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Exhaustion of Rights and Parallel Importation in Trademarked Products

ARPANA TYAGI[1]

ABSTRACT

Intellectual property and competition law constitute two such fields that maintain interdependent yet conflicting roles. As is known, intellectual property rights protect artistic creativity, scientific progress, investment in business industry and in general, information and ideas worth of commercial exploitation by granting exclusive rights to their owners so that they can enjoy the fruits of their labour. Intellectual property rights, such as patents, trademarks or copyrights, are typically defined in terms of rights granted to holder to prevent others from making use of it. Therefore, intellectual property rights are also termed as negative rights. This leads to arising of many questions such as; (1) whether the exclusive right granted to an intellectual property right owner is absolute or it can be qualified by any limitation? (2) When can it be said that the intellectual property owner has exhausted his rights over that property? (3) What kind of protection is available to intellectual property owner when an intellectual property is resold? (4) What are the laws that govern such resale of property and what are the problems that the IP owner faces while exercising his rights and how these laws come in conflict with his rights? (5) How member states twist the laws in favour of the masses in general and the issues thereof? The purpose of this paper is to answer the above questions and understand the concepts of exhaustion of rights and parallel importation and their application to trademarked products in the European Union with the help of case law analysis.

I. INTRODUCTION

"Industry's at war. I think it's about control. You can make all the financial arguments that the industry has been shooting itself in the foot, but it is an industry built on foundation of ownership and exploitation of Intellectual Property Rights." -**DON ROSE**

The history of doctrine of exhaustion can be traced back to the court rooms of Germany, from where it emerged and along with the development of international trade the doctrine spread globally. The TRIPS addresses to the principle of exhaustion of rights under article 6.[2] The

[1] Author is a Registered Advocated at the Bar Council of Delhi, India.
[2] Article 6 read as "For the purpose of dispute settlement under this agreement, subject to the provisions of article 3 and 4 nothing in this agreement shall be used to address the issue of the exhaustion of Intellectual Property

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concept of exhaustion plays an enormously important role in determining the way that intellectual property rules affect the movement of goods and services in international trade.[3] The doctrine of exhaustion basically addresses or refers to the point at which IPR holder's control over the goods and services ceases. IPRs are exhausted once the goods and services which incorporate the rights are put in the market. Though the doctrine has been effectively used by countries across the globe but there is no international consensus for a uniform regime of exhaustion among the nations.

A very closely associated factor to the principle of exhaustion is the concept of parallel importation, i.e., "the importation of a good or service as to which exhaustion of an IPR has occurred abroad". Therefore, the validity of such importation in a country is closely associated with the regime of exhaustion adopted by that nation. Also, in the absence of the doctrine of exhaustion, the original IPR holder would perpetually exercise control over the sale, transfer or use of a good or services embodying the IPR.

II. WHAT ARE TRADEMARKS

"A trademark is any sign that individualizes the goods of a given enterprise and distinguishes them from the goods of its competitors." This definition comprises of two different functions which a trademark serves, which are interdependent and for all practical purposes should always be looked at together.[4] First of all they help the consumer in identifying the source of products and improve their ability to judge the quality of the products. Secondly, they provide a property right or protection to the trade mark holders, by limiting the rights of other parties to copy their products, specifically by prohibiting the unauthorized use of their trade mark; this allows trade mark holders to be rewarded for their investment in product development and product quality, and for their expenditure in creating brand image or "branding" of a product. In general, any distinctive words, letters, numerals, drawings, colours, pictures, shapes, logotypes, or combinations of the above used to distinguish between the goods and services of different companies may be considered a trademark.

III. MEANING OF EXHAUSTION OF RIGHTS

The principle of exhaustion of rights in relation to intellectual property rights is well recognized by the member states of WTO either by way of explicit incorporation in the domestic laws or through an implied judicial recognition due to judicial precedents. Exhaustion is a method of

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Rights."

[3] UNCTAD-ICTSD, Resource Book on TRIPS and Development, (New York: Cambridge University Press, 2005), pg. 92

[4] World Intellectual Property Organisation,(2001), p.66

advancing the policies set by a country in public interest by limiting the scope of the exclusive rights which are granted to IP owners. Some countries accept the policy of exhaustion of rights to regulate competitive conditions in the interest of consumer and public welfare while some others adopt it in order to ensure free movement of goods and services.

Human ingenuity, inventiveness and creativity subjected to the intangible assets are protected in the market by a legal system known as the system of intellectual property. Intellectual property rights provide territorial exclusive rights for a limited time period. As these rights are territorial, they are usually protected only in the country or region where protection has been applied for and obtained. According to exclusivity character of these rights, intellectual property rights may not be exploited in the country by persons other than the owner of the right unless the owner agrees to such exploitation. Thus the right or true owner is entitled to prevent all third parties, not having consent, from using it in the course of national and international trade.

"Exhaustion principle" is one of the ways to limit the exclusive rights granted to intellectual property rights holder. The aim of this principle is to ensure a balance between two kinds of conflicting interests. First one is "conflict between free trade and protection of intellectual property rights" the second one is "conflict between public interest and private interest". Exhaustion determines the point at which an intellectual property right holder's control over protected goods or services expires.[5] This termination of control is critical to the functioning of any market economy because it permits the free transfer of goods and services. An IPR is typically exhausted by the "first sale" (U.S. doctrine) or "placing on the market".

