequent marketing of his products which he has sold in a particular country. It does not make any difference if he markets the goods in the country where the trade mark is registered or in a third country where the trade mark does not enjoy any protection. The decisive factor is the first marketing of the product in any part of the world, after which event trade mark rights exhaust globally.[817]

II. Rationale of Community trade mark exhaustion

One reckons with the fact that while the principles underlying Community trade mark exhaustion were developed to meet the desire of having an undivided market in Europe,[818] adaption of regional trade mark exhaustion to CTM went beyond the initial motives. If the aim were just to ensure that goods circulated freely after the first sale, the doctrine of international trade mark exhaustion would as well have achieved the same end. It would therefore seem that besides the urge to meet the demand of undivided EU's internal market, the legislature had also to take account of the interests of the EU's business community. This can be viewed in light of the features characterising the principle of regional exhaustion. The principle enables CTM proprietors to market their branded

Paper No. SEC (2003) 575.

815 STAMATOUDI, I. A. & TORREMANS, P.L.C., "International exhaustion in the European Union in the Light of "Zino Davidoff": Contract Versus Trade Mark Law", 31(2) IIC 123, 125 (2000).

816 National and international exhaustion principles are discussed in section C (I) (2) of chapter 3 *supra*.

817 *Cf.* TORREMANS, P., "Holyoak and Torremans Intellectual Property Law" 448 Oxford University Press, Oxford 2008).

818 *Cf.* FRANZOSI, M., "Grey Market – Parallel Importation as a Trademark violation or an Act of Unfair Competition", 21(2) IIC 194, 203 (1990).

goods outside the EU Common Market without exhausting the rights within it.[819] Thus, the Community-wide trade mark exhaustion is inclined to protect the competitiveness of the EU industry since, by giving power to the EU companies to decide where the initial marketing of their products takes place; EU companies are given an incentive to invest in new brands with high quality of goods and services.[820] If adapted, international exhaustion would defeat this noble objective, since the EU Common Market could no longer be reserved for EU undertakings or establishments alone. Goods placed in the market outside the EU would easily find their way back to the EU market. To put it simply, the "flow of goods into the EU could not be restrained" on the basis of CTM rights.[821]

The ECJ, in *Silhouette* case,[822] made it clear that Member States were not allowed to introduce the principle of international exhaustion of trademark rights in their domestic laws. The case concerned re-importation, into Austria, of goods originally produced by the proprietor of a trade mark registered in Austria. The proprietor, who opposed such re-importation, had marketed the goods in Bulgaria.[823] Although Austria had already implemented Article 7 of the Community trade mark directive, authorities in this country were unsure whether the principle of regional exhaustion contained in the Directive rendered inapplicable the principle of international exhaustion, which originally contained in the Austrian trade mark law.[824] The ECJ ruled out the principle of international exhaustion of trade mark rights protected in the EU Member States by providing that "... national rules providing for exhaustion of trade-mark rights in respect of products put on the market outside the EEA under that mark by the proprietor or with his consent are contrary to Article 7(1) of the Directive".[825]

To the extent that they do not support the principle of international exhaustion of trade mark rights, the Community trade mark directive, the CTMR and the Silhouette decision may be criticised. Proponents of international exhaustion

819 ECJ, joined cases C-414/99 to C-416/99 *ZinoDavidoff SA* [2001] ECR I-08691, para. 33.

820 *Cf.* ZARPELLON, S., "The scope of the exhaustion regime for trade marks rights", 22(9) E.C.L.R. 382, 386 & 386 (2001).

821 *Cf.* Commission of the European Communities, "possible abuses of trade mark rights within the EU in the context of Community exhaustion", Commission Staff Working Paper No. SEC (2003) 575, at section 2.

822 *Cf.* ECJ, Case C-355/96, *Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH* [1998] ECR I-04799, para. 39.

823 Note that, when the Silhouette judgment was rendered in 1998, Bulgaria had not yet secured the EU membership.

824 As per explanatory memorandum to the Austrian law implementing Article 7 of the Directive (*cf.* ECJ, Case C-355/96, *Silhouette*[1998] ECR I-04799, para. 12).

825 ECJ, Case C-355/96, *Silhouette* [1998] ECR I-04799, para. 31.

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.