

TRADEMARKS

Exhaustion of trademark rights in the European Union

1. How does one define the principle of trademark right exhaustion in the European Union?

Article 7 (1) of the First Council Directive (89/104/EEC) dated December 21, 1988, to harmonize the laws of the Member States of the European Community relating to trademarks, as modified by Annex 17 of the European Economic Area Agreement, provides that:

"the trademark right shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in a Contracting Party under that trademark by the proprietor or with his consent".*

This article means that when trademarked products are imported into a country of the European Economic Area with the trademark owner's consent, the trademark owner cannot oppose the re-importation of these products into another country party to the Agreement on the European Economic Agreement.

The European Court of Justice had the opportunity to give its interpretation of this article especially as to the extent of its application.

* Contracting Parties are Member States of the European Union (France, Germany, Italy, United Kingdom, Ireland, Belgium, Luxembourg, Holland, Greece, Spain, Portugal, Austria, Denmark, Sweden, Finland) and Member States of the European Free Trade Agreement (Iceland, Liechtenstein, Norway).

2. Interpretation of the principle of trademark right exhaustion by the European Court of Justice.

Indeed, The European Court of Justice ruled that "Article 7 (1) of the .. Directive... must be interpreted as meaning that:

- the rights conferred by the trademark are exhausted only if the products have been put on the market with the trademark owner's consent in the community (in the EEA since the Agreement in the EEA entered into force) and that provision does not leave it open to Member States to provide in their domestic law for exhaustion of the rights conferred by the trademark in respect of products put on the market in non member countries;

"for there to be consent within the meaning of Article 7 (1) of said Directive, such consent must relate to each individual item of the products in respect of which exhaustion is pleaded".

(ECJ, 1st July, 1999, Case C-173/98, Sebago Inc and Ancienne Maison Dubois & fils SA V.G-Unic SA)

This decision is the confirmation of the precedent created in a prior case (ECJ, 16 July, 1998, Case C-355/96, Silhouette International Schwied GmbH & Co KGU. Hartlauer Handelgesellschaft mbh) which clearly ruled, as far as members of the European Union are concerned, against the principle of international exhaustion of trademark rights.

This precedent is applicable for European Union Member States in favor of any trademark owners whether they are nationals of the European Union countries or not, and whether the products originate from these countries or not.

3. Consequences of the principle of trademark rights exhaustion as interpreted by the European Court of Justice for European Union Member States.

3.1 Consequences of the marked products' distribution

The principle of trademark right exhaustion constitutes a means for the trademark owner to organize the distribution of their products between countries which belong to the European Union and countries which are not in the Union.

It is also a way to reinforce selective or exclusive distributive networks in the European Union.

However, trademark owners cannot consider the interpretation of this principle as being completely resolved and they would be better advised to expressly provide, in the distribution contracts concluded for territories outside the EEA, that all direct or indirect importation of the products into the EEA is prohibited.

Indeed, a new case is now pending before the European Court of Justice following a decision rendered by the English High Court (Chancery Division) on May 18, 1999 in the case Zino Davidoff S.A. vs. A&G Nuport Ltd. The case concerns perfumes bearing the trademark Davidoff and coming from Singapore to be sold in the United Kingdom.

The problem is that Zino Davidoff S.A. has not expressly provided, in their distribution contact with their Singapore agent, for explicit restrictions on the distribution, directly or indirectly in the EEA, of the goods sold in Asia.

Thus the following question was raised at the ECJ:

"insofar as the Directive refers to goods being put on the market in the Community with the

consent of the proprietor of a mark, is it to be interpreted as including consent given expressly or implicitly and directly or indirectly?"

(Case C-414/99 together with C-415/99 and C-416/99, Zino Davidoff S.A. vs AL & G Imports Ltd, Levi Strauss & Co ltd vs Tesco Stores Ltd; and Levi Strauss & Co and Levis Strauss Ltd v Costco UK Ltd)

As the ECJ has not yet rendered its decision on this subject, it is thus advisable for trademark owners to review their distribution contracts and, in the event that they are not willing to consent to the distribution of their marked products from outside the EEA, back into the EEA, to expressly prohibit it in the contract.

An additional precaution would be to also provide for express prohibition to be printed on the marketed product's packaging itself.

3.2 Consequences as regards actions conducted by trademark owners.

When a trademark owner has not authorized a distributor to put his marked products on the market in the European Economic Area, he has the possibility of claiming a legal injunction prohibiting the distribution in the EEA of these marked products on the basis of his trademark rights.

This means that the trademark owner will be able to claim for trademark infringement and to enforce all other rights provided by his trademark rights against the distributor, so that in the country concerned, he will be able to stop parallel importation into the European Union even though the products are genuine ones.

For instance, in the Silhouette case, the litigation was about "out-of-fashion" spectacle frames bearing the trademark Silhouette, sold by the Austrian company Silhouette to a Bulgarian company and which were re-imported into Austria by an Austrian company.

The Sebago case concerned products bearing the trademark Sebago, manufactured in El Salvador and purchased by a Belgian company to be sold in Belgium.

It is interesting to note that the owner of the Benelux trademarks Sebago, on the basis of which the prohibition on selling these products was requested, was an American company.

3.3 Consequences regarding France

France has been applying the principle of exhaustion of trademark rights within the European Community since before the adoption of the trademark Directive.

The dispositions of Article 7 (1) of the Directive have been incorporated in Article 713-4 of the Intellectual Property code and modified by the Law N° 93-1420 of December 31, 1993 to provide that:

"the right conferred by a mark shall not entitle an owner to prohibit its use in relation to goods which have been put on the market in the European Economic Community or the European Economic Area under the mark by the proprietor or with his consent"

All the provisions as regards infringement action and counterfeiting seizure can be applied. Additional grounds on the basis of unfair competition can also be claimed.

As an example, a recent decision has found a company guilty of infringement and unfair competition for having sold goods in France that were bought in the Dutch Antilles without the trademark owner's consent.

The damages ordered in this case on these two grounds were 1,500,000 FF - (Lyon Court of Appeal, September 17, 1998, Ste Kiabi v. Ste Viastel)

The principle of trademark exhaustion raises considerable political and economic issues and it is in constant evolution and improvement.

However, the latest rulings of the European Court of Justice clearly show its present inclination in favor of trademark rights, and the trademark owner's right to organize his distribution network, and support the French rulings which were always strongly for protection of industrial property rights.

It should induce foreign companies to have their trademarks protected in the European Union and with the support constituted thereby to reflect on the best way to distribute their products in this area.

Aurélia Marie ©Cabinet Beau de Loménie - September 2000