Exhaustion means the consumption of rights in intellectual property subject matter as a consequence of the legitimate transfer of the title in the tangible article that incorporates or bears the intellectual property asset in question. Exhaustion, therefore, is a natural consequence of the intangible nature of the assets covered by intellectual property, such as expressions, knowledge, reputation, quality, origin. Because of their intangible nature, they do not follow the tangible article with which they are associated.[6] It basically means once the relevant good embodying the IP is put on sale for the first time by the intellectual property right (IPR) owner (directly by him or with his consent), he cannot object to subsequent circulation of the product. Indeed his rights are "exhausted". This principle is known also as "first-sale doctrine" and

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[5] Irene Calboli, *Trademark Exhaustion in the European Union: Community-wide or International The Saga Continues*, *6* MARQUETTE INTELL. PROP. REV. 48 (2002)

[6] Timothy Toohey and Keith Gregory, *Parallal imports and the first sale Doctrine*, 2011, https://www.swlaw.com/assets/pdf/news/2011/11/14/ParallelImportsandtheFirstSaleDoctrine_Toohey_Gregory.pdf

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determines the moment when the right owner loses the resale right the protected goods. Therefore, once the IPR holder has sold the product bearing respective IPR, he cannot prohibit the subsequent resale of such product, i.e. his rights in respect of this individual product are deemed "exhausted" by the act of selling it. In other words, once a good protected by an industrial property right has been marketed, either by the right owner by a third party with his consent, unless otherwise specified by law or act, the rights of commercial exploitation over this particular goods can no longer be exercised by the right owner, as they are exhausted.

IV. Rationale

Without an exhaustion doctrine IPR holders would perpetually exercise control over the sale, transfer or use of the relevant good, and would have a grip on commercial relations. From an economic perspective, right owners receive an amount of money at the first sale of the product, so that it would be inappropriate to receive further amounts (e.g. royalties) at any subsequent change of property of the same good. This holds true also from a legal perspective. Indeed patent or trademark registrations give their owner the exclusive right to exploit an intangible asset (e.g. an invention, a fancy trademark or a work of art), but not the physical goods incorporating that asset, which can therefore be freely re-sold. This is the basic idea that once the right holder has been able to obtain an economic return from the first sale or placing on the market, the purchaser or transferee of the good or service is entitled to use and dispose of it without further restriction. As illustration, consider a can of soda labelled with the famous "Coca-Cola" trademark. Because the Coca-Cola Company holds rights to that mark, it may prevent others from first-selling the can of soda without its consent. If you buy the can of soda from an authorized first-seller, the Coca-Cola Company's right in its trademark is exhausted, and it cannot prevent you from drinking the soda, or from giving or selling the can of soda to someone else. The trademark holder has lost its right to control further disposition of the product. Your purchase of the can of Coca-Cola does not authorize you to begin making your own cans of Coca-Cola, or licensing the mark to others. In other words, the first sale does not grant you rights in the trademark, but rather it extinguishes the Coca Cola Company's entitlement to control movement of that particular can of soda.

The issue of "parallel import" arises namely in connection with the exhaustion of the rights conferred on the IPR holder and, in particular, the geographic area with respect to which the rights are deemed to have been exhausted with the first sale. Exhaustion policies affect market outcomes by determining the legality of parallel imports, i.e., import of IP protected goods from foreign market where they were originally sold by the right holders.

V. Geographical scope of exhaustion

Exhaustion is a market-driven legal consequence and in that context it has been categorized in accordance with the geographical dimension of its impact. The exhaustion doctrine can be applied nationally, regionally or internally.

- **National Regime Of Exhaustion:** The first model of exhaustion of rights is the national exhaustion. In countries adopting the doctrine of national exhaustion of rights, the placement of the products on the domestic market with the consent of the intellectual property owner (or assignee) exhausts the national or domestic right to control the further commercial exploitation of goods.[7] After first sale within the national territory, the intellectual property owner cannot control the subsequent circulation of the products in the domestic territory. The concept of national exhaustion is based on the principle of territoriality which implies that IP rights are territorial rights and the exclusive rights granted to the IP owner covers the territory of only that state which grants the rights and therefore, the issues related to scope of protection, validity, maintenance and termination of rights are determined by the law governing the country for which the protection is granted. Hence, a system of national exhaustion gives IP holders absolute control over the distribution of their products on international scale.
- **International Exhaustion:** the second model of exhaustion of rights is the international exhaustion. It essentially implies that the placement of products in the market anywhere in the world exhausts the right to control the further distribution or movement of those products. Consequently, the owner of the intellectual property right cannot restrict the subsequent circulation of products embodying the intellectual property irrespective of where the products are first sold with his consent. In other words, after first sale, the intellectual property owner loses his exclusive right and no longer has the right to prohibit parallel imports from abroad. Many developed countries like Japan, Australia and New Zealand have adopted this approach. The EU had adopted this approach earlier and also, many developing countries like India have also adopted the principle of international exhaustion of rights.
- **Regional Exhaustion:** the principle of regional exhaustion of rights is a combination of national and international exhaustion principles. This approach is also known as Community-wide exhaustion doctrine. It implies an extension of the territory to cover an

[7] Carsten Fink, *Intellectual Property and Development Lessons from Recent Economic Research.* 173 (Carsten Fink & Keith E. Maskus eds., A Co-publication of World Bank and Oxford Pres 2005)

area larger than a single country within which the marketing of the products embodying the intellectual property leads to exhaustion. In other words, the first sale by the intellectual property owner exhausts the intellectual property rights over the products embodying it not only domestically but also within the whole region, and parallel imports within and from the region can no longer be opposed. The European Union has adopted the principle of regional exhaustion of rights. The placement of a protected product on the market by the intellectual property right owner anywhere in the area of EU consisting of twenty eight member states exhausts the rights in all member states of EU. Thus, the intellectual property owner may not oppose the movement of goods embodying IP in the common internal market of twenty eight member states of the EU after the first sale of the goods with his/her consent or authority in the EU. However, the intellectual property owner can still prohibit parallel importation from outside the region of EU because his/her right has not been exhausted beyond the region but only within it.

VI. Parallel importation

(A) Definition Of Parallel Importation-

National Economic Research Associates (NERA), has defined parallel trade as follows: "parallel trade sometimes referred to as the 'grey market', consists of trade in genuine trademark (or other intellectual property) protected goods that takes place without the consent of the trademark owner. Official channel goods reach the final customer through the intermediaries and distribution networks that are designed by the trademark owner. Parallel traders acquire goods, typically without the consent of the trademark owner, from some layer of the authorized channel. This can either be directly from the manufacturer from an intermediary (wholesaler or middleman) or from authorized retailers."[8]

(B) Meaning And Rationale Of Parallel Importation

"Parallel imports" involve fundamental issues of trade and intellectual property policy. Parallel imports are one of the most complicated and puzzling phenomena of international trade because on one hand, they strictly follow the laws of the market; yet on the other hand the laws of the market are not the only ones that apply to this kind of activity.[9] Parallel imports are the natural consequence of doctrine of exhaustion and the validity of such importation is closely associated

[8] National Economic Research Associates, S.J. Berwin & Co. and IFF Research, *The Economic Consequences of the Choice of a Regime in the Area of Trademarks (1999)(*Commissioned by DGXV of the European Commission).

[9] Christopher Health, *Parallel Imports and International Trade 1 (1999),* available at https://www.wipo.int/edocs/mdocs/sme/en/atrip_gva_99/atrip_gva_99_6.pdf, as visited on 8th April, 2022

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with the exhaustion regime adopted by the nation.

Parallel importation basically means legally importing into a country a genuine and non-counterfeited product protected by intellectual property rights, after the good has been legitimately put on the market in a foreign country. These imports, made by a part without the authorization of the title holder but equally legal, are generally known as parallel imports. In circumstances where goods embodying Intellectual property are differently priced in different countries, parallel traders make profit by importing goods from cheaper countries and sell them in countries where the same goods have a high market price at a negotiating price. Also, by way of parallel importation there is larger distribution of the product embodying the IP to the general public at a price lesser than the price prevailing in their country for the same.

(C) Parallel Importation Of Trademarked Goods-

Parallel importation of trademarked goods refer to the importation of the goods that are sold in foreign markets with legally attached trademarks into the domestic market where the trademarks are registered, when such importation is done without the consent of the trademark owner in the domestic market.

Trademark owners want to prevent parallel imports for various reasons. First, they lose control over the way in which their goods are sold after importation and have a risk that their goodwill will be tarnished as at the time of resale their gods are sold with inferior quality and with poor or no after sale services. Second, there is a loss of exclusivity that undermines the trademark goodwill and makes it worthless thereby diminishing the value of the value of trademark. On the other hand parallel importers argue that the goods must be made available to the consumers at the lowest possible prices and not artificially inflated prices. In addition, parallel imports would increase intra-brand competition, thereby eliminating the possibility for a trademark owner to exploit exclusive position in his mark and to set higher prices in certain markets.

(D) How Parallel Importation Works

Apex, a company that manufactures watches and also has a registered trademark “apex” for its products, places a new series of watches in the markets of countries X and Y. The price of same goods in country X is higher than the price in country Y. Climax, a retailer that operates within market X, motivated by the fact that the price difference in Apex watches in these two markets is so high that it will cover all possible costs of transportation, export and import duties and will also result in considerable profits, purchases a quantity of Apex branded watches from country Y with the purpose of importation in the country X and will sell it at a price which is lesser than the price already prevailing in country X but more than what is prevailing in country

Y for the same goods thereby making a profit. These importation of watches constitute "parallel imports" or "grey goods"

VII. REGIONAL EXHAUSTION OF RIGHTS AND PARALLEL IMPORTATION: EUROPEAN POSITION

(A) EXHAUSTION OF RIGHTS- EU APPROACH

The most fundamental aim of EU law was to create a common/internal market based on the objective of free movement of goods and services between the twenty eight member states by way of removing trade barriers within EU member states which led to the harmonization of laws with regard to intellectual property. In order to further achieve this objective doctrine of community wide exhaustion of rights was evolved by the ECJ which was later incorporated within the laws. In the year 1992 a set of bilateral FTAs were entered into between the twenty eight EU member states and the three NEFTA states (Norway, Iceland and Liechtenstein) which led to the creation of EEA(European Economic Area) consisting of total thirty one states. The EEA agreement governs the trade relations between EU and the three NAFTA countries and as a result of this agreement the doctrine of community wide exhaustion extended to be applied to the three NAFTA states as well.

The current exhaustion regime adopted by EU/EEA is regional and is limited to the territory of the Member States (and the EEA) only therefore, an IP right holder cannot legally prevent the further commercialization of a given product within the member states of EU (and the EEA), once the product has been put on the EU/EEA market by him or with his consent because by the very act of placing the goods embodying the IP and selling them in the market of any of the member states of EU/EEA the rights of the seller related to the goods or services embodying the IP are exhausted within the EU/EEA. As a result such goods can now freely flow and circulate within the member states of EU/EEA and the IPR holder cannot oppose the importation of the same from a member state within EU/EEA but can question parallel imports from countries outside EU/EEA.

(B) Exhaustion Of Trademark Rights And Trademark Protection In European Union

In EU/EEA the concept of community-wide trademark is followed therefore, "Exhaustion" of trade mark rights implies that once a branded product has been "put" (commercialised) on the market of any of the EU/EEA member states by the trade mark holder or with his consent, he cannot prohibit the further commercialisation (such as subsequent re-sale) of that product within EU/EEA. His rights in respect of a specific individual item or consignment are "exhausted" by the act of selling it but he can oppose parallel imports of the same from a country outside EU/EEA but not parallel imports from countries within EU/EEA.

Principle of territoriality was the very basis of trademark legislation of all Member States and it means that the protection of a trademark ends at the borders of the state in which the right conferred by the trademark originated. Thus owing to this principle of territoriality, the applicant who wishes to have a trademark protection in several or all Member States has to conform to up to 31 trademark acts. The differences between those 31 trademark acts ran contrary to the objective of the EU/EEA Of reducing the barriers established by property rights, promoting the free movement of goods and services and thus creating a common market.

To remove these obstacles, a decision was made in favour of a two-tier approach, on the one hand harmonization of national trademark legislation and the unification of law by creating a Community Trademark on the other. And therefore, disparities between the national trademark acts are removed by the Directive to Approximate the Laws of the Member States relating to Trademarks.

In the area covered by harmonization the provisions contained in the Regulation are identical with the provisions set forth in the Directive.

VIII. Exhaustion of rights and disparities between national laws

The application of the freedom of movement of goods and exhaustion of rights may be compromised where different Member states have different internal rules relating to particular product.

In relation to trade marks, case **Fratelli Fraffione SNC v Ditta Fransa[10]**,

The Scott group marketed toilet paper and paper handkerchiefs under the trade mark 'Cotonelle' in Italy. In 1993 , the Indian courts declared that the trademark was invalid as it was misleading to consumers who might think the product contained cotton. The scott group continued to sell the products under the name in Italy. The trademark was challenged in other countries, including France. Where it was successfully defended, and the Scott group continued to sell the products under that trade mark in France

The Defendant brought quantities of the goods in France and exported them to Italy where he sold them under the ' Cotonelle; trade mark. The claimant. a distributor of Scott products, sought to prevent the sales by the defendant in Italy on the basis that the use of the 'Cotonelle' trade mark under that trade mark could so by importing them from other member states but, if

[10] [1996]ECR 1-6039

an injunction were to be granted prohibiting them from other member states but, If an Injunction were to be granted prohibiting the marketing of those products in Italy, this would operate as an obstacle to intra- state trade.

The court of justice ruled that obstacles to Intra- Trade resulting from differences in national law were accepted provided that:

1. They were applicable to domestic and imported goods without distinction

2. They were necessary to satisfy overriding requirements relating, inter alia, to consumer protection or fair trading.

Although a law aimed at preventing unfair competition could justify a barrier to trade between Member states, it was not so here where one trader bought goods in one Member state where they were lawfully on the market and imported them into another Member state under the trade mark when other traders had the same right , even if they did not choose to exercise it.

Freedom of movement can be seen as the overriding principle and where there is justifiable objective to be achieved by domestic law, careful consideration should be given as to alternative ways of achieving that objective which are less restrictive of trade.

IX. Legislative provisions regarding exhaustion of rights

(A) European Treaty Provions

Prohibition Of Quantitative Restrictions Between Member States

Article 28 -"Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between Member States." •

Article 29 "Quantitative restrictions on exports, and all measures having equivalent effect, shall be prohibited between Member States equivalent effect, shall be prohibited between Member States."

Articles 28 and 30 of the EC treaty prohibit the provisions of the free movement of goods in the European Economic Area. In other words, these two articles established a principle of community wide exhaustion, according to that the sale anywhere in the regional market with or by the consent of the trademark rights owner exhausts the right throughout the community. If the trademark owner uses exclusive rights to prevent the importation of goods that were previously put outside of the EEA market, then the provisions of these articles cannot be employed because they are irrelevant. Since articles 28 and 30 of the EC treaty regulate the community exhaustion, they in fact do not impose an international exhaustion.

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The fundamental purpose of the EC treaty is to harmonize and balance the basic aim of the single markets thereby promoting the economies of the members and create an integrated market that motivates the free movement of goods in the community. In other words, the EC Treaty sought to unite the national markets into a single market having the characteristics of a domestic market.

X. LEGAL PROVISIONS IN TRADEMARK DIRECTIVES

1. **Article 5:** According to Article 5(1) of the Directive the registered trade mark confers on the proprietor exclusive rights therein. In addition, Article 5(1) (a) provides that those exclusive rights entitle the proprietor to prevent all third parties not having his consent from use in the course of trade of, inter alia, any sign identical with the trademark in relation to goods or services which are identical to those for which the trademark is registered. Article 5(3) sets out a non- exclusive list of kinds of practice which the proprietor is entitled to prohibit under paragraph 1, including , in particular , importing or exporting goods under the trade mark concerned.
2. **Article 7:**
    1. The Trademark 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 trademark 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.

(A) Legal Provision In Trademark Regulation

1. **Article 13:**

“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 the trade mark by the proprietor or with his consent”

Essentially the rights conferred on the proprietor of a Community trademark are the same as those are conferred on the proprietor of a national trade mark in accordance with the First directive, which was transposed into national laws of the member states.

XI. CASE LAWS IN THE EU

The principle of Community exhaustion of trademarks has been continuously upheld by the European Court of Justice (the “ECJ”) in several decisions:

(A) The Silhouette case (1998)

- **Issue:** *Does the First Directive leave it open to Members States in the EU to retain the international exhaustion rule in their domestic legislation?*

The first important decision on the matter of exhaustion of trademarks was the decision of the ECJ on the Silhouette case[11] (1998). This case was referred to the ECJ by the Supreme Court of Austria (Oberster Gerichtshof) for interpretation of Article 7(1) of the First Directive.

- **Facts of the case:**

The case involved a dispute between two Austrian companies in relation to goods manufactured by one of them and sold on a market outside the EEA and subsequently re-imported into (Austria) by the second company.

The first company - Silhouette International Schmied GmbH & Co. KG ("Silhouette"), produced and marketed sunglasses under the trade mark "Silhouette" in Austria and most countries of the world through a selective distribution network.

In Austria, Silhouette itself supplied spectacles to opticians; in other States it had subsidiary companies or distributors. The second Austrian company (Hartlauer) was selling inter alia sunglasses through its numerous subsidiaries in Austria, and its low prices were its chief selling point. Silhouette refused to supply Hartlauer with its trademarked sunglasses because Silhouette considered that distribution of its products by Hartlauer would be harmful to its image as a manufacturer of top-quality fashion spectacles.

Hartlauer however succeeded to buy some genuine Silhouette sunglasses which were sold by Silhouette to a Bulgarian company (Union Trading) and re-imported them into Austria. In a press campaign Hartlauer announced that, despite not being supplied by Silhouette, it had managed to acquire 21,000 Silhouette frames abroad.

Silhouette brought an action for interim relief before the Austrian courts, seeking an injunction restraining Hartlauer from offering sunglasses or spectacle frames for sale in Austria under its trade mark, where they had not been put on the market in the EEA by Silhouette itself or by third parties with its consent, i.e. where Silhouette has not exhausted its trade mark rights since the sunglasses have not been put by Silhouette on the market in the EEA.

The Silhouette action reached to the Austrian Supreme Court, which decided to stop the proceedings and refer to the ECJ for responses to two preliminary questions regarding the interpretation of Article 7(1) of the First Directive. By its first question the Austrian Supreme

[11] Judgement dated 16 July 1998 in Case C-355/96 Silhouette International Schmied v Hartlauer [1998] ECR I-4799

Court substantially asked the ECJ whether national rules in the Member States of the EU can retain the international exhaustion rule regardless of Article 7(1) of the First Directive.

- **Judgement:**

The ECJ responded that the First Directive was aimed to harmonise the national rules in the Members States relating to inter alia the exhaustion of trade mark rights and therefore the Members States were not free to decide to retain the international exhaustion rule in their domestic laws, but were obliged to implement in those laws the Community exhaustion regime.

Accordingly, the ECJ held that, since Hartlauer bought the sunglasses under the trade mark Silhouette from Bulgaria which fell outside the EEA, Silhouette has not exhausted its rights conferred on it by the trade mark and therefore was able to lawfully prevent Hartlauer from re-importing and selling the sunglasses in Austria.

(B) The Sebago case 1999[12]

- **Issue:** *Is the consent of the trade mark owner required in respect of each individual item of the product?*

The second issue which the ECJ has reviewed is whether the consent referred to in Article 7(1) of the First Directive must be given with respect to each individual item of the product or once the trade mark proprietor has put similar products on the market in the EEA it is deemed that he has consented generally to the sale of this type of product in the EEA by anyone.

- **Facts of the Case:**

The case involved a dispute between a US company (Sebago Inc.) and its exclusive distributor in Belgium (Maison Dubois et Fils SA or “Maison”) and GB-Unic SA. Sebago was the proprietor of Benelux trade marks (“Docksides” and “Sebago”) registered inter alia for shoes. Maison was the exclusive distributor of Sebago in the Benelux. GB-Unic acquired some 2,500 pairs of Sebago shoes manufactured in El Salvador from a Belgian company specialised in parallel import and sold those shoes in Belgium. Sebago and Maison claimed before the Belgian courts that by doing that GBUnic had infringed their trade mark rights as it sold their trademarked goods within the EEA without their consent.

GB-Unic raised two lines of defense: (1) it claimed that the relevant provisions of the Belgian national law similar to Article 7(1) of the First Directive (Article 13A(8) of the Uniform Benelux Law on Trade Marks) were providing for international exhaustion of rights in

[12] Judgement dated July 1, 1999 in Case C-173/98 Sebago Inc. and Ancienne Maison Bubois et Fils SA v. GB-Unic SA [1999] ECR I-4103

trademarks and (2) that in order to satisfy the requirement of consent of Article 13A(8) of the Uniform Law it sufficed that similar goods bearing the same trade mark have already been lawfully marketed in the EEA with the consent of Sebago. In those circumstances the Belgian Court of Appeal decided to stay proceedings and refer several questions to the ECJ for a preliminary ruling on the interpretation of Article 7(1) of the First Directive.

- **Judgement**

With respect to the first line of defense of GB-Unic (and the first three questions of the Belgian Court of Appeal) the ECJ decided that since it has already responded to substantially the same question in the Silhouette case it is not necessary to respond once again to the same questions. Thus, the ECJ confirmed once again that the marketing of trademarked goods in a country which is outside the EEA does not exhaust the rights of the trade mark proprietor in the EEA.

As regards the second line of defence of GB-Unic and the fourth and the fifth questions of the Belgian Court of Appeal the ECJ stated the following: "…the national court [the Belgian court – clarification added] is asking essentially whether there is consent within the meaning of Article 7 of the Directive [the First Directive – clarification added] where the trade-mark proprietor has consented to the marketing in the EEA of goods which are identical or similar to those in respect of which exhaustion is claimed or, if, on the other hand, consent must relate to each individual item of the product in respect of which exhaustion is claimed."

To make it even more simple, the question was whether if the trade mark proprietor has already sold goods with the trade mark in question within the EEA it is deemed that he has consented with the sale of the same type of goods by all other persons or whether the consent of the trade mark owner must be sought with respect to each individual item of the goods, e.g. if Sebago have already sold shoes with the trade mark Sebago in Belgium can it be deemed that by this they have given a general consent to anyone selling goods with the trade mark Sebago in the EEA?

In responding to this question the ECJ has stated that: "The text of Article 7(1) of the Directive does not give a direct answer to that question. Nevertheless, the rights conferred by the trade mark are exhausted only in respect of the individual items of the product which have been put on the market with the proprietor's consent in the territory there defined. The proprietor may continue to prohibit the use of the mark in pursuance of the right conferred on him by the Directive in regard to individual items of that product which have been put on the market in that territory without his consent." The ECJ has explained that this interpretation reflects the purpose of Article 7(1) of the First Directive, which 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. The Court has further stated that this interpretation was supported also by Article 7(2) of the First Directive which, in its reference to "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. The Court concluded based on the above that for there to be consent within the meaning of Article 7(1) of the First Directive, such consent must relate to each individual item of the product in respect of which exhaustion is pleaded.

(C) The Davidoff and Levi Strauss case

- **Issue:** *can the consent be tacit or implied?*

Article 7(1) of the First Directive does not give a direct answer to the question of whether the consent of the trade mark owner must be express and explicit or whether it could be tacit or implied. This issue arose in **Zino Davidoff v. A & G and Levi Strauss v. Tesco and Costco** cases[13].

This judgment of the ECJ was issued in relation to two totally separate disputes: (i) a dispute between Zino Davidoff SA ("Davidoff") and A & G Imports Ltd. ("A & G") in relation to cosmetic products bearing the trade marks "Cool Water" and "Davidoff Cool Water" and (ii) a dispute between, on one side, Levi Strauss & Co., Delaware and its UK subsidiary Levi Strauss (UK) Ltd. (jointly referred to as "Levi's") and, on the other side, Tesco Stores Ltd. and Tesco plc (together "Tesco") and Costco Wholesale UK Ltd. ("Costco") on the other side.

The cases were referred to the ECJ by the High Court of Justice of England and Wales, Chancery Division (Patent Court). These separate cases were joined by the ECJ in one proceeding because substantially the same questions were raised in them.

- **Facts of the case:**

The underlying facts in the Davidoff case were the following: In 1996 Davidoff entered into an exclusive distributorship agreement with a company in Singapore. The distributor undertook to sell the Davidoff products only outside the EEA and also to impose a restriction on its sub-distributors and retailers not to resell the products outside the stipulated territory. A&G succeeded in buying Davidoff products placed in the market in Singapore, imported those products in the UK and began selling them there Davidoff brought proceedings against A&G in the UK for infringement of Davidoff's trademarks.

[13] Judgement of the ECJ dated November 20, 2001 in Joined Cases c-414/99 to C-416/99

The underlying dispute in the Levi Strauss case was essentially similar – Levi's is the owner of the world-known trademarks 'LEVI'S and '501 used, inter alia, in respect of jeans. Those trade marks were registered also in the UK. In the UK Levi's were selling those trademarked jeans through its subsidiary Levi Strauss (UK) Ltd.

Tesco is one of the leading supermarket chains in the UK, selling, amongst other things, clothes. Costco is also a supermarket chain in the UK selling a wide range of branded goods, in particular items of clothing. Levi's have consistently refused to sell Levi's 501 jeans to Tesco and Costco and have not agreed to their becoming authorised distributors of those products. Tesco and Costco obtained Levi's 501 jeans, genuine goods originally sold by Levi's or on its behalf, from traders who imported them from countries outside the EEA. The contracts pursuant to which they acquired those products contained no restrictive covenants to the effect that the goods were, or were not, to be sold in a particular territory.

The jeans bought by Tesco and Costco had been manufactured by, or on behalf of, Levi's in the USA, Mexico or Canada. Tesco's and Costco's suppliers had obtained the goods directly or indirectly from authorised retailers in the USA, Mexico or Canada, or from wholesalers who had bought the jeans from "accumulators", that is to say, persons who buy small quantities of jeans from numerous authorised stores, in particular in the United States and Canada. In 1998 Levi's commenced proceedings before the High Court of Justice of England and Wales, Chancery Division (Patent Court), against Tesco and Costco. They claimed that the import and sale of Levi jeans by the defendants constituted an infringement of their trademark rights.

In both cases the High Court of Justice of England and Wales decided to stay proceedings and refer several questions to the ECJ for a preliminary ruling:

By its questions, the UK High Court of Justice in essence sought mainly to determine the circumstances in which the proprietor of a trade mark may be regarded as having consented, directly or indirectly, to the importation and marketing of the products bearing his trade mark. In particular, the ECJ specifically considered whether implied consent may be inferred:

(a) From the fact that the proprietor of the trade mark has not communicated to all subsequent purchasers of the goods placed on the market outside the EEA its opposition to their being marketed within the EEA;

(b) From the fact that the goods carry no warning of a prohibition on their being placed on the market within the EEA;

(c) from the fact that the trade mark proprietor has transferred the ownership of the products bearing the trade mark without imposing any contractual reservations and that, according to the law governing the contract, the property right transferred includes, an unlimited right to resell the goods subsequently within the EEA.

- **Judgement:**

The ECJ answered these three questions by saying that consent must be expressed positively and that factors taken into consideration in finding implied consent must unequivocally demonstrate that the trade mark proprietor had renounced any intention to enforce his exclusive rights.

As a result, it is for the parallel importer alleging consent to prove it and not for the trade mark proprietor to demonstrate its absence. Consequently, the ECJ decided that implied consent to importing the goods in the EEA cannot be inferred from the mere silence of the trade mark proprietor .Further, implied consent cannot be inferred from the fact that a trade mark proprietor has not communicated his opposition to marketing within the EEA or from the fact that the goods do not carry any warning that it is prohibited to sell them in the EEA.

Finally, the ECJ stated that the consent cannot be inferred from the fact that the trade mark owner transferred ownership of the goods without imposing any contractual reservations or from the fact that, according to the law governing the contract, the property right includes an unlimited right of resale of the products. There are also other decisions of the ECJ which are relevant to the matter of exhaustion of trademarks and parallel import.

(C) L;OREAL SA V. EBAY INTERNATIONAL [14]

- **Key Issues before ECJ**

1. *Whether an online marketplace operator such as E was liable for infringing sales such as those in issue;*
2. *Whether an online marketplace operator could be prevented from advertising trademarked goods by means of a keyword identical to the trade mark*

- **Facts of the case:**

The national court in this case asked the European Court of justice (ECJ) for a preliminary ruling on issues concerning the circumstances in which the offering for sale of trademarked goods on internet auction sites contravened intellectual property rights.

The claimant, L'OREAL(L) in the main proceedings owned a number of United Kingdom and Community trade marks for cosmetics , perfumes and hair care products . L operated a closed selective distribution network which restrained authorised distributors from supplying products

[14] AG(C-324/09);[2011] R.P.C.27

to other distributors. The respondent, eBay(E) operated an electronic marketplace on which sellers offered goods for sale in return for a percentage fee on completed transactions.

L brought proceedings based on infringing transactions on E's European websites. In addition to counterfeit goods, the proceedings concerned goods that bore l's trade mark but were intended for sale in the United States and not the European Economic Area(EEA). Some of the items were sold without packaging. L submitted that E was liable for the use of its trademark where those marks were displayed on E;s website and where sponsored links triggered by the use of keywords corresponding to the trade marks were displayed on the websites of search engine operators, such as Google.

- **Judgement**

On Issue 1:

In a situation where goods located in a third state had not previously been put on the market within EEA or, in the case of a community trade mark, in the EU by the trade mark proprietor or with his consent, the exception set out in Directive 89/104 Article 7 concerning the exhaustion of rights could not apply. Such finding was also applicable where goods were offered for sale or advertised on an online marketplace and targeted at consumers located in the territory covered by the trademark.

ECJ held that it was essential that the proprietor of a trade mark registered in a Member State could control the first placing of goods bearing that mark on the market in the EEA, Therefore, the right to prevent such offers for sale or advertising was conferred on the trade mark proprietor by Article 5 of directive 89/104 and by Regulation 40/94 Article 9.

It was also observed that the sale of goods without packaging was liable to harm the image of the product concerned and impaired the trade mark's essential functions of indicating origin. ECJ noted that Directive 76/768, Article 6(1) imposed conditions on the marketing of cosmetic products based on the provision of certain information on the packaging.

On Issue 2:

ECJ pointed that in the present case, E's advertisements created an obvious association between the trade-marked goods and the possibility of buying those goods through E's website. Such use had an adverse effect on the trade mark where that advertisement did not enable reasonably well informed and observant internet users to ascertain the origin of the goods referred to the advertisements and contravened the interests of fair trading and consumer protection laid down by Directive 2000/31 Article 6. Thus, advertising originating from the operator of an online marketplace and displayed by a search engine operator had to disclose both the identity of the marketplace operator and the fact that the trade- marketed gods advertised were being sold through the marketplace it operated.

XII. PARALLEL IMPORTATION IN EUROPE

It is important to note that, consistent with the objective of EU law to eliminate barriers to trade within Europe, the right to prevent unauthorized parallel imports extends to imports into the EEA, and not to parallel imports within the EEA (i.e. between different EEA countries). Where a brand owner (or a licensee with the brand owner's consent) puts branded goods on the market in any EEA Member State, he generally cannot use his trade mark to prevent a purchaser of those goods from further parallel importing them into another EEA Member State Once the goods are first put on the market in the EEA, the trade mark owner is said to have "exhausted" his rights. On the other hand, the fact that goods may be widely available on markets outside EEA countries does not cause rights to be exhausted in the EEA; the key question is whether the particular goods have been put on the market within the EEA. The rules on European parallel imports create a "fortress Europe". They prevent unauthorized imports entering the EEA, but generally cannot be used to prevent products being circulated within the EEA once they have been legitimately put on the market there5.

For example: ■ If Prada handbags (which were not already sold in the EEA) were imported into the UK from the USA without Prada's consent, then the trade mark owners would be able to take action to prevent them being sold in the EEA. ■ If Prada handbags had already been put on the market in Germany with Prada's consent, then Prada would not be able to prevent the subsequent import of such trainers from Germany into the UK.

XIII. REPACKAGING

The principle of exhaustion of rights will not apply if the effect is seriously to damage the intellectual property rights in question. When exhaustion of rights has been expressly stated in trademarks legislation it is coupled with a proviso that it will not apply where there exist legitimate reasons for the proprietor of the trade mark to oppose further commercialization of the goods , especially where their condition has been changed or impaired after they had been put on the market[15].

An equivalent proviso must apply in other cases where the legislation does not specifically mention exhaustion of rights or contain a similar proviso as it can be explained as being an

[15] Article7(2) of the trademark directive & Article13(2) of the community trademark regulation

example, in the context of the derogation of article 30 on the basis of the protection of industrial or commercial property. Therefore, it is submitted that any subsequent commercialization of a product subject to an intellectual property right, which has the effect of seriously prejudicing or harming that intellectual property right, should permit its proprietor to oppose that subsequent commercialization[16]

The application of article 30 in relation to intellectual property rights is usually seen in the context of trademarks and the reference of further commercialization after the condition of the goods have been changed or impaired are only examples of situations where the proprietor may be able to oppose that later commercialization. It is common for pharmaceuticals products to undergo relabeling or repackaging by parallel importers so as to be suitable for resale in other member states.

This may be a result of compliance with national rules concerning the sale of pharmaceuticals. There may be consumer resistance to adding labels to the outside of the trade mark proprietor's own packaging and it may be preferable to manufacture replacement packaging which will normally carry the trade mark.

Boehringer Ingleheim KG v Swingward Ltd[17]

A number of pharmaceuticals companies brought trade mark infringement proceedings against the defendant who had bought quantities of the claimants' pharmaceutical products and imported them into the United Kingdom. The form of repackaging varied. In some cases, a label setting out critical information, such as the name of the parallel importer and its parallel import license number, had been attached to the original packaging.

In other cases, boxes designed by the parallel importer and carrying the trade mark were used. In other cases, the product was repackaged in boxes designed by the parallel importer but which bore the generic name of the product, not the trade mark. Inside such boxes, the inner packaging bore the original trade mark, over-stickered with a label with the generic name as well as the identity of the manufacturer and of the parallel import lisence holder.

In all cases, the boxes contained an information leaflet for the patient written in English and bearing the trade mark.

The Chancery Division of the High court sought a preliminary ruling from the Court of justice, which ruled:

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[16] Noted in case C-337195 Parfums christian Doir SA

[17] [200] ECR-3759

1) A trade mark proprietor can prevent importer from repackaging pharmaceutical products unless the exercise of his trademark rights contributes to the artificial partitioning of the markets between member states.

2) However, where the repackaging is necessary for the pharmaceutical products concerned to be marketed in the importing, for example, because of national rules or practices, the exercise of trade mark rights to prevent repackaging contributes to such artificial partitioning. But such repackaging must have regard to the legitimate interests of the proprietor.

3) The proprietor can oppose repackaging where it is done by a parallel importer solely to gain a commercial advantage.

4) Replacement packaging of pharmaceuticals products, rather than simply sticking labels on those packages is objectively necessary if , without such repackaging effective access to the market concerned , or to a substantial part of that market, is hindered as the result of strong resistance to such relabeling from a significant proportion of consumers for pharmaceuticals products.

5) Even where parallel importer is otherwise entitled to repackage trade- marketed pharmaceutical products, he must notify the proprietor before he puts the repackaged product on sale and must, if requested to do so, provide a sample to the proprietor. This enables the proprietor to check to make sure the condition of the original product is not affected and that the reputation of the trade mark is not damaged. It also enables the proprietor to protect himself better from counterfeiters.

6) In the event of dispute, it is for the national court to assess, in the light of all the relevant circumstances, whether the proprietor had a reasonable time to react to the intended repackaging.

XIV. Conclusion

Accepting the policy of community wide exhaustion of rights and establishment of directives for various form of Intellectual property was a step towards harmonisation of the laws as all the member states of EU had their own domestic laws related to various form of Intellectual property rights. This was also done so that there can be free flow and movement of goods and services within the internal market so created. The exclusive rights of an IPR proprietor over the goods and services embodying the intellectual property are exhausted only if and when he has sold that good or service either himself or has consented to a third party to sell those goods within the market of any member state in EU/EEA. Once the goods have been put on any market he loses the right to oppose the further resale within the community but can oppose parallel imports of the same goods and services from a country falling outside the scope of EU/EEA. This is the whole essence of the policy regional regime of exhaustion of rights adopted by the EU community/EEA.

On the basis of the research it can also be concluded that in case of regional exhaustion as is adopted by EU/EEA, as a matter of rule, the consent of the IPR owner must be express and explicit If a parallel importer wishes to import the products embodying the intellectual property of that owner from a country outside EU/EEA within EU/EEA. Also, if the parallel importer claims that the consent of the trademark owner was obtained expressly, then it is for the parallel importer to prove that such consent has been given and not for the IPR owner to prove the lack of consent because if a product is sold in the EU (EEA) by the IPR owner or with his consent this does not mean that he has generally consented to this type of product being imported and sold in the EU (EEA) from countries outside EU/EEA.

Lastly we may conclude that, though accepting the policy of regional exhaustion is a middle path for countries not wanting to adopt either international or national exhaustion of rights but such a policy is very much against the principle of most favoured nation treatment and comes into conflict with it as the goods and services embodying the intellectual property from within the EU/EEA countries are treated differently and are allowed to move and circulate freely with the EU/EEA member states as compared to the goods and services embodying the same intellectual property from a country outside the EU/EEA.

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